

**DAR AL ARKAN
REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Dar Al Arkan Real Estate Development Company
(A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Dar Al Arkan Real Estate Development Company (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
To the Shareholders of Dar Al Arkan Real Estate Development Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

For each key audit matter, a description of how our audit addressed the matter is set out below:

Key Audit Matter	How the matter was addressed in our audit
<p>Impairment of development properties</p> <p>The Group maintains development properties for the purpose of development and sale in its ordinary course of business. As at 31 December 2022, the carrying amount of such development properties is SR 20.7 billion (31 December 2021: SR 19.3 billion).</p> <p>All development properties (held for development or sale) are initially recognized at acquisition cost and subsequently re-measured at the lower of cost and net realizable value.</p> <p>During the year, the Group's management and directors conducted an internal tolerance evaluation on its development properties portfolio to identify the existence or indication of possible impairment. This internal tolerance evaluation is based on the market indications and margins achieved on similar parcels of properties.</p> <p>The impairment of development properties is considered as a key audit matter because this involves significant judgment and estimates and where the change in the Group's estimate of the margin and average accounting rate of return could materially affect the valuation of the properties held for development and sale in the Group's consolidated financial statements.</p> <p><i>The Group's accounting policy for development properties is disclosed in note 2.7, the significant accounting estimates, assumptions and judgments relating to development properties are disclosed in note 3 and related disclosures about development properties are included in note 6 of the accompanying consolidated financial statements.</i></p>	<ul style="list-style-type: none"> • We assessed the appropriateness of valuation methods and assumptions, and estimates used by management in the internal evaluation process; • We assessed the competence and capability of management personnel in the evaluation process; • We have engaged in discussions with management and evaluated the relevant assumptions used based on market data where possible; • We have tested the appropriateness of the key inputs used in the valuation of development properties such as margin and average accounting rate of return; • We have benchmarked the key assumptions used by management with external and internal data such as comparable real estate transactions and the Group's actual sale transactions; • We tested sensitivity analysis that considered impact of changes in assumptions on outcome of the impairment assessment; • We have ensured the consolidated financial statements contain adequate disclosures regarding the methods and assumptions used in the valuation including the sensitivity analysis.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
To the Shareholders of Dar Al Arkan Real Estate Development Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key Audit Matter	How the matter was addressed in our audit
<p>Impairment of investment properties</p> <p>Investment properties are stated in the Group's consolidated financial position at cost less depreciation and impairment (if any).</p> <p>As at 31 December 2022, the carrying amount of such investment properties is SR 1.1 billion (2021: SR 1.1 billion). The fair value of the investment properties amounting to SR 1.5 billion (2021: SR 1.5 billion) is disclosed in the notes to the consolidated financial statements.</p> <p>The Group's management has estimated the fair value of its investment properties on 31 December 2022, through an independent valuation expert with a recognized professional qualification and experience in the real estate sector.</p> <p>The fair value of investment properties has been estimated using the income capitalization method. Annual cash flows are estimated by extrapolating and reconciling the current rental income based on their optimal occupancy and then capitalizing it at an annual rental rate of 6-8% between the leased residential and commercial properties in order to reach the estimated fair value shown in the note 5 to the consolidated financial statements.</p> <p>The impairment of investment properties is considered a key audit matter because of its significant reliance on a range of assumptions including expected lease values, occupancy rate and income capitalization rate.</p> <p><i>The Group's accounting policy for investment properties is disclosed in note 2.6, the significant accounting estimates, assumptions and judgments relating to investment properties are disclosed in note 3 and related disclosures about investment properties are included in note 5 of the accompanying consolidated financial statements.</i></p>	<ul style="list-style-type: none"> • We agreed the value of all the properties held at the year end to the valuation included in the independent management expert valuation report; • We evaluated the competency, capabilities and objectivity of work performed by the independent management expert; • On sample basis, with the help of our independent expert, we performed the following: <ul style="list-style-type: none"> • We assessed the appropriateness of valuation methods and assumptions, and estimates used by management in the investment properties valuation process; • We engaged in discussions with management and assessed the relevant assumptions used based on market data where possible; • We tested the appropriateness of the key assumptions used in the valuation of investment properties such as income capitalization rate, operations costs, expected rental value and occupancy rate; • We tested sensitivity analysis that considered impact of changes in assumptions on outcome of the impairment assessment; • We have ensured the consolidated financial statements contain adequate disclosures regarding the methods and assumptions used in the valuation including the sensitivity analysis.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
To the Shareholders of Dar Al Arkan Real Estate Development Company
(A Saudi Joint Stock Company)

Other matter

The consolidated financial statements of the Group as of 31 December 2021 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 25 Shaaban 1443H (corresponding to 28 March 2022).

Other information included in the Group's 2022 Annual Report

Management is responsible for the other information. The other information comprises the information included in the Group's 2022 annual report other than the consolidated financial statements and our auditor's report thereon. The Group's 2022 annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Group's 2022 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the Shareholders of Dar Al Arkan Real Estate Development Company
(A Saudi Joint Stock Company)**

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the Shareholders of Dar Al Arkan Real Estate Development Company
(A Saudi Joint Stock Company)**

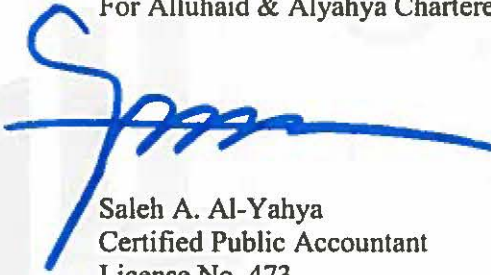
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

For Alluhaid & Alyahya Chartered Accountants



Saleh A. Al-Yahya
Certified Public Accountant
License No. 473

Riyadh: 29 Shaaban 1444H
(21 March 2023G)



**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022**

	Notes	<u>2022</u> SR 000	<u>2021</u> SR 000
ASSETS			
Non-current assets			
Investment properties, net	5	1,077,808	1,110,414
Long-term development properties	6	20,563,563	19,285,287
Property and equipment, net	7&23a	86,056	77,653
Investments in associates and joint ventures	8	1,030,125	1,195,144
Investments in financial assets	9	215,040	-
Total non-current assets		<u>22,972,592</u>	<u>21,668,498</u>
Current assets			
Short-term development properties	6	144,332	369,682
Trade receivables and others	10	4,455,050	5,770,074
Inventories		12,022	-
Cash and cash equivalents	11	5,928,857	4,153,426
Total current assets		<u>10,540,261</u>	<u>10,293,182</u>
TOTAL ASSETS		<u>33,512,853</u>	<u>31,961,680</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-current liabilities			
Borrowings-non-current portion	12	7,814,295	7,039,241
End of service indemnities	13	26,911	22,550
Total non-current liabilities		<u>7,841,206</u>	<u>7,061,791</u>
Current liabilities			
Borrowings-current portion	12	2,959,484	2,374,182
Trade payables and others	14	2,721,583	3,029,444
Zakat provision	15c	386,452	336,633
Total current liabilities		<u>6,067,519</u>	<u>5,740,259</u>
TOTAL LIABILITIES		<u>13,908,725</u>	<u>12,802,050</u>
Shareholders' equity			
Share capital	16	10,800,000	10,800,000
Statutory reserve		1,199,319	1,155,147
Other reserves	9	5,040	-
Retained earnings		7,599,769	7,204,483
TOTAL SHAREHOLDERS' EQUITY		<u>19,604,128</u>	<u>19,159,630</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>33,512,853</u>	<u>31,961,680</u>


