

**DAR AL ARKAN**

**REAL ESTATE DEVELOPMENT COMPANY**

**SAUDI JOINT STOCK COMPANY**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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## AUDITORS' REPORT

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

### Scope of Audit

We have audited the accompanying consolidated balance sheet of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group") as at December 31, 2016, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 21 which form an integral part of these consolidated financial statements as prepared by the Group in accordance with Article 126 of the Regulations for Companies and submitted to us with all the necessary information and explanations which we required. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified Opinion

In our opinion, the accompanying consolidated financial statements, taken as a whole, present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Group, and comply with the relevant provisions of the Regulations for Companies and the Company's bylaws as these relate to the preparation and presentation of the consolidated financial statements.

For Al-Kharashi Co.

Suliman Al-Kharashi

Certified Public Accountant  
License No. (91)



18 Rabi Al-Thani 1438H  
16 January 2017

Mohammed A. Al-Haij

Certified Public Accountant  
License No. (119)



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

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2016**

	Notes	2016 SR 000	2015 SR 000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		582,088	1,001,061
Accounts receivable, net	( 5 )	1,839,470	1,948,687
Prepaid expenses and others	( 6 )	743,508	974,809
Developed land – short-term		317,325	437,185
<b>Total Current Assets</b>		<b>3,482,391</b>	<b>4,361,742</b>
<b>Non-Current Assets</b>			
Projects in progress – long-term	( 8 )	8,878,157	8,651,076
Investments in land under development	( 9 )	6,261,462	5,982,401
Developed land – long-term		1,581,442	1,963,764
Investment properties, net	( 10 )	3,424,778	3,501,637
Investment in associates	( 11 )	790,585	776,207
Property and equipment, net	( 12 )	66,131	68,416
Deferred charges	(13)	828	-
<b>Total Non-Current Assets</b>		<b>21,003,383</b>	<b>20,943,501</b>
<b>TOTAL ASSETS</b>		<b>24,485,774</b>	<b>25,305,243</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Islamic borrowings – current portion	( 14 )	324,995	1,531,945
Due to a related party	( 7 b )	193,363	194,253
Accounts payable	( 15 )	174,199	173,433
Accrued expenses and others	( 16 )	699,653	697,349
<b>Total Current Liabilities</b>		<b>1,392,210</b>	<b>2,596,980</b>
<b>Non-Current Liabilities</b>			
Islamic borrowings	( 14 )	4,890,375	4,760,617
Provision for end-of-service indemnities	( 17 )	25,682	20,973
<b>Total Non-Current Liabilities</b>		<b>4,916,057</b>	<b>4,781,590</b>
<b>Total liabilities</b>		<b>6,308,267</b>	<b>7,378,570</b>
<b>Shareholders' Equity</b>			
Share capital	( 18 )	10,800,000	10,800,000
Statutory reserve		1,003,383	978,300
Retained earnings		6,374,124	6,148,373
<b>Total Shareholders' Equity</b>		<b>18,177,507</b>	<b>17,926,673</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>24,485,774</b>	<b>25,305,243</b>

  
Managing Director



  
Chief Financial Officer



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

**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	<u>Notes</u>	<u>2016</u> <u>SR 000</u>	<u>2015</u> <u>SR 000</u>
Revenues from operations		1,870,229	2,211,349
Cost of operations		<u>(1,078,286)</u>	<u>(1,228,117)</u>
<b>Gross profit</b>	( 4 )	<b>791,943</b>	<b>983,232</b>
<b>Operating expenses:</b>			
General, administrative, selling and marketing expenses		(156,005)	(204,238)
Depreciation	( 12 a, b )	(4,023)	(3,593)
Amortisation of deferred charges	( 13,14a )	<u>(32,448)</u>	<u>(35,993)</u>
<b>Income for the year from operating activities</b>		<b>599,467</b>	<b>739,408</b>
<b>Other Income / (expenses) :</b>			
Share of income from investment in associates	( 11 )	12,878	12,800
Islamic Murabaha charges		(100,162)	(105,353)
Islamic Sukuk charges		(253,374)	(279,448)
Other (expenses)/ income, net		<u>(32)</u>	<u>1,075</u>
<b>Income for the year before Zakat</b>		<b>258,777</b>	<b>368,482</b>
Zakat provision		<u>(7,943)</u>	<u>(9,325)</u>
<b>Net income for the year</b>		<b>250,834</b>	<b>359,157</b>
<b>Earnings per share for the year ( in Saudi Riyal )</b>	(19)		
From operating activities		<u>0.56</u>	<u>0.68</u>
From net income		<u>0.23</u>	<u>0.33</u>

