ALANDALUS PROPERTY COMPANY

(A Saudi Joint Stock Company)

Consolidated Financial Statements

For the year ended

31 December 2018

Together with the

Independent auditor's report

KPMG Al Fozan & Partners
Certified Public Accountants
KPMG Tower
Salahudeen Al Ayoubi Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 874 8500
Fax +966 11 874 8600
Internet www.kpmg.com/sa

License No. 46/11/323 issued 11/3/1992

Independent Auditors' Report

To the Shareholders of Alandalus Property Company

Opinion

We have audited the consolidated financial statements of **Alandalus Property Company** (Saudi joint stock company) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

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

Key Audit Matters

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

KPMG

Independent Auditors' Report

To the Shareholders of Alandalus Property Company (continued)

Key Audit Matters (continued)

Valuation of investments property	
See note 9 to the consolidated financial statements	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2018, The carrying value of Group's investments property is SR 506 million (31 December 2017: SR 548 million), and its fair value is amounted to SR 1,594 million (31 December 2017: SR 1,610 million). The investments property are stated at cost less accumulated depreciation and impairment losses, if any. However, the fair value of the investments properties is disclosed in the notes to the consolidated financial statements. The Group uses the valuation reports from the independent valuer engaged by the management to evaluate the fair value of property at the reporting date. We considered this as a key audit matter since the valuation requires significant judgment with respect to appropriateness of method used, and any input inaccuracies in this judgement could result in material misstatements of the consolidated financial statements disclosure.	Our audit procedures, with assistant by our own property valuation specialist in this area included, among others: - Understanding of valuation approaches, meeting with the Group's independent valuers to understand the assumptions and methodologies used in valuing the investments property and the market evidence used by the independent valuers to support their assumptions. We also obtained an understanding of the Company management involvement in the valuation process to assess whether appropriate oversight has occurred. - Assessing valuers' credentials and assessed the independence, professional qualifications, competence and experience of the Group's independent valuers, also ensured the valuer is a certified from Saudi Authority for Accredited Valuers (TAQEEM). - Assessing the methodology used by the valuers by considering whether their valuations were in accordance with the Royal Institution of Chartered Surveyors (RICS), Valuation Professional Standards and relevant accounting standards. - Assessing input and agreeing observable inputs used in the valuations, such as rental income, occupancy rates, break clauses and lease lengths back to lease agreements for a sample of properties. - Assessing the adequacy of the Group's disclosures in relation to the judgement in relation to valuing investments properties.

Independent Auditors' Report

To the Shareholders of Alandalus Property Company (continued)

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 10 Rajab 1439H corresponding to 27 March 2018.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

KPMG

Independent Auditors' Report

To the Shareholders of Alandalus Property Company (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Alandalus Property Company** (the "Company") and its subsidiaries (the "Group").

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

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No.: 371

كي بي إم جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
س.ت.م رقم ٤٦
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Riyadh on:
Date: 19 March 2019
Corresponding to: 12 Rajab 1440

ALANDALUS PROPERTY COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(All amounts are expressed in Saudi Riyal unless otherwise stated)

	Note	**2018**	2017
ASSETS			
Non-current assets			
Property and equipment	*8*	**195,759,311**	202,351,935
Investments property	*9*	**505,866,559**	548,310,118
Investments in associates	*10*	**493,988,554**	457,272,802
		1,195,614,424	1,207,934,855
Current assets			
Receivable from operating leases	*11*	**26,097,810**	14,320,989
Prepayments and other debit balances	*12*	**3,977,706**	6,122,259
Due from related parties	*24*	**17,124,796**	1,096,564
Financial instruments at fair value through profit or loss	*13*	**58,111,578**	-
Cash and cash equivalents	*14*	**145,111,774**	444,213,231
		250,423,664	465,753,043
Total assets		**1,446,038,088**	1,673,687,898
EQUITY AND LIABILITIES			
Equity			
Share capital	*1*	**700,000,000**	700,000,000
Statutory reserve		**88,925,263**	84,125,638
Retained earnings		**347,411,134**	444,214,504
Equity attributable to owners of the Company		**1,136,336,397**	1,228,340,142
Non-controlling interests		**211,454,555**	192,277,369
Total equity		**1,347,790,952**	1,420,617,511
LIABILITIES			
Non-current liabilities			
Employees' end of service benefits obligations	*15*	**5,074,706**	4,496,770
Islamic Tawarruq facilities	*16*	-	53,049,109
Accrued operating leases		**9,724,527**	9,169,439
		14,799,233	66,715,318
Current liabilities			
Advances from leases		**34,663,463**	27,676,645
Islamic Tawarruq facilities	*16*	**1,822,767**	122,331,008
Due to related parties	*24*	**330,145**	1,272,608
Zakat provision	*18*	**13,305,708**	4,658,195
Accruals and other credit balances	*17*	**33,325,820**	30,416,613
		83,447,903	186,355,069
Total liabilities		**98,247,136**	253,070,387
Total liabilities and equity		**1,446,038,088**	1,673,687,898

Fawaz Abdulaziz Bin Huwail
Chief Financial Officer

Hathal Bin Saad Alutaibi
Chief Executive Officer

Abdulsalam Bin Abdulrahman Aqeel
Chairman Of Board Of Directors

ALANDALUS PROPERTY COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018
(All amounts are expressed in Saudi Riyal unless otherwise stated)

	Note	2018	2017
Revenue	*19*	**164,680,427**	146,827,437
Cost of revenue		**(70,995,536)**	(66,676,860)
Gross profit		**93,684,891**	80,150,577
Marketing expenses		**(1,785,462)**	(931,166)
General and administrative expenses		**(31,785,768)**	(12,735,246)
Impairment of receivable from operating leases contracts	*11*	**(5,067,566)**	(1,621,110)
Share of income from associates	*10*	**33,260,429**	38,848,354
Other income		**4,258,321**	856,308
Operating profit		**92,564,845**	104,567,717
Gain from transferring investments property to an associate	*10*	**-**	22,943,531
Impairment of embedded goodwill of investment in associate	*10*	**(6,014,253)**	-
Finance cost		**(4,004,027)**	(7,018,529)
Profit before Zakat		**82,546,565**	120,492,719
Zakat	*18*	**(13,584,020)**	(2,102,528)
Profit for the year		**68,962,545**	118,390,191
Attributable to:			
Owners of the Company		**47,972,305**	118,390,191
Non-controlling interests		**20,990,240**	-
		68,962,545	118,390,191
Other comprehensive income			
Re-measurement of employees' end of service benefits obligations actuary gains / (losses)	*15*	**23,950**	(215,155)
Comprehensive income		**68,986,495**	118,175,036
Comprehensive income attributable to:			
Owners of the Company		**47,996,255**	118,175,036
Non-controlling interests		**20,990,240**	-
		68,986,495	118,175,036
Earnings per share			
Basic and diluted earnings per share from net income of the year	*20*	**0.69**	1.69

Fawaz Abdulaziz Bin Huwail	Hathal Bin Saad Alutaibi	Abdulsalam Bin Abdulrahman Aqeel
Chief Financial Officer	*Chief Executive Officer*	*Chairman Of Board Of Directors*

The accompanying notes 1 through 30 form an integral part of these consolidated financial statements