Authorised Board of
Directors Member


Chief Executive Officer


Chief Financial Officer

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

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	<u>Notes</u>	<u>2022</u> SR 000	<u>2021</u> SR 000
Revenue	17	3,925,499	2,493,078
Cost of revenue	18	<u>(2,467,912)</u>	<u>(1,596,350)</u>
GROSS PROFIT		1,457,587	896,728
Operating expenses:			
General and administrative expenses	19	<u>(357,934)</u>	<u>(211,945)</u>
OPERATING PROFIT		1,099,653	684,783
Finance costs	20	<u>(681,637)</u>	<u>(662,977)</u>
Other income, net	21	<u>153,957</u>	<u>93,888</u>
Share of net profits from associates and joint ventures	8 a	<u>16,413</u>	<u>19,748</u>
PROFIT BEFORE ZAKAT		588,386	135,442
Zakat provisions	15c	<u>(146,666)</u>	<u>(2,922)</u>
NET PROFIT FOR THE YEAR		<u>441,720</u>	<u>132,520</u>
Other comprehensive income:			
Re-measurement (loss)/ gain on end of service indemnities	13	<u>(2,262)</u>	<u>930</u>
Changes in fair value of investments in financial assets - FVOCI	9	<u>5,040</u>	<u>-</u>
Total comprehensive income for the year		<u>444,498</u>	<u>133,450</u>
Total comprehensive income attributable to:			
Dar Al Arkan shareholders		<u>444,498</u>	<u>133,450</u>
Earnings per share (in Saudi Riyal):			
Basic and diluted	22	<u>0.41</u>	<u>0.12</u>



Authorized Board of
Directors Member



Chief Executive Officer



Chief Financial Officer

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**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	<u>Share capital</u> SR 000	<u>Statutory reserve</u> SR 000	<u>Other Reserves</u> SR 000	<u>Retained earnings</u> SR 000	<u>Total equity</u> SR 000
<u>2022</u>					
Balance as at 1 January 2022	10,800,000	1,155,147	-	7,204,483	19,159,630
Net profit for the year	-	-	-	441,720	441,720
<u>Other comprehensive income</u>					
Re-measurement loss on end of service indemnities	-	-	-	(2,262)	(2,262)
Changes in fair value of investments in financial assets	-	-	5,040	-	5,040
Total comprehensive income for the year	-	-	5,040	439,458	444,498
Transfer to statutory reserve	-	44,172	-	(44,172)	-
Balance as at 31 December 2022	10,800,000	1,199,319	5,040	7,599,769	19,604,128

2021

Balance as at 1 January 2021	10,800,000	1,141,895	-	7,084,285	19,026,180
Net profit for the year	-	-	-	132,520	132,520
<u>Other comprehensive income</u>					
Re-measurement gain on end of service indemnities	-	-	-	930	930
Total comprehensive income for the year	-	-	-	133,450	133,450
Transfer to statutory reserve	-	13,252	-	(13,252)	-
Balance as at 31 December 2021	10,800,000	1,155,147	-	7,204,483	19,159,630


Authorized Board of
Directors Member


Chief Executive Officer


Chief Financial Officer

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

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Notes	2022 SR 000	2021 SR 000
OPERATING ACTIVITIES			
Profit before Zakat		588,386	135,442
Adjustment for:			
Depreciation	5,7 & 23a	50,182	48,413
Amortisation		-	492
Provision for expected credit losses	10b	-	4,453
Donations		1,637	-
Provisions for end of service indemnities	13	6,485	4,557
Finance costs	20	681,637	662,977
Gain on disposal of property and equipment		(8)	
Gain on disposal of investment in associates	8	(40,378)	-
Share of net profit from associates and joint ventures	8	(16,413)	(19,748)
Operating cash flows before movements in working capital		1,271,528	836,586
Development properties, net		(1,039,884)	(694,309)
Trade receivables and others		1,315,058	(1,125,349)
Inventories		(12,022)	
Trade payables and others		(322,478)	1,786,706
Cash from operations		1,212,202	803,634
Finance costs paid		(656,840)	(630,945)
Zakat paid	15c	(96,847)	(103,483)
End-of-service indemnities paid	13	(4,386)	(2,400)
Net cash from operating activities		454,129	66,806
INVESTING ACTIVITIES			
Investment in associates	8	(75,341)	(1,849)
Proceeds from disposal of investment in associates	8	87,117	-
Purchase of property and equipment	7	(21,237)	(6,669)
Proceeds from disposal of property and equipment	7	798	82
Investment properties	5	(5,594)	(542)
Net cash flows used in investing activities		(14,257)	(8,978)
FINANCING ACTIVITIES			
Borrowings - Long term		1,335,559	(836,062)
Net cash flows from/(used in) financing activities		1,335,559	(836,062)
Increase / (decrease) in cash and cash equivalents		1,775,431	(778,234)
Cash and cash equivalents, beginning of the year		4,153,426	4,931,660
Cash and cash equivalents, end of the year	11	5,928,857	4,153,426
Non-cash transactions			
Additions to right-of-use assets and lease liabilities	23a	14,617	10,272
Transfer to investments in financial assets	9a	215,040	-
Donations from development properties	6	(1,637)	-
Transfer of investment properties to development properties	5,6	3,876	372,217
Transfer of properties & equipment to development properties	7,6	10,803	-
Disposal of share in investments in associates	8	34	-


Authorised Board of
Directors Member


Chief Executive Officer


Chief Financial Officer

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

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

1. CORPORATE INFORMATION

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY (the "Company"), is a Saudi Joint Stock Company established under the Companies' Laws 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 referred to as "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 closely held joint stock company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010254063, dated 25/7/1429 H (corresponding to 28/7/2008 G). It operates in development and acquisition of commercial and residential real estate. It provides management, operation and maintenance of residential and commercial buildings and public facilities.

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

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

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

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

DAR AL-ARKAN CONSTRUCTION TECHNOLOGY COMPANY – is a limited liability company (previously known as Dar Al-Arkan Contracting Company), a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010521509, 17/6/1438 H (corresponding to 16/3/2017 G). It operates in Real Estate investments and developments, leasing and property management.

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

BAWADI FOR REAL ESTATE COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010600710, 24/2/1441 H (corresponding to 23/10/2019 G). It operates in general construction, and purchase and sale, acquisition, leasing of real estate and property management.

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

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

DAR AL ARKAN FOR REAL ESTATE DEVELOPMENT LLC– is a limited liability company, a beneficially wholly owned subsidiary, established under the laws of the state Qatar, under the Commercial Registration No. 165584, 14/7/1443 H (corresponding to 15/02/2022 G). It mainly operates in real estate developments.

Dar Al-Arkan Real Estate Development Company wholly owns directly and indirectly the above mentioned subsidiaries. The accompanying consolidated financial statements include the assets, liabilities and the results of operations of the subsidiaries mentioned above.

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by Saudi Organization for Chartered and Professional Accountants (SOCPA), consistent with the Group's accounting policies.

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

The Group has prepared the consolidated financial statements on the basis that it will continue to operate as a going concern.

2.2 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards and interpretations effective in the current year

In the current year, the Group has adopted all amendments to standards issued by the International Accounting Standards Board ("IASB") that are mandatory for adoption in the annual periods beginning on or after 1 January 2022.

IFRS 9	Amendment	- Amendment regarding Fees in the '10 percent' test for derecognition of financial liabilities.
IFRS 16	Amendment	- The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives.
IAS 16	Amendment	- It prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
IAS 37	Amendment	- The changes specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract.' - Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.
IFRS 3	Amendment	- The IASB issued 'Reference to the Conceptual Framework' that update an outdated reference without significantly changing its requirements.

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

Standards, amendments and interpretations in issue but not yet adopted

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

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

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

IAS 1	Amendment	<ul style="list-style-type: none"> - Applicable annual periods beginning on or after 1 January 2023. - Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) require entities to disclose material accounting policy information rather than significant accounting policies. - Applicable annual periods beginning on or after 1 January 2024: - The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. The amendments clarify that: <ul style="list-style-type: none"> - the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability; - classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and - settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. - Amendments to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.
IFRS 17	New standard	<ul style="list-style-type: none"> - Insurance Contract applicable annual periods beginning on or after 1 January 2023.
IAS 8	Amendment	<ul style="list-style-type: none"> - Amendments regarding the definition of accounting estimates applicable annual periods beginning on or after 1 January 2023.
IAS 12	Amendment	<ul style="list-style-type: none"> - Amendments regarding deferred tax on leases and decommissioning obligations applicable annual periods beginning on or after 1 January 2023.
IFRS 10 and IAS 28	Amendment	<ul style="list-style-type: none"> - Amendments related to the sale or contribution of assets between an investor and its associate or joint venture.
IFRS 4	Amendment	<ul style="list-style-type: none"> - Amendments change the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 (financial instrument) until 1 January 2023.
IFRS 16	Amendment	<ul style="list-style-type: none"> - Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions applicable annual periods beginning on or after 1 January 2024.

