

**Arabian Centres Company and its Subsidiaries
(A Closed Saudi Joint Stock Company)**

**SPECIAL-PURPOSE CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITOR'S REPORT**

FOR THE YEAR ENDED 31 MARCH 2018

Arabian Centres Company and its Subsidiaries
(A Closed Saudi Joint Stock Company)

SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2018

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**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ARABIAN CENTRES COMPANY
(A Closed Saudi Joint Stock Company)**

Opinion

We have audited the accompanying special-purpose consolidated financial statements of Arabian Centres Company (the "Company") and its subsidiaries (the "Group"), which comprise the special-purpose consolidated balance sheet as at 31 March 2018 and the related special-purpose consolidated statement of income, special-purpose consolidated statement of cash flows and special-purpose consolidated statement of changes in equity for the year then ended, and notes to the special-purpose consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special-purpose consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018, its special-purpose consolidated financial performance and its special-purpose consolidated cash flows for the year then ended in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia ("KSA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in KSA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Special-Purpose Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in KSA that are relevant to our audit of the special-purpose 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.

Emphasis of a Matter – Basis of Preparation and Presentation

We draw attention to note 2 to the special-purpose consolidated financial statements. As set out therein, the legal status of the Company has been changed from a Limited Liability Company to a Closed Saudi Joint Stock Company effective 8 Muhurram 1439H (corresponding to 28 September 2017). However, as per the Company's management decision, the accompanying special-purpose consolidated financial statements were prepared to present one complete fiscal year commencing from 1 April 2017 to 31 March 2018. Our opinion is not modified in this respect.

Other Matter

The Group has prepared separate sets of consolidated financial statements for the periods from 1 April 2017 to 27 September 2017 (being the last statutory consolidated financial statements of the Limited Liability Company) and from 28 September 2017 to 31 March 2018 (being the first statutory consolidated financial statements of the Closed Saudi Joint Stock Company) in accordance with accounting standards generally accepted in the KSA on which we issued a separate auditor's reports to the partners/shareholders of the Company dated 7 Muhurram 1440H (corresponding to 17 September 2018) and 28 Jumad Thani 1440H (corresponding to 5 March 2019), respectively.

Responsibilities of Management and those Charged with Governance for the Special-Purpose Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the special-purpose consolidated financial statements in accordance with accounting standards generally accepted in KSA as set out in note (2) to the special-purpose consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of special-purpose consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special-purpose consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ARABIAN CENTRES COMPANY
(A Closed Saudi Joint Stock Company) (continued)**

Auditor's Responsibilities for the Audit of the Special-Purpose Consolidated Financial Statements

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

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

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

for Ernst & Young



Abdulaziz A. Al-Sowailim
Certified Public Accountant
License No. 277

Riyadh: 29 Jumad Thani 1440H
(6 March 2019)



Arabian Centres Company and its Subsidiaries
(A Closed Saudi Joint Stock Company)

SPECIAL-PURPOSE CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2018

	Note	2018 SR	2017 SR
ASSETS			
CURRENT ASSETS			
Cash and bank balances	5	80,350,968	158,217,588
Accounts receivable, net	6	246,733,176	233,778,665
Amounts due from related parties	7	238,579,401	172,253,415
Advances to a contractor, related party	9	274,507,859	180,687,245
Prepayments and other current assets	8	53,900,913	85,554,655
TOTAL CURRENT ASSETS		894,072,317	830,491,568
NON-CURRENT ASSETS			
Advances to a contractor, related party – non-current portion	9	80,692,116	11,963,378
Amounts due from related parties	7	200,322,570	214,445,047
Prepaid rent		175,999,000	162,337,000
Investment in an associate	10	39,669,322	35,018,397
Available for sale investments	11	128,476,217	232,169,521
Investment properties	12	10,225,699,238	10,298,992,922
Property and equipment	13	135,826,234	120,746,469
TOTAL NON-CURRENT ASSETS		10,986,684,697	11,075,672,734
TOTAL ASSETS		11,880,757,014	11,906,164,302
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term loans	14	433,000,000	66,000,000
Accounts payable		276,725,098	245,864,112
Amounts due to related parties	7	221,619,546	226,099,892
Unearned revenue	15	277,252,240	325,346,658
Accruals and other current liabilities	16	215,415,786	224,778,169
Zakat payable	17	146,559,970	117,353,841
TOTAL CURRENT LIABILITIES		1,570,572,640	1,205,442,672
NON-CURRENT LIABILITIES			
Long-term loans	14	5,377,626,194	5,792,131,854
Employees' end-of-service indemnities		25,158,488	26,842,696
TOTAL NON-CURRENT LIABILITIES		5,402,784,682	5,818,974,550
TOTAL LIABILITIES		6,973,357,322	7,024,417,222
EQUITY			
SHAREHOLDERS' EQUITY			
Capital	18	4,450,000,000	4,450,000,000
Statutory reserve	19	370,739,315	293,651,971
Retained earnings		84,510,004	136,723,904
Unrealised (loss) gain on revaluation of available for sale investments	11	(23,783)	335,317
TOTAL SHAREHOLDERS' EQUITY		4,905,225,536	4,880,711,192
Non-controlling interests		2,174,156	1,035,888
TOTAL EQUITY		4,907,399,692	4,881,747,080
TOTAL LIABILITIES AND EQUITY		11,880,757,014	11,906,164,302

The accompanying notes from 1 to 33 form an integral part of these special-purpose consolidated financial statements.

Arabian Centres Company and its Subsidiaries
(A Closed Saudi Joint Stock Company)

SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	<i>Note</i>	2018 SR	2017 SR
Revenue		2,159,410,194	2,123,773,892
Cost of revenue		(530,729,147)	(543,225,629)
Depreciation of investment properties	12	(267,494,367)	(221,582,422)
Write-off of investment properties	12	-	(45,942,462)
GROSS PROFIT		1,361,186,680	1,313,023,379
EXPENSES			
Advertisement and promotion	21	(13,444,488)	(19,122,910)
General and administration	22	(265,740,756)	(158,637,391)
TOTAL EXPENSES		(279,185,244)	(177,760,301)
INCOME FROM MAIN OPERATIONS		1,082,001,436	1,135,263,078
Share in net income of an associate	10	9,650,928	8,821,507
Financial charges	23	(288,660,580)	(179,121,136)
Other income, net	24	12,454,274	12,025,947
INCOME BEFORE ZAKAT		815,446,058	976,989,396
Zakat	17	(32,684,346)	(27,154,423)
NET INCOME FOR THE YEAR		782,761,712	949,834,973
NET INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the Parent Company		770,873,444	931,731,071
Non-controlling interests		11,888,268	18,103,902
		782,761,712	949,834,973
EARNINGS PER SHARE:	25		
Income from main operations per share attributable to the Shareholders of the Company		2.43	2.55
Net income for the year per share attributable to the Shareholders of the Parent Company		1.73	2.09

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Arabian Centres Company and its Subsidiaries
(A Closed Saudi Joint Stock Company)

SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	<i>Note</i>	2018 SR	2017 SR
OPERATING ACTIVITIES			
Income before zakat		815,446,058	976,989,396
Adjustments for:			
Financial charges	23	288,660,580	179,121,136
Depreciation of investment properties	12	267,494,367	221,582,422
Provision for doubtful debts	6	94,814,498	22,931,392
Depreciation of property and equipment	13	30,524,620	20,885,529
Impairment of advances to suppliers	24	7,835,354	-
Provision for employees' end-of-services indemnities		5,663,576	6,364,526
Loss on sale of land	24	1,631,586	-
Accounts receivable written off	6	1,562,261	-
Share in net income of an associate	10	(9,650,928)	(8,821,507)
Reversal of liabilities no longer payable	24	(16,093,228)	-
Investment properties written-off	12	-	45,942,462
		1,487,888,744	1,464,995,356
Changes in operating assets and liabilities:			
Accounts receivable		(109,331,270)	(87,141,982)
Amounts due from/to related parties, net		(199,475,543)	(232,077,192)
Prepayments and other current assets		10,156,388	18,608,963
Accounts payable		32,447,239	18,357,477
Unearned revenue		(33,587,443)	(120,770,612)
Accruals and other current liabilities		66,974,986	30,912,954
Cash generated from operations		1,255,073,101	1,092,884,964
Employees' end-of-service indemnities paid		(7,347,784)	(460,724)
Zakat paid	17	(3,478,217)	(261,078)
Net cash from operating activities		1,244,247,100	1,092,163,162
INVESTING ACTIVITIES			
Additions to investment properties	12	(332,456,377)	(2,651,195,788)
Purchase of property and equipment	13	(45,604,385)	(80,745,360)
Dividends received from an associate	10	5,000,003	10,000,000
Advances to a contractor – related party		(162,549,352)	451,292,283
Net cash used in investing activities		(535,610,111)	(2,270,648,865)
FINANCING ACTIVITIES			
Repayment of long-term loans	14	(66,000,000)	(2,349,000,000)
Payment of financial charges		(346,503,609)	(91,697,402)
Dividends paid	7	(374,000,000)	(230,000,000)
Proceeds from long-term loans	14	-	3,886,000,000
Payment of transaction costs	14	-	(103,651,575)
Non-controlling interests		-	(17,781,863)
Net cash (used in) from financing activities		(786,503,609)	1,093,869,160
NET DECREASE IN CASH AND BANK BALANCES		(77,866,620)	(84,616,543)
Cash and bank balances at the beginning of the year		158,217,588	242,834,131
CASH AND BANK BALANCES AT THE END OF THE YEAR	5	80,350,968	158,217,588

The accompanying notes from 1 to 33 form an integral part of these special-purpose consolidated financial statements.

Arabian Centres Company and its Subsidiaries
(A Closed Saudi Joint Stock Company)

SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 MARCH 2018

	<i>Note</i>	2018 SR	2017 SR
<u>Non-cash transactions:</u>			
Dividends settled through shareholders' account	7 & 20	372,000,000	485,000,000
Sale of land settled through Ultimate Parent Company's account	7	115,763,625	-
Available for sale investments transferred to the Ultimate Parent Company	7	(103,334,204)	(948,667)
Amounts due to the Ultimate Parent Company settled through other related parties' account	7	77,657,872	-
Dividend settled through other related party's account	7	10,750,000	-
Unrealised loss on revaluation of available for sale investments	11	(359,100)	(1,336,148)
Investment properties transferred to the Ultimate Parent Company, net	7 & 12	(20,860,483)	(193,081,334)
Prepaid rent transferred to the Ultimate Parent Company	7	-	(14,316,500)
Capitalised transaction costs	12	-	(6,614,242)

The accompanying notes from 1 to 33 form an integral part of these special-purpose consolidated financial statements.

Arabian Centres Company and its Subsidiaries
(A Closed Saudi Joint Stock Company)

SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 March 2018

Equity attributable to the Shareholders of the Parent Company							
	Capital SR	Statutory reserve SR	Retained earnings SR	Unrealised (loss) gain on revaluation of available for sale investments SR	Total shareholders' equity SR	Non-controlling interests SR	Total equity SR
Balance as at 31 March 2016	4,450,000,000	200,478,864	13,165,940	1,671,465	4,665,316,269	713,849	4,666,030,118
Net income for the year	-	-	931,731,071	-	931,731,071	18,103,902	949,834,973
Transfer to statutory reserve	-	93,173,107	(93,173,107)	-	-	-	-
Dividends (notes 7 & 20)	-	-	(715,000,000)	-	(715,000,000)	(18,500,000)	(733,500,000)
Movement in non-controlling interests	-	-	-	-	-	718,137	718,137
Net movement during the year (note 11)	-	-	-	(1,336,148)	(1,336,148)	-	(1,336,148)
Balance as at 31 March 2017	4,450,000,000	293,651,971	136,723,904	335,317	4,880,711,192	1,035,888	4,881,747,080
Net income for the year	-	-	770,873,444	-	770,873,444	11,888,268	782,761,712
Transfer to statutory reserve	-	77,087,344	(77,087,344)	-	-	-	-
Dividends (notes 7 & 20)	-	-	(746,000,000)	-	(746,000,000)	(10,750,000)	(756,750,000)
Net movement during the year (note 11)	-	-	-	(359,100)	(359,100)	-	(359,100)
Balance as at 31 March 2018	4,450,000,000	370,739,315	84,510,004	(23,783)	4,905,225,536	2,174,156	4,907,399,692

The accompanying notes from 1 to 33 form an integral part of these special-purpose consolidated financial statements.

Arabian Centres Company and its Subsidiaries (A Closed Saudi Joint Stock Company)

NOTES TO THE SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS 31 MARCH 2018

1. ACTIVITIES

Arabian Centres Company ("the Company" or "the Parent Company") is a Closed Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia ("KSA") under commercial registration numbered 1010209177 and dated 7 Rabi Thani 1426H (corresponding to 15 May 2005). The registered office is located at Nakheel District, P.O. Box 341904, Riyadh 11333, KSA.

The legal status of the Company has been changed from a Limited Liability Company to a Closed Saudi Joint Stock Company effective 8 Muhurram 1439H (corresponding to 28 September 2017).

The Company and its subsidiaries (collectively referred to as "the Group") principal business objectives are to purchase lands, build, develop and invest in buildings, selling or leasing of buildings and construction of commercial buildings including demolition, repair, excavation and maintenance works. It also includes maintenance and operation of commercial centres, tourist resorts, hotels and restaurants, managing and operating temporary and permanent exhibitions, compounds and hospitals.

The special-purpose consolidated financial statements were approved for issue by its Board of Directors (BOD) on 29 Jumad Thani 1440H (corresponding to 6 March 2019).