  
Managing Director



  
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 2016**

	2016	2015
	SR 000	SR 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income for the year before Zakat	258,777	368,482
<b>Adjustment for:</b>		
Depreciation	77,500	72,818
Amortisation of deferred charges	32,448	35,993
Provision for end-of-service indemnities	6,317	4,537
Provision for doubtful debts	1,000	3,804
Gain on disposal of property and equipment	-	(142)
Share of income from investment in associates	(12,878)	(12,800)
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	108,217	(204,713)
Prepaid expenses and others	(16,136)	15,077
Due from a related party	-	143
Developed land	502,182	342,960
Accounts payable	766	5,753
Accrued expenses and others	20,567	(80,639)
Cash generated from operations	978,760	551,273
Zakat paid	(26,206)	(57,903)
End-of-service indemnities paid	(1,608)	(2,108)
<b>Net cash generated from operating activities</b>	<b>950,946</b>	<b>491,262</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Projects in progress – long-term	(227,081)	264,980
Investments in land under development	(279,061)	(536,771)
Advance payments to purchase land	247,437	(173,189)
Investment properties	3,382	(3,411)
Investment in associates	(1,500)	-
Proceeds from disposal of property and equipment	-	142
Purchase of property and equipment	(1,738)	(730)
<b>Net cash used in investing activities</b>	<b>(258,561)</b>	<b>(448,979)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Islamic borrowings	(1,110,468)	(1,350,059)
Short term deposit with banks	-	1,175,000
Due to a related party	(890)	(1,359)
<b>Net cash used in financing activities</b>	<b>(1,111,358)</b>	<b>(176,418)</b>
Decrease in cash and cash equivalents	(418,973)	(134,135)
Cash and cash equivalents, beginning of the year	1,001,061	1,135,196
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<b>582,088</b>	<b>1,001,061</b>

  
Managing Director



  
Chief Financial Officer

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

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Share Capital	Statutory Reserve	Retained Earnings	Total Shareholders' Equity
	SR 000	SR 000	SR 000	SR 000
<b>2015</b>				
Balance as at 1 January 2015	10,800,000	942,384	5,825,132	17,567,516
Net income for the year	-	-	359,157	359,157
Transfer to statutory reserve	-	35,916	(35,916)	-
Balance as at 31 December 2015	<u>10,800,000</u>	<u>978,300</u>	<u>6,148,373</u>	<u>17,926,673</u>
<b>2016</b>				
Balance as at 1 January 2016	10,800,000	978,300	6,148,373	17,926,673
Net income for the year	-	-	250,834	250,834
Transfer to statutory reserve	-	25,083	(25,083)	-
Balance as at 31 December 2016	<u>10,800,000</u>	<u>1,003,383</u>	<u>6,374,124</u>	<u>18,177,507</u>

  
 Managing Director

  
 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 2016**

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**1. GENERAL INFORMATION**

**DAR AL-ARKAN REAL ESTATE DEVELOPMENT COMPANY** (the "Company"), is a Saudi Joint Stock Company, registered in Riyadh under the Commercial Registration No. 1010160195 dated 16/4/1421H (corresponding to 18/7/2000G).

The Company and its subsidiaries (collectively referred as the "Group") are predominantly engaged in the business of development, sale and lease of real estate projects and associated activities.

The Group operates in general construction of residential and commercial buildings (construction, maintenance, demolition and reconstruction). Below is the nature of business of the Group's subsidiaries:

**DAR AL-ARKAN PROPERTIES COMPANY** – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010254063, dated 25/7/1429H (corresponding to 28/7/2008G). It operates in development and acquisition of commercial and residential real estate. It provides management, operation and maintenance of residential and commercial buildings and public facilities.