2.3 ACCOUNTING CONVENTION

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

2.4 BASIS OF CONSOLIDATION

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

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

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

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

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

Investments in associates and joint venture

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

A joint venture is a joint arrangement where the parties to the joint venture have rights to the net assets of the joint arrangement and have contractually agreed sharing of joint control over the relevant activities through which the parties to the arrangement can participate to the decision making of the relevant activities require unanimous consents and joint control.

Equity method

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint

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venture and its carrying value, and then recognises the loss within 'Share of net profits from associates and joint ventures' in the statement of profit or loss.

Investment in joint operation

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

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

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

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

2.5 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes all directly attributable expenses incurred in bringing the property and equipment to their present location, condition until the property and equipment is available for use. The management periodically review and reassess the estimated future useful life and residual value and accordingly may change or modify the depreciation rates.

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

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

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

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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 de-recognition of the property is recognised in the 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 consolidated profit or loss for the period of the retirement/disposal.

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 and realisation date. If the completion and realisation date of a project is expected to be within a year from the date of the consolidated statement of financial position, the project is classified as short-term development properties.

2.8 IMPAIRMENT OF TANGIBLE ASSETS

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

2.9 ISLAMIC BORROWING COSTS

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

2.10 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group has become a party to the contractual provisions of the instrument.

The Group initially measure financial assets and financial liabilities at their fair value. All directly attributable transaction costs for the origination, acquisition or issuance of a financial assets and financial liabilities (except for financial assets and financial liabilities accounted at fair value through profit or loss) are added or deducted, as appropriate, from the respective fair value of the financial assets or financial liabilities on initial recognition. Transaction costs that are incurred for financial assets or financial liabilities accounted at fair value through profit or loss are recognised immediately in the consolidated profit or loss.

Classification and measurement – financial assets

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

- Amortised cost
- Fair value through other comprehensive income(FVTOCI)
- Fair value through profit or loss (FVTPL)

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

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

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

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

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

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

Trade receivables

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

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customers with financial difficulties or in default on payments, that amounts will not be recovered in accordance with original terms of the agreement and the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced with the provision for expected credit loss and any impairment loss is recognised in the consolidated profit or loss.

Management applies the simplified approach in calculating ECLs. Therefore, management does not track changes in credit risk, but instead recognised a loss allowance base on lifetime ECL's at each reporting date. Management has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Cash and cash equivalents

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

Held for trading investments

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

Financial liabilities

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

Trade payables

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

2.11 REVENUE RECOGNITION

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

Sale of completed properties – recognised at the point of sale

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

Properties constructed/developed under contract with customer– recognised over the time

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

Where the outcome of the contract cannot be estimated reliably, the contract revenue is recognised to the extent of cost incurred and probability recoverable against such contract.

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

- directly relates to such specific contract;
- are expected to be recovered.

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- Create, enhance or generate the resources of the company which will be used in performing the current or future performance obligations

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

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

The Group assesses the carrying value of such assets and when it is probable that the total contract cost will exceed total contract revenue, the estimated loss is recognised as expenses immediately

Leases

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

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 consolidated statement of profit or loss in each year. The provision is based on an estimate of Zakat that is adjusted in the financial period in which the final assessment of Zakat is issued by the Zakat, Tax and Customs Authority ("ZATCA"). Any change in the estimate resulting from the final assessment is recognised in that period when final assessments are received.

2.13 FOREIGN CURRENCIES

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

2.14 STATUTORY RESERVE

According to the article (129) of the Companies' Law (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 PROVISIONS

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

2.18 LEASING

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rentals receivable under leases are recognised to the consolidated profit or loss on a straight-line basis over the term of the relevant lease.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental revenue.

Group as a lessee

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

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

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

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

Revenue Recognition

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

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

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

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

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

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

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

Recognition of cost of sales

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

Measurement of contract assets and trade receivables

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

Based on such periodic assessment the Group recognise for full lifetime expected losses for all contract assets and/or all trade receivables with or without significant financing transaction using provision matrix 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.

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

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course of business. While re-assessing the intended use, management considers the holding period, possibility of further appreciations, related economic activities around such properties and need for further development to make the property ready for sale.

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

Carrying value of development properties

The Group's principal activity is currently the development and sale of land, residential and commercial property. Due to the nature of this activity, much of the development is speculative in nature. Accordingly, the consolidated statement of financial position at 31 December 2022 reflects assets that are not covered by forward sales contracts.

The development properties are stated at the lower of cost and net realisable value. The Group assesses the net realisable value of its development properties at each reporting date, through an internal tolerance check, which includes an assessment of profit per project basis and compares the carrying and estimated future costs to complete with the expected selling price per unit based on historical activities and available comparable in the surrounding location.

For the determination of the expected net realisable value of the development properties, the Group extensively uses its management's subjective expertise and location knowledge together with comparable transactions recorded in the surrounding area for non-related arms lengths transactions. The estimated mark-up arrived using these methodologies disclosed as a percentage (%) of net-margin over the carrying cost.

To neutralise data risk, the Group also estimates the potential uplift in value of its development properties by using the Accounting Rate of Return ("ARR"). Under ARR method, the Group estimates return 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.

Below are the key assumptions the Group used to estimate net realisable value of its development property portfolio:

	<u>2022</u>	<u>2021</u>
	Range	Range
Profit margin on carrying cost – development properties	20% - 25%	20% - 25%
Targeted ARR – development properties	3-5%	3-5%

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 investment properties, the Group engage third party independent real estate valuation experts using recognised valuation methods to value the investment properties wherever it

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is possible and practical. The fair value arrived using these methodologies disclosed as a percentage (%) of net-margin over the carrying cost.

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

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

Below are the key assumptions the group used to estimate fair value of its investment properties:

	<u>2022</u>	<u>2021</u>
	Range	Range
Estimated capitalisation of yields- investment properties	6-8%	6-8%

Determination of control, joint control and significant influence

Subsidiaries are all investees over which the Group has control. Management considers that it controls an investee when the Group is exposed to or has rights to the majority of the variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns through its power to direct the relevant activities of the investees.

The determination about whether the Group has power depends on the way decisions about the relevant activities are made and the rights the Group has, in relation to the investees. It is generally presumed that the Group could exercise significant influence when the Group owns 20% shareholding. However, detailed evaluation and judgements are required for each investee, particularly when the Group owns shareholding and voting rights of more or less than 20% to assess whether the Group has 'significant influence' over such investees.

4 REPORTING SEGMENTS

For management purpose, the Group is organised into two segments. Management develops its strategic planning, resource allocation and business model around these segments and the Chief Operating Decision Maker (CODM) monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment, therefore, Group's reportable segment under IFRS 8 is as follows:

- **Development Properties** – Under this segment, the Group categorises all its real estate properties under development which are acquired, developed and sold. It includes:
 - Residential and commercial properties whether completed or under development (“Residential and Commercial Projects”)
 - Land and investment in land properties which are undeveloped, developed with or without infrastructure and the sale of such properties (“Land Projects”).
- **Leasing and Management of Properties** – leasing and management of properties that the Group has retained as rental properties including commercial and residential units on its Master-Planned Communities for generating recurring revenues.

The Group does not allocate share of profits of associates, general administration, selling and marketing costs including directors' salaries, finance costs, other income and Zakat expense to its segments.

Substantially all of segment operating activity (including revenue and costs) for the year ended 31 December 2022 and 31 December 2021 was generated from the development properties segment. The Group provided breakdown of revenue, profit, assets and liabilities by operating segment.