ALANDALUS PROPERTY COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018
(All amounts are expressed in Saudi Riyal unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
For the year ended 31 December 2018						
Balance as at 1 January 2018	**700,000,000**	**84,125,638**	**444,214,504**	**1,228,340,142**	**192,277,369**	**1,420,617,511**
Profit for the year	-	-	**47,972,305**	**47,972,305**	**20,990,240**	**68,962,545**
Other comprehensive income	-	-	**23,950**	**23,950**	-	**23,950**
Total comprehensive income for the year	-	-	**47,996,255**	**47,996,255**	**20,990,240**	**68,986,495**
Transfer to statutory reserve		**4,799,625**	**(4,799,625)**	-	-	-
Dividends (note 25)	-	-	**(140,000,000)**	**(140,000,000)**	-	**(140,000,000)**
Establishment of a subsidiary (note 3)	-	-	-	-	**12,161,946**	**12,161,946**
Dividend from a subsidiary to non-controlling interests	-	-	-	-	**(13,975,000)**	**(13,975,000)**
Balance as at 31 December 2018	**700,000,000**	**88,925,263**	**347,411,134**	**1,136,336,397**	**211,454,555**	**1,347,790,952**
For the year ended 31 December 2017						
Balance as at 1 January 2017	700,000,000	72,286,619	117,680,856	889,967,475	-	889,967,475
Profit for the year	-	-	118,390,191	118,390,191	-	118,390,191
Other comprehensive income	-	-	(215,155)	(215,155)	-	(215,155)
Total comprehensive income for the year	-	-	118,175,036	118,175,036		118,175,036
Transfer to statutory reserve	-	11,839,019	(11,839,019)	-	-	-
Arising from establishing a subsidiary and an increase of ownership interest in a subsidiary (note 23)	-	-	220,197,631	220,197,631	-	220,197,631
Establishment of a subsidiary (note 23)	-	-	-	-	192,277,369	192,277,369
Balance as at 31 December 2017	700,000,000	84,125,638	444,214,504	1,228,340,142	192,277,369	1,420,617,511

Fawaz Abdulaziz Bin Huwail	Hathal Bin Saad Alutaibi	Abdulsalam Bin Abdulrahman Aqeel
Chief Financial Officer	*Chief Executive Officer*	*Chairman Of Board Of Directors*

The accompanying notes 1 through 30 form an integral part of these consolidated financial statements.

ALANDALUS PROPERTY COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(All amounts are expressed in Saudi Riyal unless otherwise stated)

	Note	**2018**	2017
Operating activities:			
Profit for the year before Zakat		**82,546,565**	120,492,719
Adjustments			
Depreciation of investments property		**11,073,386**	10,451,132
Depreciation of property and equipment		**7,264,833**	2,710,871
Share of income from associates	*10*	**(33,260,429)**	(38,848,354)
Gain from disposal of investment properties to associate company		**-**	(22,943,531)
Impairment loss of receivable from operating leases	11	**5,067,566**	1,621,110
Utilized provision of lessees discounts		**-**	6,922,087
Impairment of investment an associate	10	**6,014,253**	-
Impairment loss of investments property	9	**1,305,919**	4,244,103
Finance cost		**4,004,027**	7,018,529
Loss of disposal of property and equipment		**14,650**	-
Employees' end of service benefits		**835,256**	885,395
Changes in operating activities			
Receivables from operating leases		**(16,844,387)**	(11,469,155)
Prepayments and other debit balances		**2,144,553**	3,374,041
Due from related parties		**(16,028,232)**	(1,890,870)
Accrued rents from operating leases		**555,088**	1,010,092
Advances from leases		**6,986,818**	(4,642,782)
Accruals and other credit balances		**2,909,207**	14,569,801
Zakat paid		**(4,936,507)**	(244,186)
Due to related parties		**(942,463)**	-
Dividends received from associates		**42,212,337**	33,058,151
Additional contributions received from investments in associates		**-**	4,287,171
Employees' end of service benefits obligations paid		**(233,370)**	(955,252)
Net cash flows generated from operating activities		**100,689,070**	129,651,072
Investing activities			
Purchase of property and equipment		**(689,859)**	(3,578,041)
Proceed from disposal of property and equipment		**3,000**	-
Purchase of investments in associates		**(847,357)**	-
Additions to investments property		**(20,770,302)**	(103,720,343)
Financial instruments at fair value through profit or loss		**(58,111,578)**	-
Proceed from the change in the Company ownership interest in the subsidiary		**-**	414,475,000
Net cash flows (used in) / generated from investing activities		**(80,416,096)**	307,176,616
Financing activities			
Proceeds from Islamic Tawarruq facilities		**-**	110,000,000
Payment for Islamic Tawarruq facilities		**(177,561,377)**	(129,917,908)
Dividends paid		**(140,000,000)**	-
Change in non-controlling interest		**(1,813,054)**	-
Cash flows used in from financing activities		**(319,374,431)**	(19,917,908)
Net change in cash and cash equivalents during the year		**(299,101,457)**	416,909,780
Cash and cash equivalents at the beginning of the year		**444,213,231**	27,303,451
Cash and cash equivalents at end of the year		**145,111,774**	444,213,231

- Non-cash Transactions, Note (26)

Fawaz Abdulaziz Bin Huwail	Hathal Bin Saad Alutaibi	Abdulsalam Bin Abdulrahman Aqeel
Chief Financial Officer	*Chief Executive Officer*	*Chairman Of Board Of Directors*

The accompanying notes 1 through 30 form an integral part of these consolidated financial statements.

1 INFORMATION ABOUT THE COMPANY

Alandalus Property Company (the "Company") is a Saudi joint stock company established pursuant to the Ministerial Resolution No. 2509 dated 03/09/1427H corresponding to 26/09/2006 approving the declaration of the establishment of the Company. The Company is registered in Riyadh under the Commercial Registration No. 1010224110 dated 17/09/1427H corresponding to 10/10/2006.

The main activities of the Company include construction, ownership and management of centers, commercial and residential complexes in addition to general contracting of residential, commercial buildings, educational, recreational, health institutions, roads, dams, water and sewage projects, electrical and mechanical works. The activities also include maintenance and operation of real estate properties, buildings and commercial complexes as well as ownership, development and investment of lands and real estate properties for the benefit of the Company and based on its purposes.

The Company share capital is 700,000,000 Saudi Riyals divided into 70,000,000 shares with a nominal value of SR 10.

The Head office of the Company is located in Riyadh - Al Wadi District - Northern Ring Road - Alandalus Property Company Building.

The Company's financial year starts on 1 January and ends on 31 December of each Gregorian year.

Alandalus Property Company is referred to as (the "Company") or referred to collectively with its subsidiaries as (the "Group").

2 BASIS OF PREPARATION

Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss.

As required by the Capital Market Authority ("CMA") through its circular dated 16th October 2016 the Group needs to apply the cost model to measure the property and equipment, investment property, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

Functional and presentation currency

These Consolidated financial statements are presented in Saudi Riyals (SR) which is the functional and reporting currency of the Group.

3 BASIS OF CONSOLIDATION AND BUSINESS COMBINATIONS

The Group accounts for business combinations using the acquisition method when control is transferred to the Group .The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated statement of profit or loss and other comprehensive income.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in consolidated statement of profit or loss and other comprehensive income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree’s employees (acquirer’s awards), then all or a portion of the amount of the acquirer’s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquirer’s awards and the extent to which the replacement awards relate to pre-combination service.

Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non- Controlling interest (NCI)
NCI are measured initially at their proportionate share of the acquirer’s identifiable net assets at the date of acquisition.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control
When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transaction eliminated on consolidation
Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

3 BASIS OF CONSOLIDATION AND BUSINESS COMBINATIONS (CONTINUED)

The consolidated financial statements include the financial statements of the Company and its subsidiaries listed below for the year ended 31 December 2018.

		Ownership percentage	
Name of subsidiary	**Country of incorporation**	**2018**	2017
AlAhli REIT Fund 1	Kingdom of Saudi Arabia	**68.73 %**	68.73 %
Manafea Al Andalus Company for Real Estate Development	Kingdom of Saudi Arabia	**70 %**	-

Details of subsidiaries are as follows:

AlAhli REIT Fund 1

AlAhli REIT Fund 1 was formed in accordance with capital market authority dated 29 November 2017 (corresponding to 11 Rabia Alawl 1438H). The principal activities of the Fund is investments in investment properties. These properties are Alandalus mall and stay bridage hotel, which are located in Jeddah, (Note 23).

