

**Arabian Centres Company Limited and its
Subsidiaries
(Limited Liability Company)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

FOR THE YEAR ENDED 31 MARCH 2017

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2017

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INDEPENDENT AUDITORS' REPORT TO THE PARTNERS OF ARABIAN CENTRES COMPANY LIMITED

Opinion

We have audited the consolidated financial statements of Arabian Centres Company Limited (the "Company") and its Subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 March 2017, and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with 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.

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 accounting standards generally accepted in the Kingdom of Saudi Arabia and the Companies' Law and the Company's Articles of Association 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.

INDEPENDENT AUDITORS' REPORT TO THE PARTNERS OF ARABIAN CENTRES COMPANY LIMITED (continued)

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 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

**INDEPENDENT AUDITORS' REPORT TO THE PARTNERS OF
ARABIAN CENTRES COMPANY LIMITED (continued)**

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

- 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.

for Ernst & Young



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



Riyadh: 27 Ramadan 1438H
(22 June 2017)

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2017

	<i>Note</i>	2017 SR	2016 SR
ASSETS			
CURRENT ASSETS			
Cash and bank balances	4	158,217,588	242,834,131
Accounts receivable, net	5	233,778,665	169,568,075
Due from related parties	6	172,253,415	160,244,013
Prepayments and other current assets	7	85,554,655	104,163,618
TOTAL CURRENT ASSETS		649,804,323	676,809,837
NON-CURRENT ASSETS			
Advances to a contractor – related party	8	192,650,623	643,942,906
Due from related parties	6	214,445,047	364,445,046
Prepaid rent		162,337,000	176,653,500
Initial direct costs for operating leases		211,115,072	249,799,918
Investment in an associate	9	35,018,397	36,196,890
Available for sale investments	10	232,169,521	234,454,336
Investment properties	11	10,087,877,850	7,851,989,192
Property and equipment	12	120,746,469	60,886,638
TOTAL NON-CURRENT ASSETS		11,256,359,979	9,618,368,426
TOTAL ASSETS		11,906,164,302	10,295,178,263
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term loans	13	66,000,000	351,000,000
Accounts payable		245,864,112	227,506,635
Due to related parties	6	226,099,892	321,481,738
Unearned revenue	14	325,346,658	446,117,270
Accruals and other current liabilities	15	224,778,169	119,369,965
Zakat payable	16	117,353,841	88,492,940
TOTAL CURRENT LIABILITIES		1,205,442,672	1,553,968,548
NON-CURRENT LIABILITIES			
Long-term loans	13	5,792,131,854	4,054,240,703
Employees' end-of-service indemnities		26,842,696	20,938,894
TOTAL NON-CURRENT LIABILITIES		5,818,974,550	4,075,179,597
TOTAL LIABILITIES		7,024,417,222	5,629,148,145
EQUITY			
PARTNERS' EQUITY			
Capital	17	4,450,000,000	4,450,000,000
Statutory reserve	18	293,651,971	200,478,864
Retained earnings		136,723,904	13,165,940
Unrealised gain on revaluation of available for sale investments	10	335,317	1,671,465
TOTAL PARTNERS' EQUITY		4,880,711,192	4,665,316,269
Non-controlling interests		1,035,888	713,849
TOTAL EQUITY		4,881,747,080	4,666,030,118
TOTAL LIABILITIES AND EQUITY		11,906,164,302	10,295,178,263

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements.

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 SR	2016 SR
Revenue	6 & 14	2,039,002,320	1,852,213,685
Cost of revenue		(461,780,969)	(382,446,031)
Depreciation of investment properties	11	(218,255,510)	(180,542,831)
GROSS PROFIT		1,358,965,841	1,289,224,823
EXPENSES			
Advertisement and promotions	20	(19,122,910)	(23,899,422)
General and administrative	21	(158,637,391)	(137,380,215)
TOTAL EXPENSES		(177,760,301)	(161,279,637)
INCOME FROM MAIN OPERATIONS		1,181,205,540	1,127,945,186
Share in net income of an associate	9	8,821,507	8,647,661
Write-off of investment properties	11	(45,942,462)	(8,443,094)
Financial charges	22	(179,121,136)	(105,800,496)
Other income	23	12,025,947	10,613,264
INCOME BEFORE ZAKAT AND NON- CONTROLLING INTERESTS		976,989,396	1,032,962,521
Zakat	16	(27,154,423)	(32,998,878)
INCOME BEFORE NON-CONTROLLING INTERESTS		949,834,973	999,963,643
Non-controlling interests		(18,103,902)	(18,838,848)
NET INCOME FOR THE YEAR		931,731,071	981,124,795

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements.

