

**Saudi Real Estate Company and its
Subsidiaries
(A Saudi Joint Stock Company)**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE THREE AND SIX-MONTH PERIODS ENDED 30 JUNE 2019
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX-MONTH PERIODS ENDED 30 JUNE 2019
AND INDEPENDENT AUDITOR'S REVIEW REPORT
(Unaudited)

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Independent Auditor's review report on the interim condensed consolidated financial statements to the shareholders of Saudi Real Estate Company and its Subsidiaries (A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Real Estate Company - Saudi Joint Stock Company - (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2019 and the related interim condensed consolidated statements of income and comprehensive income for the three and six-month periods ended 30 June 2019, and the related interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Rashid S. Al-Rashoud
Certified Public Accountant
License No. (366)

Riyadh: 7 Dhul Hijjah 1440H
(8 August 2019)



Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)
FOR THE THREE AND SIX-MONTH PERIODS ENDED 30 JUNE 2019
(In Saudi Riyals Thousands, unless otherwise indicated)

	Note	<i>For the three-month period ended</i>		<i>For the six-month period ended</i>	
		<i>30 June 2019</i>	<i>30 June 2018</i>	<i>30 June 2019</i>	<i>30 June 2018</i>
Revenue		71,802	83,124	144,208	163,410
Cost of revenue		(33,982)	(24,626)	(61,028)	(50,796)
GROSS PROFIT		37,820	58,498	83,180	112,614
General and administration expenses		(27,169)	(35,191)	(55,615)	(54,841)
Selling and marketing expenses		(3,392)	(2,907)	(18,867)	(4,389)
OPERATING INCOME		7,259	20,400	8,698	53,384
Financial charges		(4,522)	(2,804)	(9,046)	(7,170)
Gain (loss) on revaluation of derivative financial instruments		-	5,418	(1,226)	11,962
(Loss) gain on revaluation of investments designated at FVPL		642	(570)	1,342	2,051
Gain on sale of investments designated at FVPL		4,229	4,038	21,279	13,572
Income from short term deposits and held-to-maturity financial investments		-	3,269	-	6,198
Dividends		7,454	-	7,454	-
Share in profit of an associate	5	2,916	4,946	6,195	8,505
Other income (expenses)		359	(272)	3,831	319
INCOME BEFORE ZAKAT		18,337	34,425	38,527	88,821
Zakat	12	(2,819)	(4,959)	(8,076)	(13,468)
NET INCOME FOR THE PERIOD		15,518	29,466	30,451	75,353
Attributable to:					
Equity holders of the parent		21,508	30,266	40,002	74,901
Non-controlling interests		(5,990)	(800)	(9,551)	452
		15,518	29,466	30,451	75,353
EARNINGS PER SHARE (SR):					
Basic and diluted profit attributable to equity holders of the parent	13	0.09	0.13	0.17	0.31


Chief Financial Officer


Chief Executive Officer


Chairman, Board of Directors

The attached notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME (Unaudited)
FOR THE THREE AND SIX-MONTH PERIODS ENDED 30 JUNE 2019
(In Saudi Riyals Thousands, unless otherwise indicated)

	<i>For the three-month period ended</i>		<i>For the six-month period ended</i>	
	<u>30 June 2019</u>	<u>30 June 2018</u>	<u>30 June 2019</u>	<u>30 June 2018</u>
NET INCOME FOR THE PERIOD	15,518	29,466	30,451	75,353
OTHER COMPREHENSIVE LOSS				
<i>Other comprehensive (loss) income to be reclassified to income in subsequent periods:</i>				
Net change in fair value of Investment in equity instruments designated at FVOCI	(15,750)	(11,464)	(11,484)	(26,001)
Net change in fair value of available for sale financial assets	(1)	-	53	-
Other comprehensive loss for the period	(15,751)	(11,464)	(11,431)	(26,001)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	(233)	18,002	19,020	49,352
Attributable to:				
Equity holders of the parent	5,757	18,802	28,571	48,900
Non-controlling interests	(5,990)	(800)	(9,551)	452
	(233)	18,002	19,020	49,352