Following is the list of subsidiaries included in these special-purpose consolidated financial statements as at 31 March 2018 and 2017:

<i>Name of subsidiary (i)</i>	<i>Ownership %</i>	
	<i>Direct</i>	<i>Indirect (ii)</i>
Riyadh Centres Company Limited	95%	5%
Al Bawarij International for Development & Real Estate Investment Company	95%	5%
Al Makarem International for Real Estate Development Company	95%	5%
Oyoun Al Raed Mall Trading	95%	5%
Oyoun Al Basateen Company for Trading	95%	5%
Al-Qasseem Company for Entertainment and Commercial Projects Owned by Abdulmohsin AlHokair and Company	50%	-
Yarmouk Mall Company Limited (iii)	95%	5%
Al Erth Al Matin Trading Company (iii)	95%	5%
Arkan Salam for Real Estate and Contracting Company Limited (iii)	95%	5%
Mall of Arabia Company Limited (iii)	95%	5%
Aziz Mall Trading Company Limited (iii)	95%	5%
Dhahran Mall Trading Company Limited (iii)	95%	5%
Al Noor Mall Trading Company Limited (iii)	95%	5%
Al Yasmeen Mall Trading Company (iii)	95%	5%
Al Dammam Mall Trading Company (iii)	95%	5%
Al Malaz Mall Trading Company (iii)	95%	5%
Al Hamra Mall Trading Company (iii)	95%	5%
Al Erth Al Rasekh Trading Company (iii)	95%	5%

- (i) All subsidiaries are limited liability companies incorporated in the KSA.
- (ii) Indirect ownership is owned through cross ownership within the Group.
- (iii) During the previous years, the Company assigned the operations of its malls to the benefit of its subsidiaries and reflected in their respective financial statements. However, pursuant to the Company's shareholders' resolution dated 1 April 2017, the Company has regained the operations of these malls effective 1 April 2017.

Arabian Centres Company and its Subsidiaries (A Closed Saudi Joint Stock Company)

NOTES TO THE SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (continued) 31 MARCH 2018

2. BASIS OF PREPARATION AND PRESENTATION

As set out in note (1) above, the legal status of the Company has been changed from a Limited Liability Company to a Closed Saudi Joint Stock Company effective 8 Muhurram 1439H (corresponding to 28 September 2017). According to the Company's By-laws, the first fiscal period of the Company after conversion starts from the date of registration in the amended commercial registration certificate (i.e. 28 September 2017) and ends on 31 March 2018. However, the Company's management decided to prepare and present these special-purpose consolidated financial statements for one complete year commencing from 1 April 2017 to 31 March 2018. These special-purpose consolidated financial statements have been prepared in accordance with accounting standards generally accepted in KSA.

The comparative figures for the year ended 31 March 2017 which relate to the operations of the Group before the Company's conversion to a Closed Saudi Joint Stock Company are shown for comparative purposes.

3. BASIS OF CONSOLIDATION

These special-purpose consolidated financial statements include assets, liabilities and the results of the operations of the Parent Company and its subsidiaries as disclosed in note (1) above. A subsidiary company is that in which the Parent Company has, directly or indirectly, long-term investment comprising an interest of more than 50% in the voting capital and/or over which it exerts control. A subsidiary company is consolidated from the date on which the Parent Company obtains control until the date that control ceases. The consolidated financial statements are prepared on the basis of the financial statements of the Parent Company and the individual financial statements of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

The Group's significant intercompany balances and transactions have been eliminated in these special-purpose consolidated financial statements.

Non-controlling interests represents the portion of profit or loss and net assets that are not held by the Group and are presented separately in the special-purpose consolidated statement of income and within equity in the special-purpose consolidated balance sheet, separately from shareholders' equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying special-purpose consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in KSA. The significant accounting policies adopted are as follows:

Accounting convention

The special-purpose consolidated financial statements are prepared under the historical cost convention except for available for sale investments which are stated at fair values.

Use of estimates

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

Accounts receivable

Accounts receivable are recognised at their original invoiced value. A provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Bad debts are written off as incurred.

Arabian Centres Company and its Subsidiaries
(A Closed Saudi Joint Stock Company)

NOTES TO THE SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 MARCH 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. The Group's investments in associates are accounted for using equity method of accounting, whereas the investment in associate is carried in the special-purpose consolidated balance sheet at cost adjusted by the changes in the Group's share of net assets of the associate. The special-purpose consolidated statement of income reflects the share of the results of operation of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any change and discloses this, when applicable, in the special-purpose consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of interest in an associate.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is an objective evidence that the investment in associate is impaired. If any such indication exists, the Group calculates the amount of impairment as being the difference between the fair value of the investment in associate and the acquisition cost and recognises the amount in the special-purpose consolidated statement of income. The financial statements of the associates are prepared for the same period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Available for sale investments

Investments that are bought neither with the intention of being held to maturity nor for the trading purposes are stated at fair value and are included under non-current assets, unless they will be sold in the next reporting period. Changes in fair value are credited or charged to the special-purpose consolidated statement of changes in equity.

Fair value is determined by reference to the market value if an open active market exists, or the use of other alternative valuation methods. Otherwise, cost is considered to be the fair value.

Where partial holdings are sold, these are accounted for on a weighted average basis.

Investment properties

Investment properties comprise completed property and property under construction and re-developed that are held to earn rentals or for capital appreciation or both. Investment properties are initially recorded at property cost including transaction costs. Transaction costs include transfer of ownership charges, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value. Land and projects under construction are not depreciated. The cost of other properties is depreciated on a straight-line basis over the estimated useful lives of the properties.

Expenditure for repair and maintenance are charged to the special-purpose consolidated statement of income as incurred. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Property and equipment

Property and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any accumulated impairment in value. The cost less estimated residual value of property and equipment, if any, is depreciated on a straight-line basis over the estimated useful lives of the assets.

Leaseholds improvements are depreciated on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

Expenditures for repair and maintenance are charged to the special-purpose consolidated statement of income. Betterments that increase the value or materially extend the life of the related assets are capitalised.

Arabian Centres Company and its Subsidiaries
(A Closed Saudi Joint Stock Company)

NOTES TO THE SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 MARCH 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group conducts periodic review of the carrying amount of its non-financial assets to determine whether there is any evidence that those non-financial assets may have suffered an impairment loss. If such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of that asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised as an expense in the special-purpose consolidated statement of income. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately in the special-purpose consolidated statement of income.

Leases

Operating lease contracts — the Group as lessor

The Group has entered into commercial property leases on its investment properties portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases 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 recognised as expenses over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the year in which they are earned.

Lease contracts — the Group as lessee

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement.

Finance leases, which transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the inception 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 apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the special-purpose consolidated statement of income as they arise.

Other leases are classified as operating leases. Operating lease payments are recognised as an expense in the special-purpose consolidated statement of income on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

Initial direct cost, made under operating leases are charged to the special-purpose consolidated income statement in accordance with the terms of the lease contracts over the lease term based on a systematic basis as this method is more representative of the time pattern in which use of benefit are derived from the leased assets.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Unearned revenue

Unearned revenue represent cash received against which services are to be performed or goods are to be delivered by the Group in the future. At the end of each accounting period, adjusting entries are made to recognise the portion of unearned revenue that has been earned during the year.

Unearned revenues also include advance rent collected against the properties for which rental agreements commence subsequent to the year end.

Loans and borrowings

Loans and borrowings are recognised at the proceeds received value by the Group.

Zakat

The Group is subject to the Regulations of the General Authority of Zakat and Tax ("GAZT") in KSA. Zakat is provided on an accrual basis and is computed and charged based on zakat base. Adjustments if any are made to the zakat provision when the final assessments are obtained from the GAZT.

Employees' end-of-service indemnities

End of service indemnities, required by the Saudi Arabian labour law, are provided in the special-purpose consolidated financial statements based on the employees' length of services.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding any levies or duty. Amounts disclosed as revenue are net of trade allowances and rebates. The Group has concluded it is the principal in all of its revenue arrangements (except for service charges related to utilities for heavy users – as discussed later in this section) since it is the primary obligor, it has pricing latitude and is also exposed to credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Rental income

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in revenue in the special-purpose consolidated statement of income due to its operating nature, except for contingent rental income which is recognised when it arises.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the management are reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the special-purpose consolidated statement of income when the right to receive them arises.