The Group operates mainly 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 profit, operating expenses, operating profit, total assets and total liabilities from development properties (land, residential and commercial projects) and leasing of properties are presented below:

	Notes	For the year ended 31 December 2022		
		Development Properties SR 000	Leasing of Properties SR 000	Group Total SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue	17	3,809,616	115,883	3,925,499
Cost of revenue	18	(2,433,588)	(34,324)	(2,467,912)
GROSS PROFIT		1,376,028	81,559	1,457,587
Operating expenses:				
General and administrative expenses	19			(357,934)
OPERATING PROFIT				1,099,653
Finance costs	20			(681,637)
Other income, net				153,957
Share of net profit from associates and joint ventures	8 a			16,413
PROFIT BEFORE ZAKAT				588,386
SEGMENT WISE ASSETS & LIABILITIES				
TOTAL ASSETS		32,358,797	1,154,056	33,512,853
TOTAL LIABILITIES		12,704,982	1,203,743	13,908,725

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	Notes	For the year ended 31 December 2021		
		Development Properties SR 000	Leasing of Properties SR 000	Group Total SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue	17	2,379,456	113,622	2,493,078
Cost of revenue	18	(1,559,323)	(37,027)	(1,596,350)
GROSS PROFIT		820,133	76,595	896,728
Operating expenses:				
General and administrative expenses	19			(211,945)
OPERATING PROFIT				684,783
Finance costs	20			(662,977)
Other income, net				93,888
Share of net profit from associates and joint ventures	8 a			19,748
PROFIT BEFORE ZAKAT				135,442
SEGMENT WISE ASSETS & LIABILITIES				
TOTAL ASSETS		30,759,954	1,201,726	31,961,680
TOTAL LIABILITIES		11,911,664	890,386	12,802,050

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5. INVESTMENT PROPERTIES, NET

The movement in investment properties is as follows:

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
COST		
At beginning of the year	1,413,506	1,881,251
Transfer to development properties (note 6)	(4,593)	(468,287)
Additions	<u>5,594</u>	<u>542</u>
At end of the year	<u>1,414,507</u>	<u>1,413,506</u>
ACCUMULATED DEPRECIATION		
At beginning of the year	303,092	362,135
Transfer to development properties (note 6)	(717)	(96,070)
Charged during the year (note 18)	<u>34,324</u>	<u>37,027</u>
At end of the year	<u>336,699</u>	<u>303,092</u>
CARRYING AMOUNT AT THE END OF THE YEAR	<u>1,077,808</u>	<u>1,110,414</u>

Included within investment properties is land with an original cost of SR 270 million (31 December 2021: SR 270 million).

Fair value estimation:

Fair value of the investment properties is estimated by a recognised independent valuation agency not related to the Group (ValuStrat Saudi Arabia, a licensed member of Saudi Authority of Accredited Valuers) by using income capitalisation method in December 2022. The range of capitalisation rates are determined based on the nature and the highest and the best designated use of the assets and various external references for similar type of assets. There has been no change in the valuation technique during the year. The annualised lease cash flows are estimated by extrapolating and adjusting current lease revenues for optimal occupancy and capitalising it at an annual rent yield of 6-8% (2021: 6-8%) between residential and commercial leased properties to arrive the fair value estimated as below:

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
CARRYING AMOUNT	<u>1,077,808</u>	<u>1,110,414</u>
ESTIMATED FAIR VALUE		
Estimated on annual rent yield on investment properties	<u>1,489,000</u>	<u>1,525,590</u>

Sensitivity in fair value estimation:

	<u>Increase in</u>	<u>Decrease in</u>
	rate	rate
	SR 000	SR 000
Change in fair value of investment properties		
50 basis points change in capitalisation rate	<u>(81,000)</u>	<u>92,000</u>
Sensitivity impact on estimated fair value	<u>(81,000)</u>	<u>92,000</u>

The estimated fair value of Group's investment properties can be impacted by unobservable inputs determined based on existing market conditions. The impact of two unobservable inputs may not be off-setting each other; for example, an increase in capitalisation rate may off- set an increase in annual rent but an increase in annual rent with a decrease in capitalisation rate would boost the fair value.

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

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6. DEVELOPMENT PROPERTIES

The movement in development properties, the principal operation of the Group, is summarised as follows:

	Year ended 31 December 2022				
	Short-term developed projects	Short-term developed land	Long-term developed land/project	Long-term projects under development	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST					
At beginning of the year	5,327	364,355	1,788,665	17,496,622	19,654,969
Additions during the year	-	8,389	471,697	2,993,386	3,473,472
Transfer, net (note a)	-	-	14,679	-	14,679
Donations	-	-	(1,637)	-	(1,637)
Charged to cost of sales during the year (note 4)	<u>(2,920)</u>	<u>(230,819)</u>	<u>(270,901)</u>	<u>(1,928,948)</u>	<u>(2,433,588)</u>
CARRYING AMOUNT AT THE END OF THE YEAR	<u>2,407</u>	<u>141,925</u>	<u>2,002,503</u>	<u>18,561,060</u>	<u>20,707,895</u>
Short-term development properties					<u>144,332</u>
Long-term development properties					<u>20,563,563</u>
	Year ended 31 December 2021				
	Short-term developed projects	Short-term developed land	Long-term developed land/project	Long-term projects under development	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST					
At beginning of the year	6,880	334,980	1,020,009	17,226,574	18,588,443
Additions during the year	-	29,375	492,022	1,732,235	2,253,632
Transfer, net	-	-	372,217	-	372,217
Charged to cost of sales during the year (note 4)	<u>(1,553)</u>	<u>-</u>	<u>(95,583)</u>	<u>(1,462,187)</u>	<u>(1,559,323)</u>
CARRYING AMOUNT AT THE END OF THE YEAR	<u>5,327</u>	<u>364,355</u>	<u>1,788,665</u>	<u>17,496,622</u>	<u>19,654,969</u>
Short- term development properties					<u>369,682</u>
Long-term development properties					<u>19,285,287</u>

The properties held for development are stated at the lower of cost and net realisable value. Development properties are classified as current if it is completed or expected to be completed/realised within 12 months, otherwise it is classified as non-current.

Projects under development include land with cost amounting to SR 15.28 billion (31 December 2021: SR 14.01 billion), which represents the Group's share in land with other investors according to the contract and agreements for investments and development of the land.

During the year ended 31 December 2022 the Group has capitalised borrowing costs amounting to SR 955 thousand (31 December 2021: nil) on qualifying assets.

Note (a) – During the year ended 31 December 2022, Investment properties and Properties and Equipment with a net book value of SAR 3,876 thousand and SAR 10,803 thousand respectively were transferred to Development Properties (2021: SR 372.22 million and nil, respectively) (Notes 5&7).

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Internal tolerance evaluation:

During the year, the Group's management and directors conducted an internal tolerance evaluation on its development properties portfolio to identify the existence or indication of possible impairment. This internal tolerance evaluation is based on the market indications and margins achieved on similar parcels of properties. The internal tolerance evaluation for the reporting period demonstrated an estimated market value indicating an average uplift of 20% (31 December 2021: 20%) across the development property portfolio. The management believes that the resultant uplift on the book value is a conservative indication of the value of the development properties of the Group.

In view of the continuing volatility and uncertainty in the real estate sector, the transaction volumes are showing considerable stabilisation on lowering price trend. Hence, to normalise the internal value assumptions along with known comparable transaction between unrelated parties at arms-length around properties, the management included an additional valuation technique of average accounting rate of return ("ARR") in the range of 3-5% (2021: 3-5%) for development properties to arrive at the estimated values.

	Year ended 31 December 2022				
	Short-term developed project	Short-term developed land	Long-term developed land/project	Long-term projects under development	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST	<u>2,407</u>	<u>141,925</u>	<u>2,002,503</u>	<u>18,561,060</u>	<u>20,707,895</u>
ESTIMATED VALUE					
Estimated value @ 20% margins on cost	3,000	170,000	2,400,000	22,275,000	24,848,000
Estimated value @ 3-5 % ARR	<u>3,000</u>	<u>166,000</u>	<u>2,195,000</u>	<u>20,892,000</u>	<u>23,256,000</u>
Average value of land	<u>3,000</u>	<u>168,000</u>	<u>2,297,500</u>	<u>21,583,500</u>	<u>24,052,000</u>
Estimated Value	<u>3,000</u>	<u>165,000</u>	<u>2,290,000</u>	<u>21,550,000</u>	<u>24,008,000</u>
	Year ended 31 December 2021				
	Short-term developed project	Short-term developed land	Long-term developed land/project	Long-term projects under development	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST	<u>5,327</u>	<u>364,355</u>	<u>1,788,665</u>	<u>17,496,622</u>	<u>19,654,969</u>
ESTIMATED VALUE					
Estimated value @ 20% margins on cost	6,000	430,000	2,150,000	21,000,000	23,586,000
Estimated value @ 3-5 % ARR	<u>6,000</u>	<u>410,000</u>	<u>1,930,000</u>	<u>19,800,000</u>	<u>22,146,000</u>
Average value of land	<u>6,000</u>	<u>420,000</u>	<u>2,040,000</u>	<u>20,400,000</u>	<u>22,866,000</u>
Estimated Value	<u>6,000</u>	<u>400,000</u>	<u>2,000,000</u>	<u>20,400,000</u>	<u>22,806,000</u>

The result of this exercise has indicated a higher value than carrying cost stated in the consolidated statement of financial position. A change in the basis of these estimates in the future could have an impact on the valuation of the development properties.