Chief Financial Officer



Chief Executive Officer



Chairman, Board of Directors

The attached notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

(In Saudi Riyals Thousands, unless otherwise indicated)

	Note	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Properties and equipment		62,053	61,705
Investments properties	4	6,031,333	5,756,727
Intangible assets		13,061	11,713
Investment in an associate	5	230,240	235,657
Investments in equity instruments designated at FVOCI		391,765	403,248
Investments designated as FVPL		82,579	270,838
Right-of-use assets	3	82,311	-
TOTAL NON-CURRENT ASSETS		6,893,342	6,739,888
CURRENT ASSETS			
Derivative financial instruments		-	2,369
Trade receivables		145,124	88,763
Prepayments and other receivables		154,200	142,966
Inventories		7,085	6,059
Cash and cash equivalents		252,489	331,724
TOTAL CURRENT ASSETS		558,898	571,881
TOTAL ASSETS		7,452,240	7,311,769
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	2,400,000	2,400,000
Statutory reserve	8	720,000	720,000
Contractual reserve	9	10,051	10,051
Retained earnings		67,310	27,308
Other reserves		(7,573)	3,858
Equity attributable to equity holders of the parent		3,189,788	3,161,217
Non-controlling interests		91	9,642
TOTAL EQUITY		3,189,879	3,170,859
NON-CURRENT LIABILITIES			
Long term loans	10	514,698	644,134
Loan from a related party	11	681,344	680,249
Employees' defined benefit obligations		17,057	18,426
Lease liabilities	3	74,113	-
TOTAL NON-CURRENT LIABILITIES		1,287,212	1,342,809
CURRENT LIABILITIES			
Trade payables		102,290	61,486
Accruals and other liabilities		91,351	96,910
Unearned revenue		150,973	139,897
Long term loans – current portion	10	2,249,269	2,130,797
Loan from a related party – current portion	11	333,192	328,401
Zakat provision	12	42,233	40,610
Lease liabilities – current portion	3	5,841	-
TOTAL CURRENT LIABILITIES		2,975,149	2,798,101
TOTAL LIABILITIES		4,262,361	4,140,910
TOTAL EQUITY AND LIABILITIES		7,452,240	7,311,769


Chief Financial Officer


Chief Executive Officer


Chairman, Board of Directors

The attached notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY


FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

(In Saudi Riyals Thousands, unless otherwise indicated)

	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Statutory reserve	Contractual reserve	Retained earnings	Other reserves	Proposed capital increase	Total		
As at 31 December 2018 (Audited)	2,400,000	720,000	10,051	27,308	3,858	-	3,161,217	9,642	3,170,859
Net income for the period	-	-	-	40,002	-	-	40,002	(9,551)	30,451
Other comprehensive income for the period	-	-	-	-	(11,431)	-	(11,431)	-	(11,431)
Total comprehensive income for the period	-	-	-	40,002	(11,431)	-	28,571	(9,551)	19,020
Balance as at 30 June 2019 (Unaudited)	2,400,000	720,000	10,051	67,310	(7,573)	-	3,189,788	91	3,189,879
As at 31 December 2017 (Audited)	1,200,000	1,450,026	480,025	251,389	86,315	-	3,467,755	23,849	3,491,604
Adoption of IFRS 9	-	-	-	18,988	(26,375)	-	(7,387)	-	(7,387)
As at 1 January 2018	1,200,000	1,450,026	480,025	270,377	59,940	-	3,460,368	23,849	3,484,217
Net income for the period	-	-	-	74,901	-	-	74,901	452	75,353
Other comprehensive loss	-	-	-	-	(26,001)	-	(26,001)	-	(26,001)
Total comprehensive income for the period	-	-	-	74,901	(26,001)	-	48,900	452	49,352
Dividends	-	-	-	(60,000)	-	-	(60,000)	-	(60,000)
Proposed capital increase	-	(730,026)	(469,974)	-	-	1,200,000	-	-	-
Balance as at 30 June 2018 (Unaudited)	1,200,000	720,000	10,051	285,278	33,939	1,200,000	3,449,268	24,301	3,473,569