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

**DAR AL-ARKAN COMMERCIAL INVESTMENT COMPANY** – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010247585, dated 28/3/1429H (corresponding to 5/4/2008G). It operates in purchase and acquisition and 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 16/9/1429H (corresponding to 16/9/2008G). 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 11/10/1430H (corresponding to 01/10/2009G). It operates in development, maintenance and management of real estates, purchase of land and general contracting.

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

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

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

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



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

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 BASIS OF PREPARATION**

The consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organisation of Certified Public Accountants (SOCPA).

**2.2 ACCOUNTING CONVENTION**

The consolidated financial statements have been prepared on the historical cost basis, using accrual basis and going concern assumption except for commission rate swaps and held for trading investments which are measured at fair value and investments in associates which are accounted for under equity method of accounting.

**2.3 BASIS OF CONSOLIDATION**

The consolidated financial statements of the Group incorporate the financial statements of the companies and enterprises controlled by the Group (its subsidiaries) made up to 31 December 2016.

Subsidiaries are entities over which the Group has the power to control the financial and operating policies to obtain economic benefit to the Group. Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets acquired/transferred, 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 are initially measured at the 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 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 Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the carrying value of the identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the consolidated statement of 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***

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.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the consolidated balance sheet at the Group's share of the net assets of the associate. Losses of the associates in excess of the Group's interests in those associates are not recognised.

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

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

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Any excess of cost of acquisition over the Group's share of the identifiable net assets acquired of the associate at the date of acquisition is recognized 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 identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is recognised in the consolidated statement of income.

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

**2.4 PROPERTY AND EQUIPMENT**

Property and equipment 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, over their estimated useful lives, using the straight-line method, on the following basis:

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 statement of income.

At each date of preparation of the consolidated financial statements, 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 as an expense immediately.

**2.5 REAL ESTATE ASSETS**

Real estate assets principally comprise of projects in progress and developed land short term held for sale and long term projects in progress, long term developed land and investment in land under development, including property projects under construction, land projects under development and land waiting for development.

All real estate assets are accounted for at the lower of cost and net realisable value. Cost comprises 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. Net realisable value represents the estimated selling price less all estimated costs to completion and selling costs to be incurred.

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

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The operating cycle of development properties is such that the majority of the real estate properties will not be realised within 12 months. These have been split between current and non-current properties.

**2.6 INVESTMENT PROPERTIES**

Investment properties, which are properties 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 statement of income for the year of the retirement/disposal except those that relate to sale and leaseback arrangements.

**2.7 FINANCE CHARGES**

Financing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other financing costs are recognised in the consolidated statement of income in the period in which they are incurred.

**2.8 FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group has become a party to the contractual provisions of the instrument.

***Accounts receivable***

Accounts receivable are initially recognised at transaction value. They are subsequently measured for their realisable value and a provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with original terms of the agreement. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the consolidated statement of income.

***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 maturities of less than three months.

***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 are classified according to the substance of the contractual arrangements entered into. Financial liabilities include Islamic Sukuk and Islamic Murabaha; these are recorded initially at cost. Direct transaction costs are subsequently carried at their amortised cost and are recognised in the consolidated statement of income over the term of the instrument.

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

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***Accounts payables***

Accounts payables are initially recognised at cost and subsequently at amortised cost using the effective commission method.

***Commission rate swaps***

Commission rate swaps are measured at fair value. Fair value is recorded as an asset when the fair value is positive and as a liability when the fair value is negative. The fair value is determined as per the market quoted prices, cash flow discount and pricing methods, as appropriate.

Changes in fair value of commission rate swaps held for trading are recognised directly in the consolidated statement of income, and are included in other income.

**2.9 IMPAIRMENT OF TANGIBLE ASSETS**

At the date of each consolidated balance sheet, the Group reviews the carrying amounts of its tangible assets for any indication that those assets have suffered impairment losses. 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 realisable value less costs to sell and value in use. 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 statement of income.

**2.10 REVENUE RECOGNITION**

Revenue represents the sale of residential properties and land. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and significant risks and rewards of ownership have been transferred to the buyer. Revenue is measured at the value of consideration received. With respect to rental income, the Group recognises revenue on a straight line basis over the lease term.