Manafea Al Andalus Company for Real Estate Development

Manafea Al Andalus Company for Real Estate Development was formed as a limited liability company and registered in the Kingdom of Saudi Arabia under Commercial Registration No 1010700657 dated 19 April 2017 (corresponding to 22 Rajab 1438H). The principal activities of the Company include leasing, managing properties owned by others through leasing, commission from properties management, developments activities and investment properties. The subsidiary started its activities during 2018.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Following are the new standards and amendments to standards effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

IFRS 16 "Leases"

IFRS 16 introduces a single, on-statement of financial position lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including 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 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers on or before the date of initial application of IFRS 16.

The Group has completed an initial assessment of IFRS 16 potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

IFRS 16 "Leases" (Continued)

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

5 CHANGE IN ACCOUNTING POLICIES

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" from 1 January 2018. Other new standards are effective from 1 January 2019 but they do not have a material effect on the consolidated financial statements.

Except as described below, the accounting policies applied in these consolidated financial statements are the same as those applied in the consolidated financial statements of the Group at the year ended 31 December 2017.

The effect of applying these standards is illustrated in point (a) and (b) below.

a) IFRS 15: Revenue from contracts with customers

This standard replaces IAS 11, which covers construction contracts, and IAS 18, which includes revenue resulting from selling of goods and rendering of services. This standard based on principle of revenue recognition when control on goods or service is transferred to the customer, unless these contracts are in the scope of other standards. The new standard establishes a five steps approach for accounting of revenue from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which a Group expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires organizations to make estimation, taking into account all facts and related circumstances upon applying each step of the approach on the contracts with its customers. In addition, the standard determines accounting of the additional costs to obtain the contract and cost related directly to perform the contract.

The Group is engaged in leasing activities and these contracts are within the scope of IAS 17 and IFRIC 4, consequently, IFRS (15) does not have any significant impact on the Group's consolidated financial statements.

b) IFRS 9 "Financial Instruments"

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

5 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

b) IFRS 9 "Financial Instruments" (Continued)

1) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The Group used modified retrospective approach in adopting IFRS 9 and there was no impact on comparative figures. The adoption of IFRS 9 has not a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost, at FVOCI as at FVTPL if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.
A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

5 CHANGE IN ACCOUNTING POLICIES (Continued)

b) IFRS 9 "Financial Instruments" (Continued)

1) Classification and measurement of financial assets and financial liabilities (Continued)

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gain, loss, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. The Group has no such investments.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. The Company has no such investments.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

	Original classification under IAS 39	**New classification under IFRS 9**	**Book value under IAS 39**	**Re-measurement**	**Book value under IFRS 9**
Financial assets					
Receivable from operating leases	Loans and Receivables	Amortized cost	26,097,810	-	26,097,810
Cash and cash equivalents	Loans and Receivables	Amortized cost	145,111,774	-	145,111,774
Due from related party	Loans and Receivables	Amortized cost	17,124,796	-	17,124,796

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of profit or loss and other comprehensive income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of profit or loss and other comprehensive income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Group's own credit risk will be recognized in other comprehensive income.

5 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

b) IFRS 9 "Financial Instruments" (Continued)

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets include at amortised cost consist of receivable from operating leases, due from related parties and cash and cash equivalents.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: These ECLs result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

The Group used simplified approach to measure expected credit loss.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to receivables from operating leases are presented separately in the consolidated statement of profit or loss and other comprehensive income.

Derecognition

Financial assets
The Group derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of profit or loss and other comprehensive income.

However, gains and losses on derecognition of financial assets classified, as FVTOCI remain within the accumulated other comprehensive income.

5 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

b) IFRS 9 "Financial Instruments" (Continued)

2) Impairment of financial assets (Continued)

Financial liabilities

The Group derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of profit or loss and other comprehensive income.

c) Annual Improvements to IFRSs 2015–2017 Cycle

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - clarifies how a Group accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

IAS 12 Income Taxes - clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.

IAS 23 Borrowing Costs - clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any no qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

6 SIGNIFICANT ACCOUNTING POLICIES

Property and equipment

Items of property and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised in consolidated profit or loss and other comprehensive income.

Items of property and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised in consolidated statement of profit or loss and other comprehensive income.

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in consolidated statement of profit or loss and other comprehensive income. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property and equipment for current and comparative periods are as follows:

Asset	Years
Buildings	25-40
Leasehold improvements	The lower of lease term or useful life
Motor vehicles	4
Furniture and office equipment	3-10

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Investments property

Investment property is (land, building, part of a building or both) which is held for the purpose of earning rental income or for the purpose of capital appreciation through an increase in value or both purposes. It does not include land and building used in the production or supply of goods, services, management purposes or for the normal selling. The investments properties are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated. Cost includes purchase price plus all costs associated directly in establishing or acquiring investment property and in the condition required for its intended use. The significant portions of the investment property are depreciated separately from the other portions and the fair value of the investment properties is disclosed.

Costs of proprieties under construction which are for establishing properties in order to earn rental income or for the purpose of capital appreciation through an increase in value or both purposes are recognized in investment properties. The depreciation begins when the property is ready for its intended use.

Buildings are depreciated on straight-line basis over its useful life from 20-40 years. Buildings constructed on leased land and their components are depreciated over the shorter of their useful life or lease term of land. Escalators, elevators, walkways, central air conditioning units and fire extinguishing system are depreciated over 20 years. Rental income of these investment properties and related depreciation are presented in the consolidated statement of profit or loss and other comprehensive income.

The carrying amount of the investment property is derecognized on disposal (either through sale or a finance lease) or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between (a) net proceeds from disposal of investment property and (b) its carrying amount, is recognized in the statement of comprehensive income in the period of disposal or write-off. If the use of investment property changed to a property operated by a group, it will be reclassified to properties and equipment. The residual value of the investment property and its useful life are reviewed at the end of each financial year and the necessary adjustments are made as a result of a change in an accounting estimate. Projects in progress are recognized in investment properties at cost. Projects in progress that are going to be operated by a group are not depreciated until they are ready for use.

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in consolidated statement of profit or loss and other comprehensive income. Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Investments in equity accounted investees

An associate is an entity over which the Group has significant influence. Significant influence is the Group's ability to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results, assets, and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that an associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Investment in associates are accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as embedded goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of associate's identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in consolidated statement of profit or loss and other comprehensive income in the period in which the investment is acquired.

When a group entity transacts with an associate of the Group, profits or losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

After application of the equity method, the Group determines at each reporting date whether there is any objective evidence that the investment in the associates is impaired. When necessary, the entire carrying amount of the investment (including embedded goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks, short-term deposits, and Murabaha with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Leases

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

The Group as a Lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are distributed between finance charges and the reduction in the lease obligation to achieve a fixed interest rate in the residual balance of the obligation. Finance charges are recognized in finance costs in the consolidated statement of profit or loss and other comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

The Group as a Lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Employee benefits

Short-term obligations

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment obligation

The Group provides end of service benefits to its employees in accordance with the requirements of the Saudi Arabia Labour and Workmen Law. The entitlement to these benefits, is based upon the employees' basic salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are recognised over the service period.

The employee benefits obligation plans are not funded. Accordingly, valuations of the obligations under those plans are carried out by an independent actuary based on the projected unit credit method and the liability is recorded based on an actuarial valuation.

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality United States government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in the consolidated statement of profit or loss and other comprehensive income.
The interest cost is calculated by applying the discount rate to the balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statement of income. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise

Foreign currency transactions

Transactions in foreign currencies are translated to Saudi Riyal using the rates of exchange prevailing at the dates of the respective transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated to Saudi Riyal using prevailing exchange rates prevailing on that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Gains and losses resulting from changes in exchange rates are recognized in the consolidated statement profit or loss and other comprehensive income.

Revenue

Rental income from lease of investment property
Rental income arising from operating leases on investment properties is recognized, net of discount, in accordance with the terms of lease contracts over the lease term on a straight-line basis, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Statutory reserve

In accordance with the Company's bylaws and the previous Saudi Arabian Regulations for Companies, the Group sets aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital. The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital. This reserve is currently not available for distribution to the owners of the Group.