Chief Financial Officer


Chief Executive Officer


Chairman of Board of Directors

The attached notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019
(In Saudi Riyals Thousands, unless otherwise indicated)

	2019	2018
OPERATING ACTIVITIES		
Income before zakat	38,527	88,821
<i>Adjustments to reconcile income before zakat to net cash flows:</i>		
Depreciation of properties, equipment, investment properties and right-of-use assets	22,825	28,829
Amortization of intangible assets	420	-
Provision of employees' defined benefit obligations	1,209	-
Share in profit of an associate	(6,195)	(8,505)
Impairment of receivables	-	(2,847)
Losses (gains) on revaluation of derivatives financial instruments	1,226	(11,962)
Gain on revaluation of investments designated as FVPL	(1,342)	(2,051)
Income from short term deposits and held-to-maturity financial investments	-	(6,198)
Gain on sale of investments designated as FVPL	(21,279)	(13,572)
Reversal of provision for receivables	(1,778)	-
	33,613	72,515
<i>Working capital adjustments:</i>		
Trade receivables	(54,583)	(52,018)
Prepayment and other receivables	(11,234)	(35,240)
Inventories	(1,026)	(10,697)
Trade payables	40,804	9,903
Accruals and other liabilities	82,026	25,137
Unearned revenue	11,076	(6,138)
Accrued dividends	-	59,930
Cash from operations	100,676	63,392
Employees' defined benefit obligations paid	(2,578)	(1,990)
Financial charges paid	(87,585)	(38,800)
Zakat paid	(6,453)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	4,060	22,602
INVESTING ACTIVITIES		
Purchase of properties and equipment	(348)	(9,405)
Additions to intangible assets	(1,768)	(8,069)
Dividends received from an associate	11,667	11,667
Additions to investments properties	(296,993)	(331,406)
Proceeds from disposal of investments designated as FVPL	210,878	235,001
Proceeds from investments designated as FVPL	1,142	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(75,422)	(102,212)
FINANCING ACTIVITIES		
Long term loans	(10,964)	660,592
Loan from a related party	5,886	-
Lease liabilities	(2,795)	-
Non-controlling interest	-	452
NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES	(7,873)	661,044
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(79,235)	581,434
Cash and cash equivalents at the beginning of the period	331,724	208,466
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	252,489	789,900


Chief Financial Officer


Chief Executive Officer


Chairman, Board of Directors

The attached notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited)

30 JUNE 2019

(In Saudi Riyals Thousands, unless otherwise indicated)

1. CORPORATE INFORMATION

Saudi Real Estate Company (the “Company” or the “Parent Company”) is a Saudi Joint Stock Company, whose shares are publicly traded on the Saudi Stock Exchange. The Company was established pursuant to Royal Decree number M/58 dated 17 Rajab 1396H (corresponding to 15 July 1976), registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010012539 dated 17 Jumada al-Alkhirah 1397H (corresponding to 4 June 1977). The Company’s head office address is Olaya Road, P.O. Box 3572, Riyadh 11481, Kingdom of Saudi Arabia. The Company’s duration is 130 Gregorian years and it started from the date of issuing the commercial registration, it could always be extended by the extra ordinary General Assembly resolution before the duration ends by one year.

The Company’s capital consists of 240,000,000 shares as at 30 June 2019 (31 December 2018: 240,000,000 shares). The par value per share is SR 10.

The Company is engaged in ownership of land suitable for construction and development, construction of residential and commercial buildings, for the purpose of selling or leasing them per operating lease and providing project management services, purchase, production of necessary materials and equipment for construction and all related works.