**2.11 ZAKAT AND TAXATION**

Zakat and tax is calculated and recognised in the statement of income for the year and for each financial year separately pursuant to Zakat and Tax Regulation in the Kingdom of Saudi Arabia. The provision for Zakat and Tax is adjusted in the financial period in which the final assessment of Zakat is issued. Variances between the amount of provision for Zakat as per the financial statements and the provision as per final assessment issued by the General Authority of Zakat and Tax ("GAZT") are recognised in the statement of income as changes in accounting estimates and included in the financial period in which the final assessment of Zakat is issued.

**2.12 FOREIGN CURRENCIES**

Transactions in currencies other than Saudi Riyals, the presentational and functional currency of the Group, are recorded at the rates of exchange prevailing on the dates of the transactions. At each consolidated balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to Saudi Riyals at the rates prevailing on the consolidated balance sheet date. Non-monetary assets and liabilities that are denominated in foreign currencies are translated to Saudi Riyals at the rates prevailing at the date when the cost was determined.



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

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**2.13 STATUTORY RESERVE**

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

**2.14 END-OF-SERVICE INDEMNITIES**

The Group provides end-of-service benefits to its employees in accordance with the labour law provision 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 at the rate of the employee's current salary and are paid on cessation of employment.

**2.15 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.

**2.16 LEASING**

*Group as a lessor*

Rentals payable under operating leases are charged to the statement of income on a straight-line basis over the term of the relevant lease.

*Group as a lessee*

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

Corresponding to this commencement date a "lease liability" is measured at the net present value of all the unpaid lease payments as on that date discounted at an appropriate rate. Subsequent to the initial measurements "lease liability" are periodically measured by increasing the carrying cost to reflect the interest charge on unpaid future lease liability and any re-measurement adjustment less lease payments made up to that date.

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

**2.17 OPERATING EXPENSES**

The Group follows accrual basis of accounting to record the operating expenses and recognised as expenses in the consolidated statement of income in the period in which they are incurred. Expenses that are deferred for more than one financial year are allocated to expenses over such periods using historical cost.

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

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

**3. USE OF ESTIMATES**

The preparation of consolidated financial statements in conformity with generally accepted accounting standards requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of current event and activities actual result ultimately may differ from those estimate.

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS**

**Business segments**

For management reporting purposes, management has organized the Group around three divisions which match its entity structure. These are in line with its strategic planning and business model and include DAR Projects, DAR Investments and DAR Properties.

**Geographical regions**

The Group operates exclusively in Saudi Arabia and all its revenues derive from its portfolio of properties which the Group manages. As such there is no additional geographical information.

**Products and services**

DAR projects is principally focused on the development of basic infrastructure on undeveloped land and the sale of such land ("Sale of land") and the development of residential and commercial projects for Sale ("Sale of residential properties") or leasing such developed properties to generate rental revenue ("Lease income").

Information in respect of these products is presented below:

	For the year ended 31 December	
	2016	2015
	SR 000	SR 000
<b>REVENUES FROM OPERATIONS</b>		
Sale of land	1,724,681	2,075,265
Leasing of properties	145,548	136,084
<b>Total</b>	<b>1,870,229</b>	<b>2,211,349</b>
<b>COST OF OPERATIONS</b>		
Land	1,004,809	1,158,892
Leasing of properties	73,477	69,225
<b>Total</b>	<b>1,078,286</b>	<b>1,228,117</b>
<b>GROSS PROFIT</b>		
Land	719,872	916,373
Leasing of properties	72,071	66,859
<b>Total</b>	<b>791,943</b>	<b>983,232</b>

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**5. ACCOUNTS RECEIVABLE, NET**

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Customers	1,858,489	1,966,706
Provision for doubtful debts	<u>(19,019)</u>	<u>(18,019)</u>
<b>Total</b>	<u><b>1,839,470</b></u>	<u><b>1,948,687</b></u>

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

**6. PREPAID EXPENSES AND OTHERS**

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Advance payments to purchase land	697,190	944,627
Prepaid expenses and other assets	22,842	11,290
Advance payments to contractors	9,263	9,432
Employees' advances and receivables	6,593	5,944
Advance payments to suppliers	4,513	2,676
Accrued revenue	2,208	-
Short term investment- trading (note 6a)	863	804
Others	<u>36</u>	<u>36</u>
<b>Total</b>	<u><b>743,508</b></u>	<u><b>974,809</b></u>