Zakat

The Company and its subsidiaries are subject to Zakat in accordance with the zakat regulation issued by the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia, which is subject to interpretations. Zakat is levied at a fixed rate of 2.5% on the higher of adjusted Zakat profit or based on net equity using the basis defined in the zakat regulation. The management establishes provisions where appropriate on the basis of amounts expected to be paid to the GAZT and periodically evaluates positions taken in the Zakat returns with respect to situations in which applicable Zakat regulation is subject to interpretation. Zakat is charged to the consolidated statement of profit or loss and other comprehensive income. Additional Zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Dividend
Dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved by the shareholders.

7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTION

The preparation of consolidated financial statements requires management to make judgment, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, management has made the following estimates and judgments, which are significant to the consolidated financial statements:

Judgments
Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements, is included in the following notes:

Note 3 - whether the Group exercises control over an investee.

Note 10 - Classification of equity accounted investees.

Note 22 - Determining whether an arrangement contains a lease.

Note 22 - Classification of leases.

Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements, are described below:

<u>Provision for expected credit losses of receivable from operating leases</u>
The Group uses a provision matrix to calculate ECLs of receivable from operating leases. The provision rates are based on days past due for groupings of various customer.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the real estate sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTION (CONTINUED)

Judgments (Continued)

Provision for expected credit losses of receivable from operating leases (Continued)

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 11.

Employee benefits – defined benefit obligation
The Group operates an End of service benefit plan for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected credit unit method in accordance with the periodic actuarial valuation. For details of assumptions and estimate please refer note 15.

Certain actuarial assumptions have been adopted as disclosed in note 15 to these consolidated financial statements for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect gains and losses in those years.

Valuation of investment properties
The Group hire the services of third party professionally qualified valuer to obtain estimates of the market value of investment properties using recognized valuation techniques for the purpose of impairment review and disclosures in the consolidated financial statements, for further details of assumptions and estimates, see Note 9.

Going concern
The Group management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group and the Group have the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

8 PROPERTY AND EQUIPMENT

	Lands	Buildings	Improvements on buildings	Devices and equipment	Vehicles	Total
Cost:						
Balance at 1 January 2017	6,118,266	4,008,734	267,100	2,973,216	463,720	13,831,036
Additions	-	-	-	3,362,741	215,300	3,578,041
Transferred from investments property to property and equipment (note 9)	9,916,479	-	-	-	-	9,916,479
Transferred from projects under construction (note 9)	-	165,925,165	-	15,138,981	-	181,064,146
Balance at 31 December 2017	16,034,745	169,933,899	267,100	21,474,938	679,020	208,389,702
Additions	**-**	**-**	**-**	**689,859**	**-**	**689,859**
Disposals	**-**	**-**	**(267,100)**	**(116,551)**	**(115,920)**	**(499,571)**
Balance at 31 December 2018	**16,034,745**	**169,933,899**	**-**	**22,048,246**	**563,100**	**208,579,990**
Accumulated depreciation:						
Balance at 1 January 2017	-	(782,909)	(267,100)	(1,856,107)	(420,780)	(3,326,896)
Charged for the year	-	(1,587,037)	-	(1,026,691)	(97,143)	(2,710,871)
Balance at 31 December 2017	-	(2,369,946)	(267,100)	(2,882,798)	(517,923)	(6,037,767)
Charged for the year	**-**	**(4,461,042)**	**-**	**(2,751,488)**	**(52,303)**	**(7,264,833)**
Depreciation of disposals	**-**	**-**	**267,100**	**98,901**	**115,920**	**481,921**
Balance at 31 December 2018	**-**	**(6,830,988)**	**-**	**(5,535,385)**	**(454,306)**	**(12,820,679)**
Net Book Value:						
31 December 2018	**16,034,745**	**163,102,911**	**-**	**16,512,861**	**108,794**	**195,759,311**
31 December 2017	16,034,745	167,563,953	-	18,592,140	161,097	202,351,935
1 January 2017	6,118,266	3,225,825	-	1,117,109	42,940	10,504,140

Depreciation charged for the year ended 31 December as follows:

	2018	2017
Cost of revenues	**6,395,297**	2,170,525
General and administrative expenses	**869,536**	540,346
	7,264,833	2,710,871

(All amounts are expressed in Saudi Riyal unless otherwise stated)

9 INVESTMENTS PROPERTY

	Lands	Buildings	Projects under construction	Total
Cost:				
Balance at 1 January 2017	247,414,434	352,249,772	176,003,159	775,667,365
Additions	50,834,556	-	55,850,975	106,685,531
Transferred from projects under construction to property and equipment note (8)	8,782,623	-	(189,846,769)	(181,064,146)
Transferred to property and equipment note (8)	(9,916,479)	-	-	(9,916,479)
Disposal	(44,866,178)	-	-	(44,866,178)
Balance at 31 December 2017	252,248,956	352,249,772	42,007,365	646,506,093
Additions	**-**	**-**	**20,770,302**	**20,770,302**
Transferred from projects under construction to building	**-**	**18,677,851**	**(18,677,851)**	**-**
Transferred to associates note (10)	**(50,834,556)**	**-**	**-**	**(50,834,556)**
Balance at 31 December 2018	**201,414,400**	**370,927,623**	**44,099,816**	**616,441,839**
Accumulated depreciation and impairment:				
Balance at 1 January 2017	-	(83,500,740)	-	(83,500,740)
Charged for the year	-	(10,451,132)	-	(10,451,132)
Impairment losses		-	(4,244,103)	(4,244,103)
Balance at 31 December 2017	-	(93,951,872)	(4,244,103)	(98,195,975)
Charged for the year	**-**	**(11,073,386)**	**-**	**(11,073,386)**
Impairment losses	**-**	**-**	**(1,305,919)**	**(1,305,919)**
Balance at 31 December 2018	**-**	**(105,025,258)**	**(5,550,022)**	**(110,575,280)**
Net Book Value:				
31 December 2018	**201,414,400**	**265,902,365**	**38,549,794**	**505,866,559**
31 December 2017	252,248,956	258,297,900	37,763,262	548,310,118
1 January 2017	247,414,434	268,749,032	176,003,159	692,166,625

(All amounts are expressed in Saudi Riyal unless otherwise stated)

9 INVESTMENT PROPERTIES (CONTINUED)

The management has assessed the fair value of the investments property as of 31 December 2018 and the investment properties fair value is amounted to SR 1.594 billion (31 December 2017: SR 1.6 billion).

The lands and the buildings classified as investment properties were assessed by an external valuer to determine their fair value as at 31 December 2018. The external valuation has been made by external valuer that is accredited by the Saudi Authority for Accredited Values (TAQEEM).

The following table shows the valuations techniques used in determining the fair value of investment properties, as well as key unobservable inputs used in valuation models.

Measurement data of fair value according to IFRS 13 as at 31 December 2018 is as follows:

			Fair value measurement		
Properties	**Valuation approach**	**Purpose**	**key inputs and valuation assumptions**	**Fair value as at 31 December 2018**	Fair value at as 31 December 2017
Lands	Sales comparable method	Capital appreciation	Recent sales transactions of land	**163,600,000**	166,200,000
Al-andalus head quarter	Replacement cost	Rental revenue and Capital appreciation	Premise construction cost on site in addition to land amount	**15,500,000**	15,500,000
Al Sahafa Center	Discounted cash flows	Rental revenue and Capital appreciation	Discount rate 9% Exit rate 7%	**18,400,000**	23,000,000
Al Tilal Center	Discounted cash flows	Rental revenue and Capital appreciation	Discount rate 9% Exit rate 7%	**12,420,000**	17,000,000
Al Yarmouk Center	Discounted cash flows	Rental revenue and Capital appreciation	Discount rate 9% Exit rate 7%	**13,000,000**	18,000,000
Alandalus Mall	Discounted cash flows	Rental revenue and Capital appreciation	Discount rate 11.25% Exit rate 9.50%	**1,161,000,000**	1,144,000,000
Al Marwah Plaza	Discounted cash flows	Rental revenue and Capital appreciation	Discount rate 9% Exit rate 7%	**36,000,000**	25,500,000
Stay-Bridage Hotel Alandalus Mall	Discounted cash flows	Rental revenue and Capital appreciation	Discount rate 11.25% Exit rate 9.50%	**174,000,000**	201,000,000

Valuation techniques are classified as level 3 of fair value.