The Company has invested in the following subsidiaries which are consolidated in these condensed consolidated financial statements:

<i>Name</i>		<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Year of incorporation</i>	<i>Ownership percentage (directly or indirectly)</i>	
					<i>2019</i>	<i>2018</i>
Saudi Real Estate Construction Company (SRECC)	A	Saudi Arabia	Constructions and maintenance	2016	60%	60%
Saudi Real Estate Infrastructure Company (SREIC)	B	Saudi Arabia	Constructions and maintenance	2017	60%	60%
Saudi Korean Company for Maintenance and Properties Management (SAKOM)	C	Saudi Arabia	Maintenance and operation	2017	60%	60%
Alakaria Hanmi for Project Management (Hanmi)	D	Saudi Arabia	Provide programs and projects management and lenders’ technical advisory services	2017	60%	60%
Al Widyan Saudi Real State Company (WSREC)	E	Saudi Arabia	Developing Al Widyan project	2018	100%	100%

(A) Saudi Real Estate Construction Company is a closed joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010466367 dated 15 Rabi Al Awal 1438H (corresponding to 14 December 2016). The Company is engaged in buildings construction and maintenance, management of construction projects, detailed engineering designing, purchasing materials and executing the projects, under its management per the license of the General Investment Authority No. 10206371070302 dated 6 Shawwal 1437H (corresponding to 11 July, 2016).

(B) Saudi Real Estate Infrastructure Company is a closed joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010469561 dated 6 Rajab 1438H (corresponding to 3 April 2017). The Company is engaged in road, bridge, and tunnel works, earthworks, and construction, extension, cleaning, maintenance and operation of water, sewerage and drainage networks. Also, construction, extension, and maintenance of distribution networks and stations for electrical power and gas, and telecommunication networks and communication towers, construction and maintenance of public parks and irrigation systems, and dam construction and maintenance and sale of prefabricated concrete.

(C) Saudi Korean Company for Maintenance and Properties Management is a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010612687 dated 11 Safar 1439H (corresponding to 31 October 2017). The Company is engaged in the operation and maintenance of buildings in accordance with the license issued from the General Investment Authority number (10214381076997) dated 29 Shawwal 1438 (corresponding to 23 July 2017).

Saudi Real Estate Company and its Subsidiaries (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

30 JUNE 2019

(In Saudi Riyals Thousands, unless otherwise indicated)

1. CORPORATE INFORMATION (continued)

(D) Alakaria Hanmi for Project Management is a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010612116 dated 21 Muharam 1439H (corresponding to 11 October 2017). The Company is engaged in providing project management services and advisory services for lenders in accordance with the license issued from the General Investment Authority number (10213381076825) date 29 Shawwal 1438 H (corresponding to 23 July 2017).

(E) Al Wedyan Saudi Real Estate Company is a closed joint stock company owned by one person registered in the Kingdom of Saudi Arabia under commercial registration number 1010455071 dated 16 Thul-Qi'dah 1439H (corresponding to 29 July 2018). The Company is engaged in electricity works, gardens and parks maintenance, building construction, maintenance and operation of buildings, maintenance works, the operation of water and sanitation networks, the construction of roads, the construction of bridges, the construction of tunnels, the purchase, sale and lease of land and real estate, development and real estate investment activities, maintenance and operation of hospitals, medical centers and government and private clinics.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia ("KSA") and other pronouncements that are issued by SOCPA.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

These interim condensed consolidated financial statements are presented in Saudi Riyals, which is also the functional currency and the currency in which the interim condensed consolidated financial statements are presented. All amounts have been rounded to the nearest Saudi Riyals Thousands, unless otherwise indicated.