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 SR	2016 SR
OPERATING ACTIVITIES			
Income before zakat and non-controlling interests		976,989,396	1,032,962,521
Adjustments for:			
Depreciation of investment properties	11	218,255,510	180,542,831
Depreciation of property and equipment	12	20,885,529	12,863,124
Share in net income of an associate	9	(8,821,507)	(8,647,661)
Amortisation of finance costs	13-i	12,928,484	5,403,844
Amortisation of initial direct cost for operating leases		3,326,912	3,536,410
Investment properties written-off	11	45,942,462	8,443,094
Provision for employees' end-of-services indemnities		6,364,526	3,280,060
Provision for doubtful debts	5	22,931,392	26,164,067
Changes in operating assets and liabilities:			
Accounts receivable		(87,141,982)	(57,772,137)
Due from/to related parties, net		(232,077,192)	(309,003,459)
Prepayments and other current assets		18,608,963	50,090,568
Prepaid rent		-	(150,151,132)
Accounts payable		18,357,477	94,774,239
Unearned revenue		(120,770,612)	108,444,112
Accruals and other current liabilities		105,408,204	(13,318,787)
Cash generated from operations		1,001,187,562	987,611,694
Employees' end-of-service indemnities paid		(460,724)	(878,373)
Zakat paid	16	(261,078)	(2,000,000)
Net cash from operating activities		1,000,465,760	984,733,321
INVESTING ACTIVITIES			
Additions to investment properties	11	(2,619,272,315)	(606,559,069)
Initial direct cost for operating leases paid		(31,923,473)	(94,841,890)
Purchase of property and equipment	12	(80,745,360)	(41,442,152)
Dividend received from an associate	9	10,000,000	20,000,000
Advances to a contractor – related party		451,292,283	(71,095,435)
Net cash used in investing activities		(2,270,648,865)	(793,938,546)
FINANCING ACTIVITIES			
Proceeds from long-term loans	13	3,886,000,000	900,000,000
Long-term accounts payable settled through long-term loans		-	(900,000,000)
Settlement of finance costs	13	(103,651,575)	(16,000,000)
Repayment of long-term loans	13	(2,349,000,000)	(229,500,000)
Non-controlling interests		(17,781,863)	(32,672,908)
Dividends paid		(230,000,000)	-
Net cash from (used in) financing activities		1,185,566,562	(278,172,908)
NET CHANGE IN CASH AND BANK BALANCES		(84,616,543)	(87,378,133)
Cash and bank balances at the beginning of the year		242,834,131	330,212,264
CASH AND BANK BALANCES AT THE END OF THE YEAR	4	158,217,588	242,834,131
Non-cash transactions:			
Dividends settled through partners' account	6 & 19	485,000,000	870,000,000
Unrealised loss on revaluation of available for sale investments	10	(1,336,148)	(1,246,819)
Investment properties transferred to related parties	6 & 11	(125,799,927)	(915,905,022)
Initial direct cost transferred to the ultimate parent company	6	(67,281,407)	-
Available for sale transferred to the ultimate parent company	6	(948,667)	-
Prepaid rent transferred to the ultimate parent company	6	(14,316,500)	-
Capitalization of amortized cost	11	(6,614,242)	(6,462,648)

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements.

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

Equity attributable to the partners' of the Parent Company

	Capital SR	Statutory reserve SR	Retained earnings SR	Unrealised gain on revaluation of available for sale investments SR	Total partners' equity SR	Non-controlling interests SR	Total equity SR
Balance as at 31 March 2015	4,450,000,000	102,366,384	153,625	2,918,284	4,555,438,293	14,547,909	4,569,986,202
Net income for the year	-	-	981,124,795	-	981,124,795	18,838,848	999,963,643
Transfer to statutory reserve	-	98,112,480	(98,112,480)	-	-	-	-
Dividends (notes 6 & 19)	-	-	(870,000,000)	-	(870,000,000)	(32,672,908)	(902,672,908)
Net movement during the year (note 10)	-	-	-	(1,246,819)	(1,246,819)	-	(1,246,819)
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 6 & 19)	-	-	(715,000,000)	-	(715,000,000)	(18,500,000)	(733,500,000)
Movement in non-controlling interest	-	-	-	-	-	718,137	718,137
Net movement during the year (note 10)	-	-	-	(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

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements.

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2017

1. ACTIVITIES

Arabian Centres Company Limited ("the Company" or "the parent company") is a Saudi limited liability company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010209177 and dated 7 Rabi Thani 1426H (corresponding to 15 May 2005).

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 building including demolition, repair, excavation and maintenance works. It also includes maintenance and operation of commercial centers, tourist resorts, hotels and restaurants, managing and operating temporary and permanent exhibitions, compounds and hospitals.