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Sensitivity analysis for internal tolerance valuation:

The estimated net realisable value of Group's development properties can be impacted by the market conditions exists at the time of actual transaction. The following table shows the effect of changes in margin % and ARR on the estimated value of development properties:

	<u>Increase</u> SR 000	<u>Decrease</u> SR 000
Change in value of development properties		
10% change in margins	2,071,000	(2,071,000)
1% change in ARR	<u>720,000</u>	<u>(690,000)</u>
Average change in value of development properties	<u>1,395,500</u>	<u>(1,380,500)</u>

The above values represent the minimum impact on net realisable value of the development properties of the Group exclusively for the impairment study purposes. It is not the fair market value of the development properties.

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7. PROPERTY AND EQUIPMENT, NET

<u>31 DECEMBER 2022</u>	<u>Land and buildings</u>	<u>Leasehold improvement</u>	<u>Vehicles</u>	<u>Machinery and tools</u>	<u>Office equipment</u>	<u>Total</u>
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
COST						
Balance at 1 January 2022	115,000	15,104	8,018	17,945	64,612	220,679
Additions for the year	-	6,339	-	9,143	5,755	21,237
Transfer to Development Properties (note 6)	(22,840)	-	-	-	-	(22,840)
Disposal	(35)	(753)	-	-	(446)	(1,234)
Balance at 31 December 2022	<u>92,125</u>	<u>20,690</u>	<u>8,018</u>	<u>27,088</u>	<u>69,921</u>	<u>217,842</u>
ACCUMULATED DEPRECIATION						
Balance at 1 January 2022	60,872	8,820	8,006	16,831	57,003	151,532
Depreciation for the year	3,022	2,211	9	1,742	3,426	10,410
Transfer to Development Properties (note 6)	(12,037)	-	-	-	-	(12,037)
Disposal	(5)	(19)	-	-	(420)	(444)
Balance at 31 December 2022	<u>51,852</u>	<u>11,012</u>	<u>8,015</u>	<u>18,573</u>	<u>60,009</u>	<u>149,461</u>
CARRYING AMOUNT AT 31 DECEMBER 2022	<u>40,273</u>	<u>9,678</u>	<u>3</u>	<u>8,515</u>	<u>9,912</u>	<u>68,381</u>
31 DECEMBER 2021						
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
COST						
Balance at 1 January 2021	115,073	10,095	8,018	17,945	62,961	214,092
Additions for the year	-	5,009	-	-	1,660	6,669
Transfer/disposal	(73)	-	-	-	(9)	(82)
Balance at 31 December 2021	<u>115,000</u>	<u>15,104</u>	<u>8,018</u>	<u>17,945</u>	<u>64,612</u>	<u>220,679</u>
ACCUMULATED DEPRECIATION						
Balance at 1 January 2021	57,677	7,693	7,983	15,944	52,721	142,018
Depreciation for the year	3,195	1,127	23	887	4,282	9,514
Transfer/disposal	-	-	-	-	-	-
Balance at 31 December 2021	<u>60,872</u>	<u>8,820</u>	<u>8,006</u>	<u>16,831</u>	<u>57,003</u>	<u>151,532</u>
CARRYING AMOUNT AT 31 DECEMBER 2021	<u>54,128</u>	<u>6,284</u>	<u>12</u>	<u>1,114</u>	<u>7,609</u>	<u>69,147</u>

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8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

Investments in associates and joint venture represent equity ownership in the investee companies, where the Group exercises significant influence or joint control. The shares of these investee companies are not publicly traded. The Group's ownership in these Saudi Arabia based privately owned investee companies ranges from 18% to 67%. For entities where the investment is less than 20%, management believes that it is able to exert significant influence due to its involvement at board level. Movement in investments in associates and joint ventures is as follows:

a. Investments in associates and joint ventures:

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Investments, beginning of the year	1,195,144	1,173,547
Additions (notes v and vii)	75,341	-
Transfer/disposal, net (notes iv and viii)	(256,773)	-
Share of profit during the year	16,413	21,597
Investments, end of the year	<u>1,030,125</u>	<u>1,195,144</u>

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

Name of the entity	<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>Holding</u>	<u>Amount</u>	<u>Holding</u>
	SR 000	%	SR 000	%
Alkhair Capital Saudi Arabia (ACS) (i)	422,000	42.2%	422,000	42.2%
Khozam Real Estate Development Company (KDC) (ii)	525,547	66.5%	525,547	66.5%
Saudi Home Loans (SHL) (viii)	-	-	150,000	15%
Other associates	71,477		1,534	
Accumulated share of profit	<u>11,101</u>		<u>96,063</u>	
Balance, end of the year	<u>1,030,125</u>		<u>1,195,144</u>	

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

31 DECEMBER 2022	KDC	ACS	Others	TOTAL	
	SR 000	SR 000	SR 000	SR 000	
Total assets	542,165	1,085,244	337,131	1,964,540	
Total liabilities	(36,635)	(24,755)	(117,238)	(178,628)	
Net assets	505,530	1,060,489	219,893	1,785,912	
Others - notes a & b	171,603	-	18,579	190,182	
Group's share of net assets	507,780	447,526	74,819	1,030,125	
Total revenue for the year	-	113,036	82,687	195,723	
Total profit for the year	193	35,889	(3,237)	32,845	
Other adjustments – note c	-	(207)	5,212	5,005	
Total comprehensive income for the year	193	35,682	1,975	37,850	
Group's share of (loss) profit for the year, net	128	15,058	1,227	16,413	
31 DECEMBER 2021	KDC	ACS	SHL	Others	TOTAL
	SR 000	SR 000	SR 000	SR 000	SR 000
Total assets	541,967	1,052,115	4,408,032	13,350	6,015,464
Total liabilities	(36,630)	(27,309)	(2,718,098)	(5,100)	(2,787,137)
Net assets	505,337	1,024,806	1,689,934	8,250	3,228,327
Others - note a	171,603	-	-	-	171,603
Group's share of net assets	507,652	432,468	253,490	1,534	1,195,144
Total revenue for the year	-	95,165	294,220	10,521	399,906
Total profit for the year	(451)	15,251	103,196	(2,761)	115,235
Other adjustments – note c	-	1,007	(2,954)	2,761	814
Total comprehensive income for the year	(451)	16,258	100,242	-	116,049
Group's share of (loss) profit for the year, net	(300)	6,861	15,036	-	21,597

Other notes - (a) KDC net assets includes SR 172 million of premium paid to obtain exclusivity right - refer below note (ii); and
(b) Premium paid on acquisition of Compass Project Investments SPV Limited – refer note (v)
(c) Other adjustments pertain to the adjustment to retained earnings of the associates and joint venture.

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Details of transactions with associates and joint ventures are disclosed under note 24 "Related Party Transactions" of these consolidated financial statements. The nature of relationship and operations of each reported entities are detailed below:

- (i) **Alkhair Capital Saudi Arabia (ACS):** The Group had originally invested SR 102 million representing 34% of the paid-up share capital of ACS and during 2019, ACS increased the paid-up share capital by additional SR 700 million. The Group has acquired additional capital by investing SR 320 million and accordingly, the original investment of SR 102 million has been increased to SR 422 million to reflect the change in capital investment of the Group with ACS which currently represents 42.2% ownership interest. This investment has been accounted for as investment in associate under equity method of accounting.
- (ii) **Khozam Real Estate Development Company (KDC):** The Group investment in KDC is 66.5% 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 and consequently, the Group's investment in KDC is accounted for as investment in joint venture under equity method of accounting.

The KDC investment include SR 359 million as capital contributions fully paid in cash and SR 172 million premium paid to obtain exclusive right to participate in the Khozam project development. Based on assessment, the management believes that the value of the total investment in KDC has not impaired.