The valuation mechanism of properties adopted in valuation of investment properties are consistent with the international board for valuation standards as well as guidance of the Saudi Authority for Accredited Valuers (TAQEEM).

(All amounts are expressed in Saudi Riyal unless otherwise stated)

10 INVESTMENTS IN ASSOCIATES

The details of investments in associated are as follow:

	Country of incorporation	Ownership percentage 2018	Ownership percentage 2017	2018	2017
Al Aswaq Al Mutatawerah Company	Saudi Arabia	**50%**	50%	**97,622,867**	100,460,745
Hamat Property Company	Saudi Arabia	**33.4%**	33.40%	**41,995,288**	47,194,498
Hayat Real Estate Company	Saudi Arabia	**25%**	25%	**186,423,778**	193,130,904
Sorroh Centers Company	Saudi Arabia	**25%**	25%	**49,333,150**	48,676,946
West Jeddah Hospital Company	Saudi Arabia	**50%**	50%	**67,656,665**	67,809,709
Al-Jawhra Al-Kubra Company for Real Estate Development and Investments	Saudi Arabia	**25%**	-	**50,956,806**	-
				493,988,554	457,272,802

The following is the movement of investment in associates:

	2018	2017
Opening balance	**457,272,802**	387,960,061
Share of income from associated companies	**33,260,429**	38,848,354
Dividends	**(42,212,337)**	(33,058,151)
Share of movement in additional contributions	**-**	(4,287,171)
Addition of investment during the year	**51,681,913**	67,809,709
Impairment losses of embedded goodwill	**(6,014,253)**	-
Balance at end of year	**493,988,554**	457,272,802

Al Aswaq Al Mutatawerah Company

During 2007, the Company with another investor established Al Aswaq Al Motatawira Company as a limited liability company with a share capital amounting to SR 500,000 and equally owned by 50% for each of them for owning Dareen Mall in Dammam. The Company has provided additional funding for the investee amounted to SR 35,461,474 representing its share in financing the cost of the project land. Consequently, total investment cost amounted to SR 35,711,474. The group management has no control over this investment, but has a significant influence.

Hamat Property Company

During 2012, the Company purchased 33,40% of Hamat Real Estate Company's share capital amounted to SR 500,000 at SR 44,434,383. The activities of the associate include purchasing of lands for the construction of buildings thereon, and investing on them through sale or lease. The mentioned investment include embedded goodwill of SR 44,18 million. The Company determined whether there is any objective evidence that this investment is impaired, accordingly the Company recognised impairment losses on embedded goodwill amounted to SR 6,014,253.

Hayat Real Estate Company

In 2007, the Company acquired 50% ownership interest of Hayatt Mall share capital, and recognized SR 208 million as an embedded goodwill from the acquisition. During year 2010, the Company disposed 50% from its ownership interest in Hayatt Mall (represents 25% of Hayatt Mall share capital). During year 2009, the Company along with the other investors, established Hayatt Real Estate Company for managing Hayatt Mall. On 1 January 2015, the structure of Hayatt Real Estate Company was changed to comply with the ownership structure of Hayatt Mall where Al-Andalus Property Company owns 25% of its share capital.

10 INVESTMENTS IN ASSOCIATES (CONTINUED)

Hayat Real Estate Company (Continued)

on 2 January 2015, the investors, as the sole owners of Hayat Real Estate Company and Hayatt Mall, unanimously resolved to activate the role of Hayatt Real Estate Company effective from the beginning of January 2015 to be the owner of all assets of Hayatt Mall and responsible for its liabilities and contracts in addition to transferring all the accounts of Hayatt Mall to Hayatt Real Estate Company. The issuance of Hayatt Mall financial statements have been discontinued effective from 1 January 2015.

Accordingly, the Company owns 25% ownership interest of Hayat Real Estate Company. The mentioned investment include embedded goodwill amounting to SR 95.75 million as at 31 December 2018.

Sorroh Centers Company
On 17 April 2014, the Company established Sorroh Centers Company (a limited liability company) with share capital amounting to SR 500,000. The Company contributed plots of land amounted to SR 48,591,406 as an additional share capital, equivalent to its ownership percentage. The associate has not started its business yet.

West Jeddah Hospital Company
On 06/01/1436H corresponding to 30 October 2014, the Company established West Jeddah Hospital Company (a limited liability company) amounting to SR 500,000 and owning 50% of its share capital. The investment agreement contract indicated the valuation of two plots of land provided by Alandalus Property Company is 3,000 SR/m for a total area of 30,251 m² and amounted to SR 90,753,240. However, the lands cost in the company's books at the ownership transfer amounted to SR 44,866,178 resulting in gain amounted to SR 22,943,531. As the 50% share of Alandalus Property Company were disposed from the company's gains related to soled land. Thus, the investment value was SR 67,809,709 as at 31 December 2018. Such investment was recognized on transfer of ownership dated 20/06/1438H corresponding to 19/03/2017. The associate has not started its business yet. The group management has no control over the investee, but has a significant influence.

Al-Jawhra Al-Kubra Company for Real Estate Development and Investment
In year 2017, the Company contributed by 25 % in Asala land located in Jeddah. During the year 2018, the Company transferred this plot of land (transferred from investments properties note 9) to establish Al-Jawhara Al-Kubra Company Real Estate Development and Investment with a capital of SR 500,000 which is engaged in purchase and sale of land and real estate, commission for real estate administration against, management and leasing of properties owned or leased (non-residential) properties. The land deeds has been transferred in favor of Al Jawhara Al-Kubra Company with the same percentage of ownership of the land. Al-Andalus owns 25% of the shares of the investee and the investee did start not yet its activity.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

10 INVESTMENTS IN ASSOCIATES (CONTINUED)

2018	Al Aswaq Al Mutatawerah Company	Hamat Property Company	Hayat Real Estate Company	Sorroh Centers Company	West Jeddah Hospital Company	Al-Jawhra Al-Kubra Company for Real Estate Development and Investment	Total
Non-current assets	**201,035,123**	**1,501,743**	**362,159,192**	**197,166,932**	**107,400,994**	**211,255,139**	**1,080,519,123**
Current assets	**4,460,066**	**23,995,476**	**43,410,426**	**2,782,943**	**1,033,505**	**10,334,409**	**86,016,825**
Non-current liabilities	**(397,041)**	**(3,798,054)**	**-**	**-**	**-**	**-**	**(4,195,095)**
Current liabilities	**(9,852,416)**	**(10,246,445)**	**(42,874,505)**	**(2,617,274)**	**(211,000)**	**(17,762,324)**	**(83,563,964)**
Net assets	**195,245,732**	**11,452,720**	**362,695,113**	**197,332,601**	**108,223,499**	**203,827,224**	**1,078,776,889**
Less additional funding related to other investors	**-**	**-**	**-**	**-**	**(18,797,231)**	**-**	**(18,797,231)**
	195,245,732	**11,452,720**	**362,695,113**	**197,332,601**	**89,426,268**	**203,827,224**	**1,059,979,658**
Group's share percentage	**50%**	**33.4%**	**25%**	**25%**	**50%**	**25%**	
Group's share of net assets	**97,622,867**	**3,825,208**	**90,673,778**	**49,333,150**	**44,713,134**	**50,956,806**	**337,124,943**
Unrealized profit from sale of a land	**-**	**-**	**-**	**-**	**22,943,531**	**-**	**22,943,531**
Embedded goodwill	**-**	**44,184,333**	**95,750,000**	**-**	**-**	**-**	**139,934,333**
Impairment losses of embedded goodwill	**-**	**(6,014,253)**	**-**	**-**	**-**	**-**	**(6,014,253)**
Carrying amount of investment in associates	**97,622,867**	**41,995,288**	**186,423,778**	**49,333,150**	**67,656,665**	**50,956,806**	**493,988,554**
Total revenue of an associate	**40,517,921**	**36,049,129**	**130,894,192**	**-**	**-**	**-**	**207,461,242**
Associate net income for the year	**21,936,811**	**3,311,922**	**91,579,455**	**(267,772)**	**(290,889)**	**(11,000)**	**116,258,527**
The Company share of income from associate	**10,662,121**	**815,046**	**22,005,211**	**(66,153)**	**(153,046)**	**(2,750)**	**33,260,429**