2.2 BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2019 as mentioned in (note 1).

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed risks, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the three elements of control. Consolidation of subsidiaries begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiaries. Assets, liabilities, income and expenses of subsidiaries acquired or disposed during the period are included in the interim condensed consolidated financial statements from the date the Group gains control until the date the Group ceases to control the investee.

Income (loss) and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation of the interim condensed consolidated financial statements.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the interim condensed statement of income. Any investment retained is recognised at fair value.

Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited) (continued)

30 JUNE 2019

(In Saudi Riyals Thousands, unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any new standard, interpretation or amendment that has been issued but which are not yet effective.

The Group applies, for the first time, IFRS 16 Leases ("IFRS 16"). As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on interim condensed consolidated statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

2.3.1 IFRS 16 'LEASES'

Below is the Group's accounting policies in accordance with the application of IFRS 16, which is effective from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance of fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term and low value assets' leases

Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items that do not meet the Group's capitalisation threshold and are considered to be insignificant for the statement of financial position for the Group as a whole. Payments for short-term leases and leases of low-value assets are recognised on a straight-line basis in the interim condensed consolidated statement of income.

Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited) (continued)

30 JUNE 2019

(In Saudi Riyals Thousands, unless otherwise indicated)

3. THE EFFECT OF ADOPTING IFRS 16

The following is the effect of adopting IFRS 16 as at 1 January 2019:

	<u>As at 1 January 2019</u>
Assets	
Right-of-use assets	<u>83,187</u>
Liabilities	
Lease liabilities	<u>83,187</u>
Net effect on equity	<u><u>-</u></u>

The Group has lease contracts for lands in Riyadh. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. Lease payments were recognised as rent expense in interim condensed consolidated statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and trade and other receivables, respectively.

Upon adoption of IFRS 16, The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average of the lessee's incremental borrowing rate applicable to lease liabilities as at 1 January 2019 was 7%.

The Group also applied the available practical expedients to adopt IFRS 16 on those leases previously classified under IAS 17, and IFRIC 4. Upon application of IFRS 16 the Group applied the following available practical expedients:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Accounting for operating leases in accordance with IAS 17 as a short-term lease contract with the remaining lease term less than 12 months as at 1 January 2019.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- An option, according to the main asset class, to separate non-lease components from the lease components, and instead, calculate each lease component and any non-lease components related, as a single lease component.

4. INVESTMENT PROPERTIES

Investment properties consist of lots of lands and properties in the Kingdom of Saudi Arabia.

The investment properties are as follow:

	<u>30 June 2019</u>	<u>31 December 2018</u>
Lands	3,424,167	3,424,167
Buildings, net	1,196,161	1,218,548
Projects in progress	1,411,005	1,114,012
At the end of the period/year	<u>6,031,333</u>	<u>5,756,727</u>

During the six month period ended 30 June 2019, additions to the investment properties amounted to SR 297 million (30 June 2018: SR 285 million), and the depreciation for the period amounted to SR 22 million (30 June 2018: SR 20 million).

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4. INVESTMENT PROPERTIES (continued)

The investment properties are stated at cost less accumulated depreciation (except lands). The fair value of the properties amounted to SR 10 billion as at 31 December 2018 (31 December 2017: SR 10 billion) based on valuations performed by Coldwell Banker (an independent valuer accredited by Saudi Authority for Accredited Valuers), who is a specialist in valuing such types of investment properties.

Investment properties includes some buildings that are built on a leased land from Arriyadh Development Authority under two contracts for 99 years and 50 years that starts from 7 January 1993 and 6 July 2009 respectively (On the basis of the right-of-use) that will be transferred to the Authority at the end of the contract.

5. INVESTMENT IN AN ASSOCIATE

As of 30 June 2019 and 31 December 2018 the Group owns 16.67% interest in Riyadh Holding Company, a limited liability company registered in the Kingdom of Saudi Arabia. The Group's interest in the associate is accounted for using the equity method in these consolidated financial statements as the Group has significant influence on Riyadh Holding Company.