Turnover rent

The Group recognises income from turnover rent on the basis of audited turnover reports submitted by the tenants. In the absence of audited reports, management makes its own assessment about the tenants achieving or exceeding the stipulated turnover in the lease contracts based on their historical performance.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Service charges, management charges and other expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the year in which the compensation becomes due. Service and management charges related to repairs and maintenance of the building facilities and other such receipts are included in revenue while the related costs, which are included as part of cost of revenue, as the management considers that the Group acts as a principal in this respect.

Service charges related to utilities for heavy users are presented net of the related costs and are recorded as part of "commission income on provisions for utilities for heavy users, net" under revenue in the special-purpose consolidated statement of income, since the management considers that the Group acts as an agent in this respect.

Dividend income

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Other income

All other incomes are recognised on an accrual basis when the Group's right to earn the revenue is established.

Borrowing costs

Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalised up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the special-purpose consolidated statement of income.

Expenses

Advertisement and promotion expenses principally comprise of costs incurred in promotion of the shopping centres and malls. All other expenses are classified as general and administration expenses.

General and administration expenses include direct and indirect costs not specifically part of the cost of revenue. Allocations between general and administration expenses and cost of revenues, when required, are made on a consistent basis.

Segment reporting

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses;
- results of its operations are continuously analysed by management in order to make decisions related to resource allocation and performance assessment; and
- for which discrete financial information is available.

Management considers the operations of the Group as a whole as one operating segment as all subsidiaries engage in similar business activities.

A geographical segment is a Group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments. All of the Group's operation are conducted in KSA hence only one geographic segment has been identified.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of such transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at that date. Any realised or unrealised exchange gains or losses arising from such translations are recorded in the special-purpose consolidated statement of income.

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5. CASH AND BANK BALANCES

	2018 SR	2017 SR
Cash at banks	79,509,242	157,403,090
Cash in hand	841,726	814,498
	<u>80,350,968</u>	<u>158,217,588</u>

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable comprise of interest free net receivables due from tenants with no credit rating. Before accepting any new customer, management of the Group assesses the potential customer's credit quality and defines credit limits. Unimpaired accounts receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and vast majority are, therefore, unsecured.

At 31 March 2018, accounts receivable at nominal value of SR 138,616,823 (31 March 2017: SR 48,416,479) were impaired. Movement in the provision for doubtful debts were as follows:

	2018 SR	2017 SR
At the beginning of the year	48,416,479	26,164,067
Provision for the year (note 22)	94,814,498	22,931,392
Write-off	(4,614,154)	(678,980)
At the end of the year	<u>138,616,823</u>	<u>48,416,479</u>

During the year, the Group has directly written-off accounts receivable amounting to SR 1.56 million (31 March 2017: SR Nil) (note 22).

During the year, the management reviewed the pattern of collection of accounts receivable from its tenants and have categorized them based on the expected credit risk associated with each of them. Based on the rigorous and comprehensive review of its ageing brackets of each category of receivables, the management came up with a provision for doubtful debts as at 31 March 2018 amounting to SR 138.6 million. Had the Group assessed its provision for doubtful debts based on the previous methodology, the net income for the year would have been higher by SR 94.8 million.

As at 31 March, the ageing of unimpaired accounts receivable was as follows:

	Total SR	Neither past due nor impaired SR	Past due but not impaired			
			Up to 30 days SR	31 - 90 days SR	91 - 180 days SR	> 180 days SR
2018	246,733,176	53,132,178	24,528,780	36,301,629	53,747,330	79,023,259
2017	233,778,665	47,872,204	15,522,011	27,807,900	46,287,556	96,288,994

As set out above, accounts receivable include amounts which are past due at the end of the reporting period but against which the Group has not recognised a provision for doubtful receivables because amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

In determining the recoverability of accounts receivable, the Group considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the end of the reporting period.

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7. RELATED PARTY TRANSACTIONS AND BALANCES

For the purpose of these special-purpose consolidated financial statements, parties are considered to be related to the Group, if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, and vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

Balances and transactions between the Parent Company and its subsidiaries, which are related parties within the Group, have been eliminated on consolidation and are not disclosed in this note.

Related party transactions

During the year, the Group transacted with related parties. The terms of those transactions are approved by management in the ordinary course of business. The significant transactions and the related amounts are as follows:

	2018 SR	2017 SR
Dividends settled through shareholders' account (note 20)	372,000,000	485,000,000
Dividends paid in cash to shareholders	374,000,000	230,000,000
Construction work included in projects under construction (note 12)	255,140,377	1,170,306,809
Dividend settled through other related party's account	10,750,000	-
Lands acquired from the Ultimate Parent Company (note 12)	-	1,418,309,050
Rental revenue, net of discounts	530,114,645	453,205,333
Services revenue	88,509,292	89,392,807
Rental discounts	218,485,666	150,000,000
Transfer of investment properties to Ultimate Parent Company (note 12)	(20,860,483)	(193,081,334)
Available for sale investments transferred to the Ultimate Parent Company (note 11)	(103,334,204)	(948,667)
Prepaid rent transferred to the Ultimate Parent Company	-	(14,316,500)
Settlement of balances through other related parties	77,657,872	-
Payment to suppliers on behalf of the Ultimate Parent Company	19,934,275	-
Sale of land settled through Ultimate Parent Company's account (note 12)	115,763,625	-

With the consent of the shareholders of the Company, the contracts for the construction of all projects are awarded to an affiliate, Fawaz Abdulaziz Al Hokair & Partners Real Estate Company ("FARE") (note 9). The process of awarding these contracts does not include bidding.

Related party balances

The following table summarise the related parties balances at the end of the year:

(i) Amounts due from related parties:

Name of related party	Nature of relationship	2018 SR	2017 SR
<u>Current:</u>			
FAS Holding Company for Hotels	Affiliate	150,000,000	150,000,000
Food and Entertainment Trading Company Limited (a)	Affiliate	34,041,953	8,546,450
Abdul Mohsin Al Hokair Group for Tourism and Development (a)	Affiliate	22,909,203	5,183,388
FAS for Trading (a)	Affiliate	20,500,000	-
Billy Games Company Limited (a)	Affiliate	8,046,667	-
Coffee Centers Company Limited (a)	Affiliate	1,252,761	4,664,918
Kids Space Company Limited (a)	Affiliate	509,797	-
Skill Innovative Games Co.	Affiliate	359,945	-
Nesk Trading Project Company Limited (b)	Affiliate	73,722	-
Tadaris Najd Security Company	Affiliate	-	3,314,044
Others	Affiliate	885,353	544,615
		238,579,401	172,253,415

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7. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Related party balances (continued)

(i) Amounts due from related parties (continued):

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>2018 SR</i>	<i>2017 SR</i>
<u>Non-current:</u>			
FAS Holding Company for Hotels	Affiliate	200,322,570	200,322,570
Al Madaen Star Real Estate	Affiliate	-	14,122,477
		200,322,570	214,445,047

(ii) Amounts due to related parties:

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>2018 SR</i>	<i>2017 SR</i>
Fawaz Abdulaziz Al Hokair & Co. (b)	Affiliate	200,287,692	209,501,639
Saudi FAS Holding Company	Ultimate Parent Company	15,627,387	3,068,243
Tadaris Najd Security Company	Affiliate	4,455,858	-
Etqan Facilities Management	Affiliate	1,248,609	-
Nesk Trading Project Company Limited (b)	Affiliate	-	13,530,010
		221,619,546	226,099,892

(iii) Advances to a contractor (note 9):

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>2018 SR</i>	<i>2017 SR</i>
Fawaz Abdulaziz Al Hokair & Partners Real Estate Company	Affiliate		
Current portion		274,507,859	180,687,245
Non-current portion		80,692,116	11,963,378
		355,199,975	192,650,623

(a) These mainly represent rental receivables from the related parties.