**a) Short term investment – Trading**

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

	<b>For the year ended</b>	
	<b>31 December</b>	
	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Balance, beginning of the year	804	3,181
Additions ( purchase/sold)	<u>-</u>	<u>3,556</u>
	804	6,737
Realised gains	59	330
	<u>863</u>	<u>7,067</u>
Transfer/withdrawals	<u>-</u>	<u>(6,263)</u>
<b>Balance, end of the year</b>	<u><b>863</b></u>	<u><b>804</b></u>

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Investment includes SR 863 thousand as at 31 December 2016 (31 December 2015 SR 804 thousand) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

**7. RELATED PARTY TRANSACTIONS**

The significant transactions and balances with related parties are as follows:

**a) Due from a related party**

The details of the transactions with Saudi Home Loans are as follows:

	For the year ended 31 December	
	2016 SR 000	2015 SR 000
Balance, beginning of the year	-	143
Collections/adjustments	-	(143)
<b>Balance, end of the year</b>	<b>-</b>	<b>-</b>

**b) Due to a related party**

Management of Khozam Real Estate Development Company (KDC), which is an associate of the Group, requested the Group to invest its excess cash balance at a nominal profit. The details of the transactions are as follows:

	For the year ended 31 December	
	2016 SR 000	2015 SR 000
Balance, beginning of the year	194,253	195,612
Repayment of advances	(1,130)	(2,319)
Profit charged	240	960
<b>Balance, end of the year</b>	<b>193,363</b>	<b>194,253</b>

**c) Other related party transactions**

**(i) Bank Alkhair B.S.C**

The Group engaged Bank Alkhair B.S.C, a non-associate entity, to provide general financial advisory, Shariah' compliance advises and management support for the recent international Sukuk. The details of the transactions, included in accounts payable (refer to note: 15), are as follows:

	For the year ended 31 December	
	2016 SR 000	2015 SR 000
Balance, beginning of the year	115	115
Amount paid during the year	-	-
<b>Balance, end of the year</b>	<b>115</b>	<b>115</b>



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For the year ended 31 December 2016 and 2015, no other transactions were entered with entities that have common Board Members or Shareholders to the Group.

**8. PROJECTS IN PROGRESS**

*Projects in progress- long-term:*

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Projects in progress	8,878,157	8,651,076
<b>Total</b>	<u><b>8,878,157</b></u>	<u><b>8,651,076</b></u>

Long-term projects in progress represent residential projects and land owned by the Group, which will not be completed within the next twelve months and are held for future revenue generation.

During the year, the Group's management capitalised Islamic Sukuk charges in the amount of SR nil (31 December 2015: nil) under projects in progress.

**9. INVESTMENTS IN LAND UNDER DEVELOPMENT**

This represents the Group's co-ownership in land with third parties according to contracts for land development. The amount includes SR 364.5 million (31 December 2015: SR 364.5 million) as advance paid against new project.

**10. INVESTMENT PROPERTIES, NET**

	<b>For the year ended</b>	
	<b>31 December</b>	
	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
<b>COST</b>		
At beginning of the year	3,717,560	3,714,149
Additions	<u>(3,382)</u>	<u>3,411</u>
At end of the year	<u><b>3,714,178</b></u>	<u><b>3,717,560</b></u>
<b>ACCUMULATED DEPRECIATION</b>		
At beginning of the year	215,923	146,698
Charged during the year	<u>73,477</u>	<u>69,225</u>
At end of the year	<u><b>289,400</b></u>	<u><b>215,923</b></u>
<b>CARRYING AMOUNT AT THE END OF THE YEAR</b>	<u><b>3,424,778</b></u>	<u><b>3,501,637</b></u>

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

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**11. INVESTMENT IN ASSOCIATES**

This represents investment in shares of the companies that are not publicly traded. The Group's ownership in these companies ranges from 15% to 51%. Movement in investment in associates is as follows:

	For the year ended 31 December	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	776,207	763,407
Additions	1,500	-
Share of income	12,878	12,800
Balance, end of the year	790,585	776,207

*a. Summarised details of holding in respect of the Group's associates is set out below:*

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

Details of transactions with associates are disclosed under Note 7 "Related Party Transactions" of these consolidated financial statements.