(All amounts are expressed in Saudi Riyal unless otherwise stated)

10 INVESTMENTS IN ASSOCIATES (CONTINUED)

2017	Al Aswaq Al Mutatawerah Company	Hamat Property Company	Hayat Real Estate Company	Sorroh Centers Company	West Jeddah Hospital Company	Total
Non-current assets	202,826,910	1,462,763	364,298,444	197,163,769	89,232,356	854,984,242
Current assets	7,776,989	15,313,989	68,004,381	500,000	500,000	92,095,359
Non-current liabilities	(340,338)	(3,626,131)	(2,119,938)	-	-	(6,086,407)
Current liabilities	(9,342,071)	(4,125,185)	(40,659,272)	(2,955,983)	-	(57,082,511)
Net assets	200,921,490	9,025,436	389,523,615	194,707,786	89,732,356	883,910,683
Group’s share percentage	50%	33.4%	25%	25%	50%	
Group’s share of net assets	100,460,745	3,010,165	97,380,904	48,676,946	44,866,178	294,394,938
Embedded goodwill	-	44,184,333	95,750,000	-	-	139,934,333
Unrealized profit from sale of a land	-	-	-	-	22,943,531	22,943,531
Carrying amount of investment in associates	100,460,745	47,194,498	193,130,904	48,676,946	67,809,709	457,272,802
Total revenue of an associate	44,257,585	31,952,365	131,106,566	-	-	207,316,516
Associate net income for the year	26,354,914	5,933,593	94,817,308	(56,837)	(15,200)	127,033,778
The Company share of income from associate	13,177,457	1,981,820	23,704,077	(15,000)	-	38,848,354

(All amounts are expressed in Saudi Riyal unless otherwise stated)

11 RECEIVABLE FROM OPERATING LEASES

	2018	2017
Receivable from operating leases contracts	**34,912,618**	24,472,874
Utilized provision of lessees discounts	**-**	(6,404,643)
Provision for impairment of receivable from operating leases contracts	**(8,814,808)**	(3,747,242)
	26,097,810	14,320,989

The movement in lessees discounts provision is as follows:

	2018	2017
1 January	**6,404,643**	-
Provided during the year	**-**	6,404,643
Receivables written off	**(6,404,643)**	
31 December	**-**	6,404,643

The movement in the provision for tenant discounts is shown below is as follows

	2018	2017
1 January	**6,404,643**	-
Component during the year	**-**	6,404,643
Write off receivables	**(6,404,643)**	-
31 December	**-**	6,404,643

The movement of provision for impairment of receivable from operating leases contracts:

	2018	2017
1 January	**3,747,242**	2,126,132
Provided during the year	**5,067,566**	1,621,110
31 December	**8,814,808**	3,747,242

Following is the provision criteria used for impairment of receivable from operating leases contracts:

Aging of receivable from operating leases

			Past due and impaired				
	Total	**1 to 90 days**	**From 91-180 days**	**From 181-270 days**	**From 271-365 days**	**From 366-455 days**	**More than 455 days**
2018	**34,912,618**	**12,414,951**	**7,688,546**	**6,982,992**	**7,747,644**	**56,866**	**21,619**
2017	24,472,874	-	15,454,143	3,320,160	1,957,161	995,997	2,745,413

12 PREPAYMENTS AND OTHER DEBIT BALANCES

	2018	2017
Advance rent	**-**	291,737
Advance insurance	**610,598**	966,163
Staff Loans	**478,209**	557,700
Advances to suppliers	**840,893**	4,306,659
Prepayments	**1,500,000**	-
Others	**548,006**	-
	3,977,706	6,122,259

13 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Cost	**Fair Value as at 31 December 2018**
AlAhli Saudi Riyal Trade Fund	**57,729,000**	**58,111,578**

During the year 2018, the net gain on sale and valuation of financial instruments at fair value through profit or loss amounted to SR 787 thousand and was recorded in other income.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

14 CASH AND CASH EQUIVALENTS

	2018	2017
Cash in hand	**-**	794,404
Cash at banks	**75,102,584**	38,418,827
Murabha with original maturity is less than	**70,009,190**	-
Cheques under collection	**-**	405,000,000
	145,111,774	444,213,231

15 EMPLOYEES' END OF SERVICE BENEFITS OBLIGATIONS

Movement in the employee's end of service benefits obligations in the statement of financial position is as follows:

	2018	2017
Balance at 1 January	**4,496,770**	4,351,472
Interest cost	**134,885**	129,573
Current service cost	**700,371**	755,822
Actuarial (loss) / gain on the obligation (OCI)	**(23,950)**	215,155
Benefits paid	**(233,370)**	(955,252)
Balance at 31 December	**5,074,706**	4,496,770

Benefit expense recognized in profit or loss

	2018	2017
Current service cost	**700,371**	755,822
Interest cost on benefit obligation	**134,885**	129,573
	835,256	885,395

Significant assumptions used in determining the post-employment defined benefit obligation includes the following:

	2018	2017
Discount rate	**3%**	3%
Future salary increases	**12%**	12%

A quantitative sensitivity analysis for salary change assumption and discount rate on the defined benefit obligation as at 31 December 2018, 2017 is shown below:

	2018		2017	
	1% increase	**1% decrease**	1% increase	1% decrease
Discount rate	**(151,301)**	**158,152**	(175,397)	188,733
Future salary increases rate	**143,928**	**(140,673)**	171,621	(166,389)

The sensitivity analysis above have been undertaken based on a method that extrapolates the impact on the employee defined benefits obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting date. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the employee defined benefits obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

16 ISLAMIC TAWARRUQ FACILITIES

	2018	2017
Balance at beginning of the year	**186,506,269**	202,803,364
Additions during the year	**-**	113,620,413
Payment	**(184,680,118)**	(129,917,508)
Total value of Tawarruq	**1,826,151**	186,506,269
Less: Deferred finance cost	**(3,384)**	(11,126,152)
Net value of Tawarruq	**1,822,767**	175,380,117
Current portion	**1,822,767**	122,331,008
Non-Current portion	**-**	53,049,109

Details on the deferred cost of finance are as follows:

	2018	2017
Opening balance	**11,126,152**	17,489,055
Additions during the year	**-**	3,620,814
Interest waived for early payment	**(7,118,741)**	-
Amortization of the year (cost of financing Islamic Tawarruq)	**(4,004,027)**	(9,983,717)
	3,384	11,126,152

Amortized finance costs include costs of financing Islamic Tawarruq, which are capitalized under cost of investment properties (projects in progress), amounting to Nil during the year ended 31 December 2018 (31 December 2017: SR 2,965,188).

17 ACCRUALS AND OTHER CREDIT BALANCES

	2018	2017
Accrued expenses	**13,116,925**	10,367,179
Due to suppliers	**12,298,011**	4,444,822
Due to Alandalus mall maintenance	**1,162,242**	4,000,000
Retention payable against construction works	**-**	3,915,228
Rent discount provision	**2,450,898**	2,517,444
Accrued staff salaries and benefits	**2,297,744**	2,288,978
Improvements provision	**2,000,000**	2,000,000
Others	**-**	882,962
	33,325,820	30,416,613

18 ZAKAT

The Company and its subsidiaries file their Zakat returns individually based on the financial statements belong to each Company. Therefore, Zakat base is identified and Zakat is calculated for the Company and its subsidiaries individually, and total estimated Zakat is presented in the consolidated statement of income for the Group.