(b) This mainly represents advance rentals received, net of rental income receivable.

Terms and conditions of transactions with related parties

Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. The Group did not record any impairment of receivables relating to amounts owed by related parties in either year, as it believes that these balances are fully recoverable.

The lease agreements for leasehold lands on which the Group's investment properties (buildings) are constructed on, are in the name of related entities of the Group, who have assigned these lease agreements to the Group's benefit (notes 12 and 27).

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8. PREPAYMENTS AND OTHER CURRENT ASSETS

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Advances to suppliers	34,374,172	60,643,413
Prepaid expenses	7,529,635	5,143,773
Letters of guarantee	5,900,000	5,400,000
Employees' receivables	3,230,144	5,740,007
Prepaid rent	2,191,806	8,235,119
Others	675,156	392,343
	53,900,913	85,554,655

During the year, the Group impaired advances to suppliers amounting to SR 7.8 million (31 March 2017: SR Nil) (note 24).

9. ADVANCES TO A CONTRACTOR – RELATED PARTY

Advances to a contractor represents advance paid to FARE for the construction of shopping malls, which are under various stages of completion (note 7).

10. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents an investment in the share capital of Aswaq Al Mustaqbal for Trading Company; a real estate company incorporated in KSA which is engage primarily in the general contracting for buildings, building maintenance, electrical and mechanical works and acquisition of lands to construct buildings for sale or lease out for its own interest. The movement of the investment during the year is as follow:

	<i>Percentage of ownership</i>	<i>Opening balance SR</i>	<i>Share of net income SR</i>	<i>Dividend SR</i>	<i>Ending balance SR</i>
2018	25%	35,018,397	9,650,928	(5,000,003)	39,669,322
2017	25%	36,196,890	8,821,507	(10,000,000)	35,018,397

11. AVAILABLE FOR SALE INVESTMENTS

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Investments in real estate projects (i)	121,500,000	224,834,204
Investments real estate fund (ii)	6,976,217	7,335,317
	128,476,217	232,169,521

(i) *Investments in real estate projects:*

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Amlak International for Real Estate Finance Company (a)	121,500,000	121,500,000
Yanbu Real Estate (b)	-	53,334,204
Khomasiat Taibah Limited Company (c)	-	50,000,000
	121,500,000	224,834,204

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11. AVAILABLE FOR SALE INVESTMENTS (continued)

(i) *Investments in real estate projects (continued):*

- a) The Group's equity investment of 8.5% in Amlak International for Real Estate Finance Company is owned directly and indirectly through the Company's subsidiaries. The Group paid SR 121.5 million to acquire the investments which includes payment of SR 45 million as premium for the investment.
- b) This investment represents 9.77% investment in equity in real estate held by Yanbu Real Estate (Mosahama). During the year, the Group transferred its investment to the Ultimate Parent Company at book value (note 7).
- c) This represents 7.14% equity investment in Khomasiat Taibah Limited Company. The investment is in the name of the Ultimate Parent Company, Saudi FAS Holding Company, which had assigned the investment to the benefit of the Group. Effective 1 April 2017, the Ultimate Parent Company regained the beneficial interest in this investment which is carried at book value (note 7).
- d) During the year ended 31 March 2017, the Group transferred its investment in Akwan Properties to the Ultimate Parent Company at book value amounting to SR 948,667 (note 7). This investment represents 4.5% equity investment in Akwan Properties purchased through Ultimate Parent Company which was assigned to the Group's benefit in prior years.

(ii) *Investments real estate fund:*

This represents 0.25% equity investment in Digital City Fund (68 units each for SR 100,000) purchased for SR 7 million. Market value of the investment amounted to SR 6.9 million as of 31 March 2018 (31 March 2017: SR 7.3 million). The unrealised loss amounting to SR 0.4 million (31 March 2017: SR 1.3 million) has been recognised in available for sale investments as part of equity.

Movement in the investments in real estate fund was as follows:

	2018	2017
	SR	SR
Cost:		
At the beginning and end of the year	7,000,000	7,000,000
Revaluation adjustments:		
At the beginning of the year	335,317	1,671,465
Unrealised loss during the year	(359,100)	(1,336,148)
At the end of the year	(23,783)	335,317
Net carrying amount	6,976,217	7,335,317

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12. INVESTMENT PROPERTIES

The estimated useful lives of the investment properties for the calculation of depreciation are as follows:

Buildings Buildings on leasehold land	Shorter of economic life or lease term		Projects under construction SR	Total 2018 SR	Total 2017 SR
	Buildings SR	Buildings on leasehold land SR			
Cost:					
At the beginning of the year	4,889,209,620	2,890,559,887	1,059,056,016	11,629,505,348	9,223,596,384
Additions	-	27,101,090	300,635,747	332,456,377	2,657,810,030
Disposal	(117,395,211)	-	-	(117,395,211)	-
Transfer to Ultimate Parent Company (note 7)	-	(37,850,996)	(15,961,407)	(53,812,403)	(193,081,334)
Write-off	-	-	-	-	(58,819,732)
Transfers	-	76,508	(76,508)	-	-
At the end of the year	4,771,814,409	2,879,809,981	1,343,653,848	11,790,754,111	11,629,505,348

Depreciation:

At the beginning of the year	-	799,132,626	-	1,330,512,426	1,121,807,274
Charge for the year	-	176,390,760	-	267,494,367	221,582,422
Transfer to Ultimate Parent Company (note 7)	-	(32,951,920)	-	(32,951,920)	-
Write-off	-	-	-	-	(12,877,270)
At the end of the year	-	942,571,466	-	1,565,054,873	1,330,512,426

Net book value:

At 31 March 2018	4,771,814,409	1,937,238,515	1,343,653,848	10,225,699,238	
At 31 March 2017	4,889,209,620	2,091,427,261	1,059,056,016		10,298,992,922

Projects under construction pertains to expenditures relating to various malls which are still in the course of construction as at the end of the reporting period.

The Group sold land with book value of SR 117.4 million to its Ultimate Parent Company which was settled through Ultimate Parent Company's account amounting to SR 115.8 million (note 7) and resulted in a loss on sale of land amounting to SR 1.6 million (note 24).