OTHER ASSOCIATES THAT ARE NOT INDIVIDUALLY MATERIAL:

- (iii) **Eastern Juman Company (Juman):** During 2016, the Group had invested in Eastern Juman Company, a Limited Liability Company established mainly for the development of Juman project located between Dammam and Ras Tanura. The Company is registered in Riyadh under the Commercial Registration No. 1010462791 dated 15/10/1437H, (corresponding to 20/07/2016) with a capital of SR 8.2 million. The Group has paid SR 1.5 million towards the 18.29% of its capital and management believe that the value of the total investment has not impaired.
- (iv) **Waslt Real Estate Services Company (Waslt):** During 2020, the Group had invested 67% in Waslt Real Estate Services Company (previously known as First Brokerage Properties Company) a Limited Liability Company established mainly for the management and rental of real estate (owned or leased, residential and non-residential), brokers activities and real estate management activities for a commission. Based on the legal arrangement, 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 and consequently, the Group's investment in Waslt is accounted for as investment in associate under equity method of accounting. up to 30 September 2022, hence the Group's share of operating loss of SR 5,363 thousand has been recognised in the consolidated statement of profit or loss. However, during the last quarter of 2022, the Group disposed of its all shares in Waslt at its book value of SR 33.5 thousand.
- (v) **Compass Project Investments SPV Limited:** During 2022, the Group had invested SR 19.2 million representing 51% ownership of Compass Project Investments SPV Limited, a private company limited by shares incorporated in United Arab Emirates. It is established mainly for rendering services related to project management, cost control and risk management. Based on the legal arrangement, 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 and consequently, the Group's investment in Compass is accounted for as investment in associate under equity method of accounting.
- (vi) **Ibdaa Real Estate Company:** During 2022, the Group had invested SR 50.8 million representing 25% ownership of Ibdaa Real Estate Company, a limited liability company registered in Jeddah. The Company operates real estate activities including, selling and purchasing of lands, real estate managements, brokerage activities, constructions including general construction for civil buildings.
- (vii) **149OPL LTD:** During 2022, the Group had invested SR 3.4 thousand (GBP 753) representing 75.37% ownership of 149OPL LTD, a limited liability company registered in London, United Kingdom. The Company operates real estate activities i-e buying and selling of own real estate. As per the arrangements, the power to govern the financial and operating activities which affect the returns of the company 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 and consequently, the Group's investment in 149OPL is accounted for as investment in joint venture under equity method of accounting.

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(viii) **Saudi Home Loans (SHL):** The Group had originally invested SR 120 million representing 15% of the paid up share capital of SHL and during 2017 the SHL increased the paid up share capital by issuing 20 million bonus shares of SR 10 each to its existing shareholders in the proportion of their shareholding through capitalization of retained earnings.

During the period ended 30 June 2022, SHL has offered 30% of its paid-up capital to the public through an initial public offering and became a publicly listed company. Accordingly, as part of this IPO transaction, the Group disposed of its 4.5% holding and lost significant influence over SHL. Hence, the retained interest of 10.5% is classified as investments in financial assets and measured at FVTOCI whose fair value at the date of disposal was SR 210 million (refer Note 9a).

This transaction has resulted in a gain calculated as follows, recognised in the consolidated statement of profit or loss of the Group.

	<u>2022</u> SR 000
Proceed of disposal	87,117
Add: fair value of residual interest (10.5%)	210,000
Less: carrying amount of investment	<u>(256,739)</u>
Gain recognised during the year	<u>40,378</u>

The gain recognised during the year comprises of a realised gain of SAR 10.08 million (being the proceeds of SAR 87.11 million, less carrying amount of SAR 77.03 million of the interest disposed) and an unrealised gain of SAR 30.3 million (being the fair value less the carrying amount of the 10.5% interest retained).

Apart from the disposal of 67% of Wasalt shares and 4.5% of SHL equity shares as disclosed in note 8, no other shares have been disposed off during the year.

9. INVESTMENTS IN FINANCIAL ASSETS

a) Fair value through other comprehensive (FVTOCI)

This financial asset represents equity shares held in Saudi Home Loans (SHL), a publicly listed entity for medium to long-term strategic purposes and are not held for trading, hence classified as fair value through other comprehensive income. The gains/(losses) arising on these financial assets are recognised in the consolidated statement of profit or loss and other comprehensive income.

The movement during the year are detailed below:

	<u>2022</u> SR 000	<u>2021</u> SR 000
Transferred from investment in an associate (note 8)	210,000	-
Unrealised fair value gain recognised in other comprehensive income during the year	<u>5,040</u>	<u>-</u>
Balance, end of the year	<u>215,040</u>	<u>-</u>

The fair value of quoted securities is based on published market price and is categorised under Level 1 in the fair value hierarchy.

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b) Details of investments in financial assets

Equity Investments at FVTOCI- Listed Securities	Percentage ownership	2022 SR 000	2021 SR 000
Saudi Home Loans (SHL)	10.5%	215,040	-
Balance, end of the year		215,040	-

10. TRADE RECEIVABLES AND OTHERS

	2022 SR 000	2021 SR 000
Trade receivables – net of allowances for expected credit loss of SR 27.99 million (31 December 2021: SR 27.99 million)	3,550,561	4,586,883
Prepayments and others	505,378	376,303
Advance payments to purchase land	381,555	803,020
Accrued revenue	17,556	3,868
Total	4,455,050	5,770,074

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

a) Ageing of trade receivables that are not impaired

	2022 SR 000	2021 SR 000
0-60 days	804,971	690,093
61-120 days	249,360	487,438
121-180 days	225,976	411,037
Above 180 days	2,270,254	2,998,315
Total	3,550,561	4,586,883

Ageing are from the date of invoice and the trade receivables include about 99% (31 December 2021: 99%) receivables against land and project sales which are fully secured against such land and project parcels.

b) Expected Credit Loss evaluation of Account receivables

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

There has been no change in the expected credit loss methodology or significant assumptions during the current reporting year.

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Movement in the expected credit loss

	<u>2022</u> SR 000	<u>2021</u> SR 000
Balance, beginning of the year	27,988	23,535
Allowance for the year	-	4,453
Balance, end of the year	<u>27,988</u>	<u>27,988</u>

11. CASH AND CASH EQUIVALENTS

	<u>2022</u> SR 000	<u>2021</u> SR 000
Cash in hand	203	232
Cash with bank	5,928,654	4,153,194
Total	<u>5,928,857</u>	<u>4,153,426</u>

12. BORROWINGS

	<u>2022</u> SR 000	<u>2021</u> SR 000
Islamic Sukuk	7,125,000	7,500,000
Islamic Murabaha	3,715,302	1,967,988
	10,840,302	9,467,988
Less: Un-amortised transaction costs (note 12 b)	(66,523)	(54,565)
Borrowings end of the year	<u>10,773,779</u>	<u>9,413,423</u>
Less: Borrowings - current portion	(2,959,484)	(2,374,182)
Borrowings - non-current portion	<u>7,814,295</u>	<u>7,039,241</u>

a. Repayable as follows:

	<u>2022</u> SR 000	<u>2021</u> SR 000
Within one year	2,964,205	2,375,812
In the second year	879,998	2,319,562
In the third to fifth years inclusive	6,673,499	2,965,114
Above five years	322,600	1,807,500
Total	<u>10,840,302</u>	<u>9,467,988</u>

b. Islamic borrowings transaction costs:

	<u>2022</u> SR 000	<u>2021</u> SR 000
Balance, beginning of the year	54,565	86,597
Additions during the year	36,755	-
Amortisation charge for the year (note 20)	(24,797)	(32,032)
Balance, end of the year	<u>66,523</u>	<u>54,565</u>

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c. Analysis of borrowings:

Islamic Sukuk

This represents SR 7.125 billion of Islamic Sukuk comprising:

- 1) SR 1.88 billion (USD 500 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.88% and maturing in 2023.
- 2) SR 2.25 billion (USD 600 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.75% and maturing in 2025.
- 3) 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 6.88% and maturing in 2027.
- 4) 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 7.75% and maturing in 2026.

Islamic Sukuks listed above are denominated in US dollars. Since the Saudi Arabian Riyal is exposed to limited fluctuations against the US Dollar, hence the Group is not exposed to significant foreign exchange risk. The investment profit is payable to Saudi SPVs, through which the Sukuk was issued, generated from the sale of properties owned by the Group. The beneficial rights of the related properties are with Dar Al Arkan Real Estate Development Company and its subsidiaries with the option to buy back upon the settlement of the Sukuk in full. The Group has issued a corporate guarantee to the Sukuk holders.

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2022.