- i. The Group had invested 51% in Khozam Real Estate Development Company (KDC), with Jeddah Development and Urban Regeneration Company (JDURC). As per the arrangements the power to govern the financial and operating activities which affect the returns of KDC is jointly bestowed with the shareholders, accordingly the Group does not have any right to variable returns or absolute power to control with the ability to affect the returns of the investee company, consequently the Group's investment in KDC is accounted for as investment in associates under equity method of accounting.
- ii. The KDC investment include SR 250 million as an exclusive right to participate in Khozam project development and SR 276 million as capital contribution fully paid in cash. The other shareholder (JDURC) contributed SR 265 million worth of land as capital contribution. The management believes that there is no diminishing in the value of the total investment.

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- iii. During the year the group had invested 18% in Juman Company a limited liability company under incorporation for the real estate development and paid towards its initial capital requirement for the formation of the company. This entity has not started any operation.

**12. PROPERTY AND EQUIPMENT, NET**  
**a) PROPERTY AND EQUIPMENT, NET**

Details of cost, accumulated depreciation and net book value of property and equipment are as follows:

	Land and Buildings SR 000	Leasehold improvements SR 000	Vehicles SR 000	Machinery and tools SR 000	Office Equipment SR 000	Total SR 000
<b>Cost</b>						
Balance at 1 January 2016	109,145	19,037	8,447	13,509	41,446	191,584
Additions for the year	-	-	-	-	612	612
Balance at 31 December 2016	<u>109,145</u>	<u>19,037</u>	<u>8,447</u>	<u>13,509</u>	<u>42,058</u>	<u>192,196</u>
<b>Accumulated Depreciation</b>						
Balance at 1 January 2016	42,123	19,037	8,445	13,480	40,083	123,168
Depreciation for the Year	3,016	-	-	27	623	3,666
Balance at 31 December 2016	<u>45,139</u>	<u>19,037</u>	<u>8,445</u>	<u>13,507</u>	<u>40,706</u>	<u>126,834</u>
<b>Net book value</b>						
31 December 2016	<u>64,006</u>	<u>-</u>	<u>2</u>	<u>2</u>	<u>1,352</u>	<u>65,362</u>
Net book value 31 December 2015	<u>67,022</u>	<u>-</u>	<u>2</u>	<u>29</u>	<u>1,363</u>	<u>68,416</u>

Included within land and buildings are land with an original cost of SR 9.50 million (31 December 2015: SR 9.50 million).

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**b) RIGHT TO USE ASSETS, NET**

The balance represents the right to use assets for a lease arrangement as at December 31, 2016. It principally comprises the future lease payments discounted at appropriate rate. Depreciation is charged on straight line over the term of the lease.

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

**13. DEFERRED CHARGES, NET**

The movement during the year is as below:

	For the year ended 31 December	
	2016 SR 000	2015 SR 000
Balance, beginning of the year	-	-
Additions during the year	828	-
Amortisation charge for the year	-	-
Balance, end of the year	828	-

**14. ISLAMIC BORROWINGS**

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



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**(a) Islamic borrowings transaction costs:**

	For the year ended 31 December	
	2016 SR 000	2015 SR 000
Balance, beginning of the year	97,373	107,790
Additions during the year	230	25,576
Amortisation charge for the year	(32,448)	(35,993)
Balance, end of the year	65,155	97,373

**Analysis of borrowings:**

**Islamic Sukuk**

This represents SR 3.2 billion of Islamic Sukuk comprising:

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

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

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

**Islamic Murabaha**

This represents the bilateral Murabaha facilities from local and international commercial banks, secured against certain real estate properties, in the form of Islamic Murabaha, letters of guarantee and letters of credit. These facilities comprise of long- term and short- term tenures ranging from 6 months to 11 years with various repayment schedules like annual roll revolvers, bullet payments and installment repayments ranging from quarterly and half yearly as detailed below.