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12. INVESTMENT PROPERTIES (continued)

Net book value of the Group's land at the end of the year is as follows:

	<i>Owned by the Group / shareholders</i>	<i>Title deeds registered with bank Yes / No</i>	<i>2018 SR</i>	<i>2017 SR</i>
Shopping malls – lands				
- Aziziah Mall – Makkah	Group	Yes	178,227,665	178,227,665
- Mall of Arabia – Jeddah	Group	Yes	141,115,102	141,115,102
- Sahara Plaza – Riyadh	Group	Yes	75,240,000	75,240,000
- Al Noor Centre	Group	Yes	68,120,000	68,120,000
- Jubail Land	Group	Yes	32,500,000	32,500,000
- Hafouf Al Ahsa Mall	Group	Yes	20,700,145	20,700,145
- Arkan Salam Mall (*)	Group	Yes	250,000,000	250,000,000
- Hamra Mall (*)	Group	Yes	256,100,000	256,100,000
			1,022,002,912	1,022,002,912
Lands				
- Oyoun Al Raed Land	Group	Yes	1,770,439,947	1,770,439,947
- Oyoun Al Basateen Land	Group	Yes	1,067,162,500	1,067,162,500
- Dammam Land	Group	Yes	-	117,395,211
- Khalij Mall Land (*)	Group	Yes	290,209,050	290,209,050
- Dammam Airport (*)	Group	Yes	210,000,000	210,000,000
- Al Qassim Land (*)	Group	Yes	350,000,000	350,000,000
- Abha Land (*)	Group	Yes	62,000,000	62,000,000
			3,749,811,497	3,867,206,708
Total lands net book value			4,771,814,409	4,889,209,620

(*) During 2016, the Company's shareholders have resolved in their meeting held on 28 Jumad Thani 1437H (corresponding to 7 April 2016) to purchase these lands at the values mentioned above from the Ultimate Parent Company in line with the Murabaha facility agreement signed on 6 April 2016 (note 14-i).

The title deeds of all plots of lands are registered in the name of local banks against a long-term loan (note 14).

The lease agreements for leasehold land on which the Group's buildings are constructed are in the name of an affiliated company and other related parties (note 7).

As at 31 March 2018, an amount of SR Nil (31 March 2017: SR 112.4 million) was capitalised as cost of borrowings for the construction of projects under construction (note 14).

As at 31 March 2018, an amount of SR Nil (31 March 2017: SR 6.6 million) was capitalised as amortised transaction cost for the construction of projects under construction (note 14-i).

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13. PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Tools and equipment	4 – 8 years
Furniture and fixtures	4 – 10 years
Vehicles	4 years
Leasehold improvements	Shorter of economic life or lease term

	<i>Tools and equipment SR</i>	<i>Furniture and fixtures SR</i>	<i>Vehicles SR</i>	<i>Leasehold improvement SR</i>	<i>Total 2018 SR</i>	<i>Total 2017 SR</i>
Cost:						
At the beginning of the year	108,023,426	76,097,349	3,850,902	25,224,612	213,196,289	132,450,929
Additions	30,549,879	9,305,524	35,000	5,713,982	45,604,385	80,745,360
At the end of the year	138,573,305	85,402,873	3,885,902	30,938,594	258,800,674	213,196,289
Depreciation:						
At the beginning of the year	52,088,093	35,487,910	3,495,634	1,378,183	92,449,820	71,564,291
Charge for the year (note 22)	14,468,955	9,448,495	205,075	6,402,095	30,524,620	20,885,529
At the end of the year	66,557,048	44,936,405	3,700,709	7,780,278	122,974,440	92,449,820
Net book value:						
At 31 March 2018	72,016,257	40,466,468	185,193	23,158,316	135,826,234	
At 31 March 2017	55,935,333	40,609,439	355,268	23,846,429		120,746,469

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14. LONG-TERM LOANS

The movement in long-term loans is as follows:

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Balance at the beginning of the year	6,021,000,000	4,484,000,000
Addition of a new facility	-	3,886,000,000
Repayments	(66,000,000)	(2,349,000,000)
	<u>5,955,000,000</u>	<u>6,021,000,000</u>
Less: un-amortised transaction costs	(144,373,806)	(162,868,146)
Balance at the end of the year	5,810,626,194	5,858,131,854
Less: current portion of long-term loans	(433,000,000)	(66,000,000)
Non-current portion of long-term loans	5,377,626,194	5,792,131,854

Below is the repayment schedule of the outstanding long-term loans as at:

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Within one year	433,000,000	66,000,000
Between two to five years	4,054,500,000	3,132,500,000
More than five years	1,467,500,000	2,822,500,000
	<u>5,955,000,000</u>	<u>6,021,000,000</u>

The Group obtained the above long-term loans from local banks which are repayable in semi-annual instalments. These facilities are subject to commission rates based on fixed commission rates and SIBOR plus an agreed commission rates. The facilities are secured by assignment of leases, insurance policies, proceeds of rental income, land and buildings and personal and corporate guarantees from the shareholders.

Un-amortised transaction costs movement as follow:

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Balance at the beginning of the year	162,868,146	78,759,297
Additions during the year related to a new facility	-	103,651,575
Amortised transaction cost during the year (note i below)	(18,494,340)	(19,542,726)
Balance at the end of the year	144,373,806	162,868,146

i) Amortised transaction cost during the year was allocated as follow:

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Amortisation charge for the year (note 23)	18,494,340	12,928,484
Capitalised to investment properties – projects under construction (note 12)	-	6,614,242
Balance at the end of the year	18,494,340	19,542,726

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14. LONG-TERM LOANS (continued)

No loans have been obtained during the current year.

During the year ended 31 March 2017 and previous years, the Group;

- (i) On 6 April 2016, Riyadh Centres Company Limited (a subsidiary) signed a long-term Murabaha facility agreement of SR 5,550 million with various local banks for the construction of certain shopping malls. As at 31 March 2018, the subsidiary has utilized SR 3,890 million out of the total Murabaha facility amount. The Murabaha facility carries fixed commission of SIBOR plus agreed margin per annum and is secured by assignment of leases, insurance policies, proceeds of rental income, land, building, personal and corporate guarantees from the shareholders. The Murabaha facility is repayable in 17 unequal semi-annual basis starting from April 2018.
- (ii) Long-term loan facility for construction of Oyoun Al Basateen Mall - Jeddah amounting to SR 1,600 million from a local bank out of which SR 900 million was utilized in prior year. The loan carries commission of SIBOR plus agreed margin per annum and is secured by assignment of leases, insurance policies, proceeds of rental income, land and building and personal and corporate guarantees from the shareholders. The loan is repayable on a semi-annual basis and the principal repayment will start after three periods grace period from May 2018. The new facility will be repaid in 14 unequal semi-annual instalments, the first instalment will be due in May 2018 and last instalment due in April 2025. The commission is payable on a semi-annual basis from May 2015.
- (iii) Long-term loan facility for construction of Mall of Arabia - Riyadh amounting to SR 1,970 million from a local bank out of which SR 1,235 million was utilised during 2015. The loan carries fixed commission per annum until completion of the mall and other certain agreed margin thereafter and is secured by assignment of leases, insurance policies, proceeds of rental income, land and building and personal and corporate guarantees from the shareholders. The loan is repayable on a semi-annual basis and the principal repayment will start after three periods grace period from July 2017. The facility will be repaid in 14 unequal semi-annual instalments, the first instalment will be due in July 2017 and last instalment due in January 2024. The commission is payable on a semi-annual basis from June 2014.
- (iv) Long-term loan amounting to SR 750 million from a local bank. The loan carries fixed commission margin per annum and is secured by assignment of leases, insurance policies, proceeds of rental income, land and building and personal and corporate guarantees from the shareholders. The loan is repayable in 15 unequal semi-annual instalments, the first instalment was due in December 2013 and last instalment due in December 2020. The commission was payable on a semi-annual basis from December 2013. As at 31 March 2017, the related facility was settled in full in accordance with the Murahaba Facility Agreement signed on 6 April 2016.
- (v) Long-term loan amounting to SR 1,950 million from a local bank. The loan carries fixed commission of SIBOR plus agreed margin per annum and is secured by assignment of leases, insurance policies, proceeds of rental income, land and building and personal and corporate guarantees from the shareholders. The loan is repayable in 15 unequal semi-annual instalments, the first instalment was due in December 2013 and last instalment due in December 2020. The commission was payable on a semi-annual basis from December 2013. As at 31 March 2017, the related facility was settled in full in accordance with the Murahaba Facility Agreement signed on 6 April 2016.