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 maturities ranging from 6 months to 9 years with periodic repayment as detailed below.

Summary of the Murabahas:

Maturity date	Outstanding Balance	Short-term	Long-term
	SR 000	SR 000	SR 000
2023	16,793	16,793	-
2024	257,143	171,429	85,714
2025	1,833,333	758,333	1,075,000
2027	882,183	62,000	820,183
2032	725,850	80,650	645,200
TOTAL	3,715,302	1,089,205	2,626,097

The weighted average effective annual commission rate for the year ended 31 December 2022 is 6.47% (31 December 2021: 6.38%).

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2022.

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.

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The movement of the obligation accrued is as follows:

	<u>2022</u> SR 000	<u>2021</u> SR 000
Balance, beginning of the year	22,550	21,323
Charged to expenses during the year	6,485	4,557
Re-measurement loss/ (gain)	2,262	(930)
Paid during the year	<u>(4,386)</u>	<u>(2,400)</u>
Balance, end of the year	<u>26,911</u>	<u>22,550</u>

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

a) Significant actuarial assumptions:

	<u>2022</u>	<u>2021</u>
Discount rate	3.0%	3.0%
Long term salary increase rate	3.0%	3.0%
Employee attritions	<u>Moderate</u>	<u>Moderate</u>

b) Movement in present value of employee benefit obligation

	<u>2022</u> SR 000	<u>2021</u> SR 000
Balance, beginning of the year	19,976	20,497
Net period benefit cost	3,932	3,741
Re-measurement loss/ (gain)	2,262	(930)
Paid during the year	<u>(2,711)</u>	<u>(3,332)</u>
Balance, end of the year	<u>23,459</u>	<u>19,976</u>

c) Analysis of present value of obligation

	<u>2022</u> SR 000	<u>2021</u> SR 000
Benefit obligation accumulated to the date of financial position	22,371	18,763
Benefits attributed to future salary increase	1,088	1,213
Total	<u>23,459</u>	<u>19,976</u>

d) Sensitivity Analysis of obligation

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

	<u>2022</u> SR 000	<u>2021</u> SR 000
Discount rate + 0.5%	22,817	19,340
Discount rate - 0.5%	24,131	20,651
Long term salary increase + 0.5%	23,967	20,692
Long term salary increase - 0.5%	22,967	19,295

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e) Effect of defined benefit plan on entity's future cash flows

The weighted average duration of the employee benefit obligation is 5.6 years for the year ended December 31, 2022 (31 December 2021: 6.55 years). The expected maturity analysis of discounted defined benefit obligation is as follows:

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Within one year	2,520	2,341
In the second year	5,260	3,340
Between third and fifth years	4,615	6,503
Above five years	11,064	7,792
Total	<u>23,459</u>	<u>19,976</u>

14. TRADE PAYABLES AND OTHERS

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Contract liabilities (note 14a)	1,393,797	1,888,257
Accruals	509,971	292,224
Trade payables	305,679	532,654
Unearned revenue	272,017	86,258
Due to related parties (note 24a)	186,936	186,435
Dividend payable	35,309	35,376
Lease liability (note 23b)	17,874	8,240
Total	<u>2,721,583</u>	<u>3,029,444</u>

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

a) Contract liabilities

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

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Balance, beginning of the year	1,888,257	518,539
Advance collected during the year	539,784	1,369,718
Transfers to revenue during the year	(1,034,244)	-
Balance, end of the year	<u>1,393,797</u>	<u>1,888,257</u>

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15. ZAKAT PROVISIONS

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

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
<u>Zakat base:</u>		
Equity	19,159,630	19,026,180
Provisions and other adjustments	<u>6,001,826</u>	<u>7,859,421</u>
Total Zakat base	25,161,456	26,885,601
Deductions:		
Total deduction after adjustment	<u>(25,161,456)</u>	<u>(26,885,601)</u>
Zakat base	<u>-</u>	<u>-</u>

b) *Adjusted net income for the year:*

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
<u>Adjusted net income:</u>		
Adjusted net income, net	578,563	116,865
Adjusted net income	<u>578,563</u>	<u>116,865</u>
Estimated Zakat provision for the year	14,464	2,922
Donations of residential units	<u>(1,637)</u>	<u>-</u>
Estimated Zakat provision for the year, net	<u>12,827</u>	<u>2,922</u>

c) **Movement in provision for Zakat:**

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

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Balance beginning of the year	336,633	437,194
Charge for the year	12,827	2,922
Zakat charge as per final assessments from 2009 to 2014	133,839	-
Paid during the year	<u>(96,847)</u>	<u>(103,483)</u>
Estimated Zakat provision, end of the year	<u>386,452</u>	<u>336,633</u>

d) The zakat liability of the Company and its subsidiaries is calculated on a consolidated basis as part of the consolidated zakat return. The Company has received the assessments from ZATCA for the years 2003 to 2014 which have been finalised. Consolidated zakat returns for all remaining years until 2021 have been filed with ZATCA. The consolidated return for the year 2022 is under preparation.

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16. SHARE CAPITAL

	<u>2022</u> SR 000	<u>2021</u> SR 000
<i>Authorised:</i>		
1,080,000,000 ordinary shares of SR 10 each	10,800,000	10,800,000
<i>Issued and fully paid shares of SR 10 each:</i>		
At the start of the year	10,800,000	10,800,000
At the end of the year	10,800,000	10,800,000

The Company has one class of ordinary shares.

17. REVENUE

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

The Group has conservatively recognised its revenue for the projects that are substantially completed, however the Group is still waiting to get the clearance for the obligations completed from respective regulatory authorities. As and when the confirmation received based on the completed obligations, the respective revenue will be recognised.

Disaggregation of revenue	Basis of Recognition	<u>2022</u> SR 000	<u>2021</u> SR 000
Sale of development properties	- At a point in time	2,671,915	2,261,135
Sale of development properties	- Over the time –IFRS 15	727,742	-
Sale of residential properties	- At a point in time	103,457	118,321
Sale of residential properties	- Over the time- IFRS 15	306,502	-
Leasing of properties	- Over the time -IFRS 16	115,883	113,622
Total		3,925,499	2,493,078

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18. COST OF REVENUE

	<u>2022</u> SR 000	<u>2021</u> SR 000
Development properties – cost	2,159,766	1,462,187
Residential properties – cost	273,822	97,136
Direct cost on leasing – depreciation (refer note 5)	<u>34,324</u>	<u>37,027</u>
Total	<u>2,467,912</u>	<u>1,596,350</u>

19. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2022</u> SR 000	<u>2021</u> SR 000
General and administrative expenses	340,439	200,559
Depreciation (refer note 7 & 23a)	15,858	11,386
Donations	<u>1,637</u>	<u>-</u>
Total	<u>357,934</u>	<u>211,945</u>

20. FINANCE COSTS

	<u>2022</u> SR 000	<u>2021</u> SR 000
Charges on Sukuk	475,222	512,857
Charges on Islamic Murabaha	180,668	117,969
Charges on lease liability (note 23b)	950	119
Amortisation of transaction costs (note 12b)	<u>24,797</u>	<u>32,032</u>
Total	<u>681,637</u>	<u>662,977</u>

21. OTHER INCOME, NET

	<u>2022</u> SR 000	<u>2021</u> SR 000
Dividend income from investments in financial assets	8,127	-
Other income, net	<u>145,830</u>	<u>93,888</u>
Total	<u>153,957</u>	<u>93,888</u>

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22. EARNINGS PER SHARE

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

	<u>2022</u>	<u>2021</u>
	<u>SR 000</u>	<u>SR 000</u>
Earnings		
For the purpose of basic earnings per share (Net profit for the year)	<u>441,720</u>	<u>132,520</u>
Number of shares	<u>Number</u>	<u>Number</u>
Weighted average number of ordinary shares For the purposes of basic earnings per share		
Total	<u>1,080,000,000</u>	<u>1,080,000,000</u>

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

23. 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 these assets are summarised as follows, and the depreciation charged to this asset is included in depreciation expenses.