The following is the movement of the investment in an associate during the period/year:

	30 June 2019	31 December 2018
At the beginning of the period/ year	<u>235,657</u>	<u>224,452</u>
Share in profits	6,195	19,743
Dividend received	(11,667)	(11,667)
Net change during the period/year	55	3,129
At the end of the period/year	<u>230,240</u>	<u>235,657</u>

6. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent transactions with entities controlled or significantly influenced by such parties and major shareholders of the Group. Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group and its employees. The Group considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

Following table shows the significant related party transactions during the period/ year:

	As at	
	30 June 2019	31 December 2018
Amounts due from related parties		
Mohammed Ali Al Swailem Company for Trading and Contracting	<u>11,111</u>	<u>790</u>
Amounts due to related parties		
Hanmi Global Limited	<u>6,019</u>	<u>4,362</u>
	For the period ended	
	30 June 2019	30 June 2018
Executive salaries and allowances	<u>4,488</u>	<u>1,715</u>
Board of directors remuneration	<u>1,925</u>	<u>3,960</u>
	<u>6,413</u>	<u>5,675</u>

The amounts disclosed in the table above represent the amounts recognized as an expense relating to senior management personnel.

Transactions with related parties include a loan granted by the Public Investment Fund. The balance of the loan as at 30 June 2019 amounted to SR 994 million (31 December 2018: 992 million) (note 11).

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7. SHARE CAPITAL

The company's share capital amounting to SR 2,400 million as at 30 June 2019 is divided into 240 million shares (31 December 2018: 240 million shares) of SR 10 each.

Based on the company's Extraordinary General Assembly meeting held on 14 Shawwal 1439H (corresponding to 28 June 2018), the Company's share capital has been increased from SR 1,200 million to SR 2,400 million by transferring SR 470 million from the "contractual reserve" account and SR 730 million from the "statutory reserve" account to the proposed increase in capital. During the year ended 31 December 2018, this proposed increase was transferred to the capital account, all the legal formalities have been completed and the Company's commercial registration was amended.

8. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies and the Company's by-laws, the company must transfer 10% of its net income in each year (after covering accumulated losses). The Company may discontinue such transfer when the reserve amounts to 30% of the capital. This reserve is not available for distribution.

9. CONTRACTUAL RESERVE

In accordance with the Company's By-Laws, the company shall transfer 10% from the net income for the year to the contractual reserve, until this reserve equals 50% of the share capital.

10. LONG TERM LOANS

On 22 December 2016 the Company obtained an Islamic long-term loan from a local bank. The loan is subject to the prevailing interest rates between the Saudi banks (SAIBOR) plus the profit margin and is repayable in one bullet at the end of the agreement period in May 2019. Accordingly, during the year ended 31 December 2018 the loan was classified as a current liability. The management of the Group is studying the available options to meet these obligations (note 19). Saudi Real Estate Company has pledged to deposit at least 50% of the group's revenue in their accounts with the lending bank.

In May 2018, the Group acquired a long-term Islamic loan from a local bank for an amount of SR 650 million. The loan is subject to the prevailing interest rates between the Saudi banks (SAIBOR) plus a profit margin. The loan is repayable at annual instalments for a period of five years after a grace period of two years. The first instalment will begin in May 2020. The long-term loan granted to the Group is secured by the Group's collateralized land.

The borrowing costs capitalised during the period ended 30 June 2019 amounted to SR 37 million (30 June 2018: SR 30 million). The Group's management utilized the loans proceeds for the Group's ongoing projects. All of the borrowing costs were eligible for capitalisation during the period ended 30 June 2019 (30 June 2018: 100%).