Certain of the above facility agreements contain covenants, which among other things, require certain financial ratios to be maintained. The Group ensures that it is always in compliance with the loan covenants prescribed in such agreements. The Group is compliant with the loan covenants as of the end of the reporting period.

As at 31 March 2018, an amount of SR Nil (31 March 2017: SR 112.4 million) was capitalised as cost of borrowings for the construction of projects under construction (note 12).

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15. UNEARNED REVENUE

Unearned revenue represent cash received against services to be performed or goods to be delivered by the Group in the future. At the end of each accounting period, adjusting entries are made to recognize the portion of unearned revenue that has been earned during the year.

16. ACCRUALS AND OTHER CURRENT LIABILITIES

	2018 SR	2017 SR
Tenants security deposits	102,905,068	94,978,757
Output Value Added Tax, net	45,583,941	-
Accrued expenses	21,616,475	6,989,557
Accrued finance charges	21,420,006	97,757,375
Employees' accruals	21,118,043	17,765,166
Others	2,772,253	7,287,314
	<u>215,415,786</u>	<u>224,778,169</u>

17. ZAKAT

Charge for the year

Zakat charge for the year amounting to SR 32,684,346 consists of the current year provision (31 March 2017: SR 27,154,423) and is based on the following:

	2018 SR	2017 SR
Shareholders' equity, beginning balance	4,880,711,192	4,665,316,269
Income before zakat	815,446,058	976,989,396
Opening provisions and other adjustments	1,195,116,605	700,569,439
Non-current liabilities	5,402,784,682	5,818,974,550
Non-current assets	(10,986,684,697)	(11,075,672,734)

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

Movements in zakat provision during the year

The movement in the provision for zakat for the year ended 31 March is as follows:

	2018 SR	2017 SR
Balance at beginning of the year	117,353,841	88,492,940
Provision for the year	32,684,346	27,154,423
Prior year's adjustment	-	1,967,556
Paid during the year	(3,478,217)	(261,078)
	<u>146,559,970</u>	<u>117,353,841</u>

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17. ZAKAT (continued)

Status of assessments

The Company has filed its zakat returns from inception date up to the year ended 31 March 2006 with GAZT and received the related zakat certificates. The zakat assessments have been completed up to year ended 31 March 2006.

Effective the year ended 31 March 2007, the Ultimate Parent Company is preparing and submitting combined zakat returns for the Ultimate Parent Company and its wholly owned subsidiaries, including Arabian Centres Company, to GAZT as per GAZT letter. Accordingly, the combined zakat returns for the years 2007 to 2016 have been submitted to GAZT. It should be noted that despite the fact that the Ultimate Parent Company is submitting a combined zakat returns including its wholly owned subsidiaries, the Group's management computes and records the zakat provision based on the Group's individual zakat base.

On 5 Jumad Awal 1436H (corresponding to 24 February 2015), the Ultimate Parent Company received a letter from GAZT requesting submission of individual zakat return for each company instead of combined zakat returns previously submitted for the years from 2007 to 2016. The Ultimate Parent Company has submitted its appeal which was approved by GAZT on 16 June 2017.

18. CAPITAL

The shareholders and their respective holdings as at 31 March 2018 and 31 March 2017 are as follows:

<i>Name of shareholders</i>	<i>Ownership %</i>		<i>Number of shares</i>		<i>Amount</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018 SR</i>	<i>2017 SR</i>
FAS Real Estate Company Limited	52	52	231,400,000	2,314,000	2,314,000,000	2,314,000,000
Saaf International Co. Limited	3	3	13,350,000	133,500	133,500,000	133,500,000
Mr. Fawaz Abdulaziz Al Hokair	10	15	44,500,000	667,500	445,000,000	667,500,000
Mr. Salman Abdulaziz Al Hokair	10	15	44,500,000	667,500	445,000,000	667,500,000
Dr. Abdul Majeed Abdulaziz Al Hokair	10	15	44,500,000	667,500	445,000,000	667,500,000
Al-Farida Alola Real Estate Company (Owned By One Person) (*)	5	-	22,250,000	-	222,500,000	-
Al-Farida Althaniah Real Estate Company (Owned By One Person) (*)	5	-	22,250,000	-	222,500,000	-
Al-Farida Althalithah Real Estate Company (Owned By One Person) (*)	5	-	22,250,000	-	222,500,000	-
	<u>100</u>	<u>100</u>	<u>445,000,000</u>	<u>4,450,000</u>	<u>4,450,000,000</u>	<u>4,450,000,000</u>

(*) These are the new shareholders admitted to the Company's shareholding effective from registration of the Joint Stock Company's commercial registration dated 8 Muhurram 1439H (corresponding to 28 September 2017).

Pursuant to the shareholders' resolution dated 18 Ramadan 1438H (corresponding to 13 June 2017), the par value of the Company's shares was reduced from SR 1,000 per share to SR 10 per share. As a result, the Company's capital was divided from 4,450,000 shares to 445,000,000 shares.

19. STATUTORY RESERVE

In accordance with the Companies Law and the Company's By-laws, the Company must transfer 10% of its net income for the year to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve total 30% of the capital. Accordingly, the Company has set aside 10% of the net income for the year to the statutory reserve. This reserve is not available for dividend distribution.

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20. DIVIDENDS DISTRIBUTION

The Company's shareholders in their meeting held on 14 Rajab 1439H (corresponding to 31 March 2018) resolved to distribute dividends amounting to SR 0.4944 per share aggregating to SR 220,000,000. An amount of SR 42,385,875 out of that total dividend is settled through the shareholders' account (note 7).

The Company's shareholders in their meeting held on 7 Muhram 1439H (corresponding to 27 September 2017) resolved to distribute dividends amounting to SR 0.5978 per share aggregating to SR 266,000,000. An amount of SR 187,273,147 out of that total dividend is settled through the shareholders' account (note 7).

The Company's shareholders in their meeting held on 5 Shawwal 1438H (corresponding to 29 June 2017) resolved to distribute dividends amounting to SR 0.5843 per share aggregating to SR 260,000,000. An amount of SR 142,340,978 out of that total dividend is settled through the shareholders' account (note 7).

The Company's shareholders in their meetings held on 2 Rabi Thani 1438H (corresponding to 31 December 2016) and on 2 Rajab 1438H (corresponding to 30 March 2017) resolved to distribute dividends amounted to SR 160.6742 per share resulted in a total amount of SR 715,000,000, out of which SR 485,000,000 was transferred to the shareholders' account (note 7).