	<u>2022</u>	<u>2021</u>
	<u>SR 000</u>	<u>SR 000</u>
COST		
At beginning of the year	14,234	3,962
Additions for the year	<u>14,617</u>	<u>10,272</u>
At end of the year	<u>28,851</u>	<u>14,234</u>
ACCUMULATED DEPRECIATION		
At beginning of the year	5,728	3,856
Charged during the year	<u>5,448</u>	<u>1,872</u>
At end of the year	<u>11,176</u>	<u>5,728</u>
NET BOOK VALUE AT THE END OF THE YEAR	<u>17,675</u>	<u>8,506</u>

The balance in right of use assets are included within the property plant and equipment on the consolidated statement of financial position.

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b) Lease liability

Lease liability represents unexpired lease qualified for accounting under IFRS 16 requirements. Details of the movement of this lease liability is as below. The interest cost accrued is included in the finance costs.

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
LIABILITY		
At beginning of the year	14,307	4,791
Additions for the year	14,617	9,397
Finance cost for the year (note 20)	<u>950</u>	<u>119</u>
At end of the year	<u>29,874</u>	<u>14,307</u>
PAYMENTS		
At beginning of the year	6,067	4,548
Paid during the year	<u>5,933</u>	<u>1,519</u>
At end of the year	<u>12,000</u>	<u>6,067</u>
BALANCE AT THE END OF THE YEAR	<u>17,874</u>	<u>8,240</u>

The balance in lease liability is included within trade payables and others on the consolidated statement of financial position.

c) Minimum lease payments

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

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Amounts due:		
Within one year	6,749	2,876
Between one and five years	11,646	6,727
Above five years	<u>873</u>	<u>-</u>
Total	<u>19,268</u>	<u>9,603</u>

B: GROUP AS LESSOR

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

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

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Within one year	84,523	78,281
Between one and five years	160,744	144,722
After five years	<u>62,987</u>	<u>70,140</u>
Total	<u>308,254</u>	<u>293,143</u>

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24. RELATED PARTY TRANSACTIONS

a) Due to related parties

Khozam Real Estate Development Company (KDC) is a jointly-controlled entity (note 8). KDC management has invested excess cash balance of KDC with the Group at a nominal profit rate. The balance is classified under trade payables and others (note 14) and repayable on demand. The movement of the related balance is as follows:

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Balance, beginning of the year	186,435	189,741
Repayment of advances for the year	(459)	(4,266)
Finance cost charged for the year	960	960
Balance, end of the year	<u>186,936</u>	<u>186,435</u>

b) Compensation of key management personnel

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

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Short-term benefits	10,922	12,437
End-of-service benefits	861	1,036
Remunerations and attendance fees to Board of Directors and Executive Committee	-	-
Total	<u>11,783</u>	<u>13,473</u>

c) Other related party transactions

(i) Saudi Home Loans (SHL):

During the year, the Group sold residential homes to individuals who sought financing from SHL. In these instances, SHL pays the consideration in respect of the residential property sale to the Group on behalf of the individual buyer of the property. There is no recourse to the Group if buyer of the property defaults against financing obtained from SHL. The details of the transactions, included in trade receivables (note 10), are as follows:

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Sales to third party customer during the year	3,803	20,394
Collections from SHL	(3,803)	(20,394)
Balance, end of the year	<u>-</u>	<u>-</u>

For the year ended 31 December 2022 and the year ended 31 December 2021, no other transactions are entered into with entities that have common Board Members or Shareholders to the Group.

25. RETIREMENT BENEFIT PLANS

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

The total cost charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 was SR 6.49 million (31 December 2021: SR 4.56 million), and the outstanding contribution as at 31 December 2022 is SR 380 thousand (31 December 2021: SR 501 thousand).

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26. 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 shareholders 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 financial institutions and monitor the markets for future issuance. The Group adhere to international best practices in corporate governance and consider the capital market transactions to create additional shareholders value.

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

Gearing ratio

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

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

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Islamic borrowings	10,773,779	9,413,423
Cash and cash equivalents	<u>(5,928,857)</u>	<u>(4,153,426)</u>
	<u>4,844,922</u>	<u>5,259,997</u>
Shareholders' equity	<u>19,604,128</u>	<u>19,159,630</u>
Net debt to equity ratio	<u>25%</u>	<u>27%</u>

27. 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

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Credit Risk

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

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

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

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

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
Cash and cash equivalents	5,928,857	4,153,426
Trade receivable, net	3,550,561	4,586,883
Other assets	904,489	1,183,191
Total	<u>10,383,907</u>	<u>9,923,500</u>

As of the reporting date, the Group does not have significant credit risk concentration with any single party or a group.

Commission Rate Risk

Commission Rate Risk is associated with a change in the commission rate available when renegotiating financial instruments that are influenced by the current global financial market conditions. The Group is exposed to commission rate risk with respect to its floating commission rate 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 no specific shariah' complaint commission rate swap contract to manage its commission rate risk. The Group's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence the commission rate exposure of the Group is variable according to the changes in the LIBOR & SAIBOR.

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

During the year, the average rate of 3 months LIBOR varied between 3.74% and 4.78% (0.12% and 0.22% for 2021) and SAIBOR varied between 4.27% and 5.89% (0.81% and 0.91% for 2021).

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

	<u>2022</u>	<u>2021</u>
	SR 000	SR 000
+ 25 basis points	<u>9,288</u>	<u>4,920</u>
- 25 basis points	<u>(9,288)</u>	<u>(4,920)</u>

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 were no capitalisation for the current period as explained in note 2.9.

Liquidity Risk

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

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

The total weighted average effective annual commission rate for the year ended 31 December 2022 is 6.47% (31 December 2021: 6.38%).

See notes 12 and 14 for further details.

The maturity profile of financial liabilities of the group with undiscounted gross cash flows for the remaining contractual maturities for both principal and interest, wherever applicable, as at 31 December 2022 and 31 December 2021 are as follows:

<u>31 December 2022</u>	<u>Within 3 Months</u>	<u>3 months to 1 year</u>	<u>One year to 2 years</u>	<u>3 year to 5 years</u>	<u>Above 5 years</u>	<u>No Fixed Maturity</u>	<u>Total</u>
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
<u>Financial Liabilities</u>							
Islamic borrowings	2,468,249	1,067,341	1,354,179	7,326,714	352,543	-	12,569,026
End of service indemnities	-	-	-	-	-	26,911	26,911
Trade payables and others	124,181	1,709,660	526,640	127,940	46,225	186,936	2,721,582
Total	<u>2,592,430</u>	<u>2,777,001</u>	<u>1,880,819</u>	<u>7,454,654</u>	<u>398,768</u>	<u>213,847</u>	<u>15,317,519</u>
<u>31 December 2021</u>	<u>Within 3 Months</u>	<u>3 months to 1 year</u>	<u>One year to 2 years</u>	<u>3 year to 5 years</u>	<u>Above 5 years</u>	<u>No Fixed Maturity</u>	<u>Total</u>
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
<u>Financial Liabilities</u>							
Islamic borrowings	301,255	2,580,938	2,704,703	3,581,907	1,872,774	-	11,041,577
End of service indemnities	-	-	-	-	-	22,550	22,550
Trade payables and others	107,270	1,658,426	828,688	162,563	86,062	186,435	3,029,444
Total	<u>408,525</u>	<u>4,239,364</u>	<u>3,533,391</u>	<u>3,744,470</u>	<u>1,958,836</u>	<u>208,985</u>	<u>14,093,571</u>

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Foreign Currency Risk

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

Price Risk

Price Risk is associated to the fair value or future cash flows of a financial assets/securities that will fluctuate because of changes in market prices. It primarily stems from investments in securities' trading. The Group has limited exposure to price risk with such risk arising from investments in securities carried at fair value. However, the position in investments in securities, considering current and expected future economic trends, is regularly reviewed.

28. 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. The estimated uncompleted contracts outstanding as at 31 December 2022 amounts to SR 210 million (31 December 2021: SR 168 million) and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2021: SR 74 million).

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

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

At 31 December 2022, there were no significant claims notified (31 December 2021: None).

29. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the date of the consolidated financial statements, on 28 February 2023, Dar Global PLC, an indirectly wholly owned subsidiary of the Group, had direct listing to the London Stock Exchange's main market for listed securities. Dar Global PLC offered 21,621,612 ordinary shares for subscription through a private placement at a price of USD 3.33 per share with a total value of USD 72 million. The Group, post listing, retained 88% of shares in Dar Global PLC.

The management is still assessing the impact of this transaction in the consolidated financial statements of the subsequent period.

30. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on 29 Shaaban 1444H (21 March 2023).