Alandalus Property Company filed all Zakat returns up to the year ended 31 December 2017 and obtained Zakat certificate up to year 2017. The Company finalized Zakat assessment with the General Authority of Zakat and Income Tax ("GAZT") up to the year ended 31 December 2014.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

18 ZAKAT (CONTINUED)

Zakat base

Zakat is calculated for the year ended 31 December using the Zakat base based on the unconsolidated financial statements of Alandalus Property Company as follows:

	2018	2017
Net Zakat positive base (A)		
Capital	**700,000,000**	700,000,000
Reserves	**297,702,596**	117,680,856
Retained earnings	**84,125,638**	72,286,619
Provisions	**4,263,401**	4,337,649
Fund by Islamic Tawarruq facilities	**1,822,767**	175,380,117
Net adjusted profit	**19,673,141**	84,101,118
Net Zakat positive base	**1,107,587,543**	1,153,786,359
Net Zakat negative base (B)		
Property and equipment	**9,930,489**	**202,351,935**
Investments property	**65,190,221**	**548,310,118**
Investments in associates	**489,106,005**	**418,424,447**
Net Zakat negative base	**564,226,715**	**1,169,086,500**
Net	**543,360,828**	(15,300,141)
Net Zakat base	**543,360,828**	84,101,118
Zakat charge at 2.5%	**13,584,020**	2,102,528

Zakat provision movement is as follows:

	2018	2017
1 January	**4,658,195**	2,799,853
Provided during the year	**13,584,020**	2,102,528
Payments made during the year	**(4,936,507)**	(244,186)
31 December	**13,305,708**	4,658,195

(All amounts are expressed in Saudi Riyal unless otherwise stated)

19 SEGMENT REPORTS

The Group's activities include a number of sectors as follows:

Retail Sector: This includes leasing rental units of investment properties such as malls.

Hospitality Sector: This includes hospitality service providing entities (Staybridge Suites Hotel Al Andalus Mall).

2018	**Retail Sector**	**Hospitality Sector**	**Other**	**Total**
Revenue*	**140,303,947**	**24,376,480**	**-**	**164,680,427**
Cost of revenue	**(47,570,077)**	**(23,425,459)**	**-**	**(70,995,536)**
Share of income from associates	**-**	**-**	**33,260,429**	**33,260,429**
Expenses	**(4,382,963)**	**(1,406,525)**	**(31,785,769)**	**(37,575,257)**
Impairment loss of receivable from operating leases	**(5,067,566)**	**-**	**-**	**(5,067,566)**
Impairment of investment in an associate	**(6,014,253)**	**-**	**-**	**(6,014,253)**
Other income*	**-**	**-**	**4,258,321**	**4,258,321**
Net profit before Zakat	**77,269,088**	**(455,504)**	**5,732,981**	**82,546,565**
Total assets	**505,866,559**	**169,658,519**	**770,513,010**	**1,446,038,088**
Total liabilities	**68,686,933**	**20,264**	**29,539,939**	**98,247,136**

(All amounts are expressed in Saudi Riyal unless otherwise stated)

19 SEGMENT REPORTS (CONTINUED)

2017	Retail Sector	Hospitality Sector	Other	Total
Revenue*	138,569,827	7,225,844	1,031,766	146,827,437
Cost of revenue	(53,189,961)	(13,486,899)	-	(66,676,860)
Share of income from associates	-	-	38,848,354	38,848,354
Gains from investment properties transfer to Investment in associate.	-	-	22,943,531	22,943,531
Expenses	(5,535,935)	(1,482,594)	(13,666,412)	(20,684,941)
Impairment loss of receivable from operating leases	(1,621,110)	-	-	(1,621,110)
Other income*	-	-	856,308	856,308
Net profit before Zakat	78,222,821	(7,743,649)	50,013,547	120,492,719
Total assets	535,524,543	165,925,163	972,238,192	1,673,687,898
Total liabilities	75,434,615	73,971,081	103,664,691	253,070,387

* All revenue of the Group are from external clients, and there is no revenue resulting from transactions among the sectors.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

20 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing income relating to owners of the Company by the weighted average number of ordinary shares during the year. Diluted earnings per share is calculated by dividing income for the year by the weighted average number of ordinary shares during the year with an assuming transferring all impaired shares to ordinary shares.

	2018	2017
Net profit for the year	**47,972,305**	118,390,191
Weighted average number of outstanding ordinary shares (share)	**70,000,000**	70,000,000
Basic and diluted earnings per share	**0.69**	1.69

The diluted earnings per share are equal to the basic earnings per share for the year ended 31 December 2018 and 31 December 2017 as there are no instruments with reduced earnings per share effect.

21 CAPITAL COMMITMENTS

The Group has capital commitments relating to construction contracts of investment properties amounted of SR 3 million as of 31 December 2018 (31 December 2017: SR 8.6 million).

22 OPERATING LEASES

As Lessor

	2018	2017
Less than one year	**19,653,627**	18,932,262
From one to 5 years	**104,142,692**	99,405,551
Above 5-year	**87,988,291**	133,904,252
	211,784,610	252,242,065

As Lessee

Minimum payments for future leases expected for future trade centers under lease are due as follows:

	2018	2017
One year	**15,700,000**	12,830,000
Two-year	**31,400,000**	29,200,000
Three-year	**49,195,500**	47,592,750
Four-year	**77,417,776**	68,776,888
Above 5-year (2023 through 2039)	**115,356,166**	147,349,804
	289,069,442	305,749,442

23 ESTABLISHMENT OF A SUBSIDIARY

Under sale and purchase agreement signed between Alandalus Property Company and NCB Capital, it has been agreed to transfer Alandalus mall and S Staybridge Suites Hotel Al Andalus Mall to establish Alahli REIT fund 1 "the Fund". The properties were transferred to the Fund on 25 December 2017, The Ccompany continued control the properties as part of its ability to control the fund.

As there was a change in the Company's ownership interest in the subsidiary that did not result the loss of control, resulted in offering gain amount of SAR 220.2 million was recognized in retained earnings.

24 TRANSACTIONS WITH RELATED PARTIES

In its ordinary course of business, the Group transacts with entities owned by certain shareholders and associates and other related parties.

Management approves terms and conditions of transactions with such parties. These transactions are as follows:

- The Group has contracts with Hamat Property Company, an associate to provide consulting of development and rental services for Al Andalus Trade Center in Jeddah and trade centers in Sahafa, Yermouk and Telal for rental fees at 7% of total leases of the center for the first year upon renting for the first time, upon replacing a tenant by another one or through the increase in the rental value of the new lease .also, the contract includes monthly fees for providing consultation and development fees at 4% of the center income which represents rental income, advertisement and specialized rental, and fees for developed rentals at 15% of total rental value of the tenant for one year only for the new units or lease services in which the operator developed and added and that have not been existed in designs of centers or rental budget that approved by the Company. Under the same agreement, the Company is subject to borne the financial liabilities relating to employees such as salaries and benefits and other charges such as maintenance and electricity.
- The Company charges Al Hayat Real Estate Company, an associate with their share of direct expenses of the general and administrative expenses incurred by Alandalus Property Company according to the agreement of managing such companies.
- The Group leases a land from one of the shareholders for a period of 20 years to establish one of trade centers thereon for an annual rent starts from SR 3.1 million beginning from 16/3/1434H.
- The Company has lease contracts with a related company as a lessee (through ownership of a board member for indirect share in the related companies) with annual rental value of SR 3.9 million (31 December 2017: SR 3.7 million).
- The Company has a contract with Dr. Sulaiman Al Habib Medical Group, which is a related to a sister Company and Board of Director vice president, representing Dr. Sulaiman Al Habib Medical Group perform a design, operate and management the hospital is owned between two parts equally (West Jeddah hospital).