21. ADVERTISEMENT AND PROMOTION EXPENSES

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Advertisement	6,847,749	10,523,388
Promotion	6,596,739	8,599,522
	<u>13,444,488</u>	<u>19,122,910</u>

22. GENERAL AND ADMINISTRATION EXPENSES

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Provision for doubtful receivables (note 6)	94,814,498	22,931,392
Employees' salaries and other benefits	91,701,557	74,368,522
Depreciation (note 13)	30,524,620	20,885,529
Communication and software license	11,810,068	1,340,851
Professional fees	10,420,979	25,932,778
Insurance	7,989,260	7,026,396
Government expenses	6,681,815	1,738,806
Rent expense	3,403,391	1,645,070
Write-off of receivables (note 6)	1,562,261	-
Others	6,832,307	2,768,047
	<u>265,740,756</u>	<u>158,637,391</u>

23. FINANCIAL CHARGES

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Commission expense on long-term loans	269,951,229	166,024,588
Amortisation of transaction costs (note 14)	18,494,340	12,928,484
Bank charges	215,011	168,064
	<u>288,660,580</u>	<u>179,121,136</u>

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24. OTHER INCOME, NET

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Reversal of liabilities no longer payable	16,093,228	-
Dividend income from available for sale investments	5,737,500	5,737,500
Loss on sale of land (notes 7 & 12)	(1,631,586)	-
Impairment of advances to suppliers (note 8)	(7,835,354)	-
Free tickets	-	2,152,617
Others	90,486	4,135,830
	<u>12,454,274</u>	<u>12,025,947</u>

25. EARNINGS PER SHARE

Earnings per share are calculated by dividing income from main operations and net income for the year attributable to the shareholders of the Parent Company by the weighted average number of outstanding shares at the end of the year.

26. SEGMENT REPORTING

These are attributable to the Group's activities and business lines approved by the management to be used as a basis for the financial reporting and are consistent with the internal reporting process. Management considers the operations of the Group as a whole as one operating segment as all subsidiaries engage in similar business activities.

The Group's revenue, gross profit, investment properties, total assets and total liabilities pertaining to the Group's operations as a whole are presented in the special-purpose consolidated balance sheet and in the special-purpose consolidated statement of income.

All of the Group's operation are conducted in KSA. Hence, geographical information is not applicable in this case.

27. COMMITMENTS AND CONTINGENCIES

The Group's commitments and contingencies as of 31 March are as follows:

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Commitments for projects under construction (note 12)	<u>2,573,302,981</u>	<u>2,605,139,308</u>
Letters of guarantee	<u>5,900,000</u>	<u>5,400,000</u>

28. OPERATING LEASE COMMITMENTS

Commitments for minimum lease payments under non-cancellable operating leases are as follows:

	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Less than one year	286,321,450	285,746,450
One to five years	1,353,059,195	1,401,742,795
More than five years	4,783,677,907	5,652,813,044
	<u>6,423,058,552</u>	<u>7,340,302,289</u>

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28. OPERATING LEASE COMMITMENTS (continued)

The lease agreements are in the name of the related parties of the Group, who have assigned these leases in favour of the Group (note 7).

Operating lease payments represent rentals payable for land rented for the purpose of construction of buildings for leasing purposes. Leases are negotiated for a range from 10 to 22 years.

Payments under operating leases are recognised as expenses under cost of revenues during the year which amounted to SR 194 million (31 March 2017: SR 212 million).

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Financial instruments comprise financial assets and financial liabilities. The Group's financial assets consist of cash and bank balances, accounts receivable and certain other current assets, amounts due from related parties and available for sale investments. Financial liabilities of the Group consist of long-term loans, accounts payable, tenants' security deposits and amounts due to related parties. The fair values of financial instruments of the Group at the consolidated balance sheet date are not materially different from their carrying values.

30. RISK MANAGEMENT

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's investment properties portfolio. The Group has accounts receivable, accounts payable and cash and bank balances that arise directly from its operations.

The Group is exposed to market risk (including commission rate risk and real estate risk), credit risk, liquidity risk and currency risk.

Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices.

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Group has no significant interest bearing long-term assets, but has commission bearing liabilities as at 31 March 2018. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

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30. RISK MANAGEMENT (continued)

Real estate risk

The Group has identified the following risks associated with the real estate portfolio:

- The cost of the development schemes may increase if there are delays in the planning process. The Group uses advisers who are experts in the specific planning requirements in the scheme's location in order to reduce the risks that may arise in the planning process.
- A major tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associated property. To reduce this risk, the Group reviews the financial status of all prospective tenants and decides on the appropriate level of security required via rental deposits or guarantees.

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 risks from both its leasing activities and financing activities, including deposits with banks and financial institutions.

Credit risk is managed by requiring tenants to pay rentals in advance. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement. Outstanding tenants' receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

Accounts receivables

Tenants are assessed according to Group criteria prior to entering into lease arrangements.

Amounts due from related parties

An impairment analysis is performed at each reporting date on an individual basis for the major related parties. The maximum exposure to credit risk at the reporting date is the carrying value of the due from related parties (note 7). The Group does not hold collateral as a security. This assessment is undertaken each financial period through examining the financial position of the related parties and the market in which the related parties operates. The Group evaluates the risk with respect to due from related parties as low, as majority of the related parties are owned by the same shareholders.

Credit risk related to financial instruments and cash deposit

Credit risk from balances with banks and financial institutions is managed by ultimate parent's treasury in accordance with the Group's policy. Cash is substantially placed with national banks with sound credit ratings. The Group does not consider itself exposed to a concentration of credit risk with respect to banks due to their strong financial background.

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 to meet any future commitments.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Management monitors the fluctuations in currency exchange rates and manages its effect on the consolidated financial statements accordingly.

31. KEY SOURCES OF ESTIMATION UNCERTAINTY

Doubtful accounts receivable

An estimate of the collectible amount of accounts receivable is made when collection of the amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

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31. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Doubtful accounts receivable (continued)

At the consolidated balance sheet date, gross accounts receivable were SR 385,349,999 (31 March 2017: SR 282,195,144) with SR 138,616,823 (31 March 2017: SR 48,416,479) allowance for doubtful receivables. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the special-purpose consolidated statement of income.

Useful lives of investment properties and property and equipment

The Group management determines the estimated useful lives of its investment properties and property and equipment for calculating depreciation. The estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

32. EVENTS AFTER THE REPORTING PERIOD

On 26 April 2018, the Group has signed a long-term Murabaha facility agreement of SR 1,433 million with local bank for the refinancing/funding of development of certain shopping malls and for repayment of selected debts. The Group has utilized SR 1,372 million out of the total Murabaha facility amount.

In addition, on 26 April 2018, the Group has signed a long-term Ijara facility agreement of SR 5,771 million with various local banks to make certain facilities available on the terms of Master Purchase Agreement, the Master Lease Agreement and other transaction documents. The Group has utilized SR 5,528 million out of the total Ijara facility amount.

On 19 November 2018, the Ultimate Parent Company received the final zakat assessments on the combined zakat returns submitted to GAZT for the years 2007 to 2016 resulting in lower amount of zakat provision as compared to the amounts reflected in the Ultimate Parent Company's records. Consequently, the Ultimate Parent Company allocated the Group with zakat refunds amounting to SR 75.1 million subsequent to the financial year ended 31 March 2018.

33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.