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**Summary of the Murabahas:**

<b>Maturity date</b>	<b>Outstanding Balance SR 000</b>	<b>Short-term SR 000</b>	<b>Long-term SR 000</b>
2017	65,000	65,000	-
2020	1,194,375	236,250	958,125
2023	546,650	16,200	530,450
2027	287,000	15,000	272,000
<b>TOTAL</b>	<b>2,093,025</b>	<b>332,450</b>	<b>1,760,575</b>

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

**15. ACCOUNTS PAYABLE**

	<b>2016 SR 000</b>	<b>2015 SR 000</b>
Contractors	145,128	153,315
Advances from customers	7,113	6,095
Suppliers (a)	7,064	13,751
Lease liability (note 15(i))	742	-
Others	14,152	272
<b>Total</b>	<b>174,199</b>	<b>173,433</b>

(a) Suppliers include SR 115K, balance due to a related party (refer Note 7c (i)).

**(i) LEASE LIABILITY**

The balance represents the lease liability accounted on the commencement date of the lease for which the right to use assets for a lease arrangement as at December 31, 2016. It principally comprises the future lease payments discounted at appropriate rate.

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

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**16. ACCRUED EXPENSES AND OTHERS**

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Zakat provision (a)	537,494	555,757
Unearned revenue	64,515	38,833
Dividend payable	35,358	35,358
Accrued expenses	22,453	23,046
Islamic Murabaha charges	21,338	19,972
Islamic Sukuk charges	18,495	24,383
<b>Total</b>	<u><b>699,653</b></u>	<u><b>697,349</b></u>

***Zakat and Tax provision***

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

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

b) ***Adjusted net income for the year:***

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

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

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

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

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

**17. PROVISION FOR END-OF-SERVICE INDEMNITIES**

This item represents the balance of provision for end-of-service indemnities and the movement during the year is as below:

	For the year ended 31 December	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	20,973	18,544
Charged to expenses during the year	6,317	4,537
Paid during the year	(1,608)	(2,108)
Balance, end of the year	25,682	20,973

**18. SHARE CAPITAL**

The Company has one class of 1,080,000,000 authorised, issued and fully paid ordinary shares of SR 10 each, which carry no right to fixed income.



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**19. EARNINGS PER SHARE**

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

	For the year ended 31 December	
	2016	2015
	SR 000	SR 000
<b>Earnings</b>		
For the purpose of basic earnings per share:		
Income for the year from operating activities	599,467	739,408
Net income for the year	250,834	359,157
<b>Number of shares</b>	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares		
For the purpose of basic earnings per share	1,080,000,000	1,080,000,000

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

**20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of bank balances and cash, due from related parties and trade and other receivables. Financial liabilities consist of trade accounts payable, accruals, due to a related party and Islamic borrowings.

**Credit Risk**

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's bank balances, due from related parties and trade and other receivables.

Cash balances are deposited with a number of major high-credit rated financial institutions and has a policy of limiting its balances deposited with each institution.

Trade and other receivables are subject to "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 appropriate allowances for uncollectible amounts, whenever it's needed.

**Commission Rate Risk**

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

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

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The Group has policy to hedge and manage its variable commission rate risk exposures, if any, with shariah' complaint commission rate swap whenever applicable. The Group's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence the commission exposure of the Group is variable according to the changes in the LIBOR and SAIBOR.

**Liquidity Risk**

Liquidity risk is the risk that the Group will encounter difficulty in realizing assets or otherwise raising funds to meet commitments associated with financial instruments.

The liquidity risk is closely monitored through regular review of available funds and the cash flows from asset realizations against present and future commitments.

**Foreign Currency Risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange values. Management monitors fluctuations in foreign currency exchange rates, and believes that the Group is not exposed to significant currency risk since the Group's functional currency is the Saudi Riyal, in which the Group transacts, which is currently fixed, within a narrow margin, against the U.S. dollar.

**Fair value of financial instruments**

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. As the consolidated financial statements are prepared under the historical-cost convention, differences can arise between the book values and fair-value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

**21. COMMITMENTS**

As at 31 December 2016, the Group has commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 49 million (31 December 2015: SR 49 million) , and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2015: SR 74 million).