11. LOAN FROM A RELATED PARTY

The Group signed a long-term loan agreement with the Public Investment Fund at SR 1.5 billion during 2015 for the purpose of financing the construction of real estate projects. The total outstanding balance of the loan as at 31 December 2018 was SR 992 million, and the loan will be repaid in equal semi-annual payments. The loan is subject to the prevailing interest rates between the Saudi banks (SAIBOR) plus the profit margin. The first instalment was due on 1 January 2018 and the last instalment is payable in July 2025. It was agreed with the Public Investment Fund to reschedule the loan repayments due during 2018 and the period ended 30 June 2019 amounting to SR 188 million to June 2019. Currently, the Company's management is in process of deferring the due payments to Public Investment Fund to subsequent periods.

The borrowing costs capitalised in relation to the Public Investment Fund loan during the period ended 30 June 2019 amounted to SR 7 million (30 June 2018: SR 18 million). The Group's management fully utilized the loans proceeds for the Group's ongoing projects. All of the borrowing costs were eligible for capitalisation during the period ended 30 June 2019 (30 June 2018: 100%).

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12. ZAKAT

The movement in the provision for Zakat is as follows:

	<u>30 June 2019</u>	<u>31 December 2018</u>
At beginning of the period/year	40,610	24,537
Provided during the period/year	8,076	21,028
Paid during the period/year	<u>(6,453)</u>	<u>(4,955)</u>
At the end of the period/year	<u>42,233</u>	<u>40,610</u>

The Group submitted its Zakat returns for all years up to 2018 and settled Zakat due accordingly. The zakat have been agreed with GAZT for all years up to 2004.

13. EARNINGS PER SHARE

Basic and diluted earnings per share (EPS) is calculated by dividing the net income for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Earnings per share for the period ended 30 June 2019 was adjusted retrospectively based on the number of shares issued after the capital increase of 240 million shares (Note 7).

The earnings per share calculation is given below:

	<u>For the three month period ended 30 June</u>	
	<u>2019</u>	<u>2018</u>
Net income for the period attributable to equity holders of the parent	<u>21,508</u>	<u>30,266</u>
Weighted average number of ordinary shares (share)	<u>240,000</u>	<u>240,000</u>
Earnings per share – Basic and Diluted (SR)	<u>0.09</u>	<u>0.13</u>
	<u>For the six month period ended 30 June</u>	
	<u>2019</u>	<u>2018</u>
Net income for the period attributable to equity holders of the parent	<u>40,002</u>	<u>74,901</u>
Weighted average number of ordinary shares (share)	<u>240,000</u>	<u>240,000</u>
Earnings per share – Basic and Diluted (SR)	<u>0.17</u>	<u>0.31</u>

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14. COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group is engaged in engineering consultancy and design contracts and the execution of capital works with some consultants and contractors. The value of commitments not executed as at 30 June 2019 amounted to SR 610 million (31 December 2018: SR 554 million).

Contingencies

• **White land claims**

As of 30 June 2019, white idle land fees and related payment arrears received by the Group from the Ministry of Housing amounted to SR 102 million (as at 31 December 2018: SR 99 million).

The Group has appealed against the above amounts on the website of the Ministry of Housing, which was rejected by the Ministry. Accordingly, the Group filed a lawsuit with the Board of Grievances against the non-eligibility of these claims, as the conditions for levying the white land fees on these lands did not apply.

During January 2019, the Company obtained a preliminary ruling from the Riyadh court to cancel the claims of the Ministry of Housing, which represents the fees of the white idle land located in Riyadh. The preliminary ruling of the Court cancels all the consequences of the claims. The value of cancelled claims by the Court's preliminary ruling and related penalties amounted to SAR 82 million. The Ministry of Housing filed an appeal against that ruling. The case is pending in the Court.

The Court also ruled to reject one of the claims lodged relating to a land in Jeddah amounting to SR 4.5 million. The ruling was challenged by the Company and the case is still pending in the court.

As for the remaining cases, which are still pending in the Court, and based on the opinion of the legal counsel appointed by the Group's management, the management is confident that the ultimate outcome of all the legal cases currently pending with the Board of Grievances will be in the favour of the Group. Accordingly, the management considers that no provisions should be made for such claims or penalties amounting to a total of SR 102 million as at 30 June 2019.