(All amounts are expressed in Saudi Riyal unless otherwise stated)

24 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	Transactions during 2018			Transactions during 2017			**Balance at**	
Due from related parties:	**Operating services**	**Rental services**	**Exchange expenses**	Operating services	Rental services	Exchange expenses	**2018**	2017
Al Aswaq Al Mutatawerah Company	**-**	**-**	**2,035,749**	**-**	-	999,580	**-**	35,749
NCB Capital	**5,360,515**	**-**	**-**	-	-	-	**2,459,666**	-
Hayat Real Estate Company	**-**	**-**	**15,890,574**	-	-	5,633,569	**1,176,555**	1,060,815
Mohamed Alrajhi Company for investments	**-**	**-**	**12,281,704**	-	-	-	**7,652,210**	-
Al-Jawhra Al-Kubra Company	**-**	**-**	**4,875,000**	**-**	-	-	**4,875,000**	-
IHG Group (Inter-Continental)	**-**	**-**	**-**	**-**	**-**	**-**	**961,365**	
							17,124,796	1,096,564
Due to a related party:								
Hamat Property Company	**654,810**	**153,871**	**706,365**	736,752	4,994,896	4,397,288	**330,145**	1,272,608

Summary of transactions and balances are as follows:

Transactions with related parties include compensations of board members and key management personnel of the Group, as terms and conditions of these transactions have been approved by the Company. Significant transactions with related parties during the year are as follows:

	Charged to consolidated statement of profit or loss and other comprehensive income		**Balance in consolidated financial position**	
	2018	2017	**2018**	2017
Salaries and wages and end of service benefit	**2,624,282**	1,796,805	**1,138,742**	945,732

25 DIVIDENDS TO SHAREHOLDERS

On 15/07/1439H corresponding to 1 April 2018, according to the Ordinary General Assembly Meeting which resolved dividend distribution of SR 140,000,000 (dividends per share SR 2). The full amount was paid during 2018.

26 NON-CASH TRANSACTIONS

	2018	2017
Investments properties transferred to acquire investment in associate	**50,834,556**	67,809,709
Investments properties transferred to property and equipment	-	9,916,479
Re-measurement of employees' end of service indemnity liabilities Actuarial gains / (losses)	**23,950**	(215,155)

27 FINANCIAL INSTRUMENTS-FAIR VALUE, CLASSIFICATION, RISK MANAGEMENT

The Group is subjected to various financial risks due to its activities including: Market risk (including currency risk, fair value and cash flows of interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Senior management is responsible for risk management. Financial instruments carried on the consolidated statement of financial position include cash and cash equivalents, investments, receivable from operating leases contracts, due from/to related parties and Murabaha finance. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial asset and liability is offset and net amounts reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

a. Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, profit rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The effect on the equity (as a result of the change in the fair value of investments as at 31 December) due to a reasonably possible change in fair value of FVTPL investments, with all other variables held constants is as follows:

	Percentage of change	31 December 2018
Effect on consolidated statement of profit or loss and other comprehensive income	**±10%**	**± 5,811,000**

b. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals and US Dollars. The Saudi Riyal is pegged to the US Dollar.

The management closely and continuously monitors the exchange rate fluctuations.

c. Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flow.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

27 FINANCIAL INSTRUMENTS-FAIR VALUE, CLASSIFICATION, RISK MANAGEMENT (CONTINUED)

c. Interest rate risk (continued)

The Group's interest rate risks arise mainly from its borrowings and short-term deposits, which are at fixed rate of interest and are not subject to re-pricing on a regular basis.

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flow.

The Group's interest rate risks arise mainly from its borrowings and short-term deposits, which are at fixed interest rate and are not subject to re-pricing on a regular basis.

d. Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its trade receivables, cash and cash equivalent and due from related parties.

	2018	2017
Cash and cash equivalent	**145,111,774**	444,213,231
Receivable from operating leases	**26,097,810**	14,320,989
Due from related parties	**17,124,796**	1,096,564
	188,334,380	459,630,784

The carrying amount of financial assets represents the maximum credit exposure.

Credit risk is limited as:
• Cash balances are held with banks with sound credit ratings.
• The receivable are shown net of provision for impairment of receivable from operating leases contracts.
• Financial position of related parties is stable.

The Group manages credit risk with respect to receivables from customers by monitoring in accordance with defined. Policies and procedures. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the result that the Group's exposure to bad debts is not significant.

Trade receivables outstanding balance are due from local customers in Saudi Arabia.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

27 FINANCIAL INSTRUMENTS-FAIR VALUE, CLASSIFICATION, RISK MANAGEMENT (CONTINUED)

e. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

The Group's objective is to maintain a balance between continuity of funding and flexibility using bank overdrafts and bank loans.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	Carrying amount	On Demand or Less than 1 year	1 year to 5 years	More than 5 years
2018				
Islamic Tawarruq facilities	**1,822,767**	**1,822,767**	**-**	**-**
Accrued operating leases	**9,724,527**	**-**	**9,724,527**	**-**
Accruals and other credit balances	**33,325,820**	**33,325,820**	**-**	**-**
Due to related Parties	**330,145**	**330,145**	**-**	**-**
	45,203,259	**35,478,732**	**9,724,527**	**-**
2017				
Islamic Tawarruq facilities	186,506,269	130,856,275	55,649,994	-
Accrued operating leases	9,169,439	-	9,169,439	-
Accruals and other credit balances	30,416,613	30,416,613	-	-
Due to related Parties	1,272,608	1,272,608	-	-
	227,364,929	162,545,496	64,819,433	-

28 FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and at prevailing market conditions regardless if the price is directly identified or estimated using other valuation technique.

All assets and liabilities whether measured at fair value or their fair values are disclosed in the financial statements in accordance with the hierarchical levels of fair value measurements as stated below are classified into the lowest level of measuring input which is considered significant for measuring the fair value as a whole.

Level 1: Declared (unadjusted) and quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs that are directly or indirectly observable or tracked for an asset or a liability other than declared prices mentioned in level 1.

Level 3: Inputs that are unobservable or not tracked for an asset or a liability.

Fair values of financial instruments

The Group is exposed to risks as a result of using financial instruments. The following explains the Group's objectives, polices and operations to manage these risks and methods used to measure them in addition to quantitative information related to these risks in the accompanying financial statements.

(All amounts are expressed in Saudi Riyal unless otherwise stated)

28 FAIR VALUE (CONTINUED)

Fair values of financial instruments (continued)
There were no significant changes that may expose the Group to financial instrument risks through its objectives, polices and operations to manage these risks and methods used that are different from what have been used in prior years unless otherwise indicated.

- The Group's management considers the fair value for lessees' receivables, current portion of Islamic Tawarruq facilities, balances of related parties, rents due from lease, accruals and other payable approximate to their carrying value because of the short terms of financial instruments.
- The Group's management estimated the fair value for short-term Islamic Tawarruq facilities, which are classified in level 3, to be approximate to their carrying value.
- There were no transfers between level 1, 2 or 3 during the reporting period.

Financial instruments are exposed to change in value risk as a result of changes in commission rates of the financial assets and liabilities with variable commission. Actual commission rate and period of re-pricing or maturity of financial assets and liabilities were mentioned in the related notes.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Fair Value		
	Level 1	**Level 2**	**Level 3**
2018			
Financial instruments at FVTPL	-	**58,111,578**	-
2017			
Financial instruments at FVTPL	-	-	-

The valuation techniques used to determine the fair value of investment properties are classified as Level 3 fair value.

29 CAPITAL MANAGEMENT

The Board's policy is to maintain an efficient capital base to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitor the return on capital employed and the level of dividends to ordinary shareholders.

The Group's objectives when managing capital are:

i) To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

ii) To provide an adequate return to shareholders.

30 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved for issuance on 12 Rajab 1440H (corresponding to 19 March 2019).