• **Legal cases**

A lawsuit against Riyadh Holding Company - an associate - was filed by a contractor for SR 109 million. A preliminary ruling was issued to pay the amount and an appeal was filed against the ruling in the Court of Appeal.

A lawsuit was filed against the Company concerning an ownership of a public land valued at SR 82 million and is pending before the court. The Company's management confirms that it has all the supporting documents that preserve the Company's right, including title deeds issued by the Public Notary. The management of the Company is confident that the outcome of the lawsuit will be in favor of the Company. Accordingly, no provision has been made for this case.

There are also some legal cases filed against the Group in the normal course of business and are currently being discussed. These lawsuits have no significant impact on the interim condensed consolidated financial statements.

• **Zakat assessments**

The Company did not receive any Zakat assessments for the years after 2004, which are still under review by GAZT.

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15. SEGMENTAL INFORMATION

For management purposes, the Group consists of business units based on its products and services and has two reportable segments, as follows:

A. Residential sector

B. Commercial sector

Segment performance is evaluated based on income or loss and is measured consistently with income or loss in the interim condensed consolidated financial statements. However, the Group's financing (including finance costs) are managed on a Group basis and are not allocated to operating segments and revenue.

The activities of the Group and its subsidiaries are primarily conducted in the Kingdom of Saudi Arabia.

Below is a breakdown of the segment information:

As at 30 June 2019:	Residential	Commercial	Headquarter	Total
Revenue	61,277	82,931	-	144,208
Operation cost	27,541	33,487	-	61,028
Assets	659,561	2,388	6,790,291	7,452,240
As at 30 June 2018:				
Revenue	72,829	90,581	-	163,410
Operation cost	22,350	28,446	-	50,796
Assets	677,432	472,003	6,507,595	7,657,030

16. FAIR VALUE MEASUREMENT

Following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities as at 30 June 2019 and 31 December 2018:

	Carrying Amount	(level 1)	(level 2)	(level 3)	Fair value
As at 30 June 2019:					
Financial assets measured at fair value:					
Investments in equity instruments designated as FVOCI	391,765	53,794	89,664	248,307	391,765
Investments designated as FVPL	82,579	-	82,579	-	82,579
	474,344	53,794	172,243	248,307	474,344
As at 31 December 2018:					
Financial assets measured at fair value:					
Investments in equity instruments designated as FVOCI	403,248	47,436	102,343	253,469	403,248
Investments designated as FVPL	270,838	-	270,838	-	270,838
Derivative financial instruments	2,369	-	2,369	-	2,369
	676,455	47,436	375,550	253,469	676,455

The derivative financial instruments are carried at fair value using valuation techniques, which employ the use of market observable inputs.

The management considers that the fair values of cash and cash equivalents, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The carrying value of fixed and variable rate term-loans approximates their fair values due to the fact that they bear interest rates that reflect current market interest rates for similar financing and loans. As a result, the values of the future discounted cash flows on those financing and loans are not significantly different from their current carrying values.

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17. DIVIDEND

The extraordinary general meeting of the shareholders of the Company held on 28 June 2018 approved the distribution of SR 60 million cash dividend to the shareholders for the second half of the financial year ended 31 December 2017 which amounted to SR 0.5 per share representing 5% of the nominal value of the share. The dividends were paid on 16 July 2018.

18. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 7 Dhul Hijjah 1440H (corresponding to 8 August 2019).

19. LIQUIDITY RISKS

As at 30 June 2019, the Group's current liabilities exceeded its current assets by SR 2.4 billion (31 December 2018: SR 2.3 billion) due to the reclassification of a long-term loan of SR 2.1 billion to current liabilities, which is due in full to a local bank in May 2019 (Note 10). The Group's management is currently considering to reschedule the outstanding payments with the respective bank.