Following is the list of subsidiaries included in these consolidated financial statements:

Name of subsidiary (i)	Ownership %			
	2017		2016	
	Direct	Indirect (ii)	Direct	Indirect (ii)
Riyadh Centers Company Limited	95%	5%	95%	5%
Yarmouk Mall Company Limited	95%	5%	95%	5%
Al Bawarij International for Development & Real Estate Investment Company	95%	5%	95%	5%
Al Makarem International for Real Estate Development Company	95%	5%	95%	5%
Oyoun Al Raed Mall Trading Company	95%	5%	95%	5%
Al Erth Al Matin Contracting Company	95%	5%	95%	5%
Oyoun Al Basateen Trading Company	95%	5%	95%	5%
Al-Qasseem Company for Entertainment and Commercial Projects owners Abdulmohsin AlHokair and his partners	50%	-	50%	-
Arkan Salam for Real Estate and Contracting Company Ltd.	95%	5%	95%	5%
Mall of Arabia Company Limited	95%	5%	95%	5%
Aziz Mall Trading Company Limited	95%	5%	95%	5%
Dhahran Mall Trading Company Limited	95%	5%	95%	5%
Al Noor Mall Trading Company Limited	95%	5%	95%	5%
Al Yasmeen Mall Trading Company	95%	5%	95%	5%
Al Dammam Mall Trading Company Limited	95%	5%	95%	5%
Al Malaz Mall Trading Company Limited	95%	5%	95%	5%
Al Hamra Mall Trading Company Limited	95%	5%	95%	5%
Al Erth Al Rasekh Contracting Company	95%	5%	95%	5%

(i) All subsidiaries are limited liability companies incorporated in the Kingdom of Saudi Arabia.

(ii) Indirect ownership is owned through cross ownership within the Group.

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 MARCH 2017

2. BASIS OF CONSOLIDATION

These 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 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 consolidated statement of income and within equity in the consolidated balance sheet, separately from partners' equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

The 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 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 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.

Investments

Investments in associates

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 consolidated balance sheet at cost adjusted by the changes in the Group's share of net assets of the associate. The 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 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 associate and the acquisition cost and recognises the amount in the 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.

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 MARCH 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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 year. Changes in fair value are credited or charged to the 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 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 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 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 consolidated statement of income. Betterments that increase the value or materially extend the life of the related assets are capitalised.

Impairment of non-current assets

The Group conducts periodic review of the carrying amount of its non-current assets to determine whether there is any evidence that those non-current assets 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 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 years. A reversal of an impairment loss is recognised as income immediately in the consolidated statement of income.

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 MARCH 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 period 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 consolidated statement of income as they arise.

Other leases are classified as operating leases. Operating lease payments are recognised as an expense in the 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 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.

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 the Kingdom of Saudi Arabia. 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.

Arabian Centres Company Limited and its Subsidiaries
(Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 MARCH 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end-of-service indemnities

End of service indemnities, required by the Saudi Arabian labour law, are provided in the 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. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in most of the revenue arrangements, 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 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 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.

Service charges, management charges and other expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes due. Service and management charges and others, such as receipts are included in net rental income gross of the related costs, as the management considers that the Group acts as principal in this respect.

Dividend income

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

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 consolidated statement of income.

Expenses

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

For investments traded in active markets, fair value is determined by reference to quoted market bid prices.

The fair value of commission-bearing items is estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information is available for such investments.

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 consolidated statement of income.

4. CASH AND BANK BALANCES

	2017 SR	2016 SR
Cash at banks	157,403,090	241,932,204
Cash in hand	814,498	901,927
	<u>158,217,588</u>	<u>242,834,131</u>

5. 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 2017, accounts receivable at nominal value of SR 48,416,479 (2016: SR 26,164,067) were impaired. Movement in the provision for doubtful debts were as follows:

	2017 SR	2016 SR
At the beginning of the year	26,164,067	-
Provision for the year (note 21)	22,931,392	26,164,067
Write-off	(678,980)	-
At the end of the year	<u>48,416,479</u>	<u>26,164,067</u>

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

	Total SR	Neither past due nor impaired SR	Up to 30 days SR	Past due but not impaired		
				31 - 90 days SR	91 - 180 days SR	> 180 days SR
2017	233,778,665	47,872,204	15,522,011	27,807,900	46,287,556	96,288,994
2016	169,568,075	50,134,057	13,007,134	13,988,311	24,308,062	68,130,511

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5. ACCOUNTS RECEIVABLE, NET (continued)

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.

6. RELATED PARTY TRANSACTIONS AND BALANCES

For the purpose of these 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:

	2017 SR	2016 SR
Transfer of investment properties to related parties (note 11)	125,799,927	915,905,022
Dividends settled through partners' account (note 19)	485,000,000	870,000,000
Dividends paid cash to partners	230,000,000	-
Construction work included in projects under construction (note 11)	1,170,306,809	592,818,157
Lands acquired from the ultimate parent company (note 11)	1,418,309,050	-
Rental revenue	453,205,333	459,204,367
Services revenue	89,392,807	60,527,399
Initial direct cost transferred to the ultimate parent company	(67,281,407)	-
Available for sale transferred to the ultimate parent company	(948,667)	-
Prepaid rent transferred to the ultimate parent company	(14,316,500)	-
Transfer of Equipment to related party, net	-	(437,279)

With the consent of the partners of the Company, the contracts for the construction of all projects are awarded to an affiliate, Fawaz Abdulaziz Al Hokair & Co. Real Estate Company, for a total contract value amounting to SR 2.8 billion (2016: SR 3.4 billion) including variation orders (note 8). The process of awarding these contracts does not include bidding.

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6. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Related party balances

The following table summarise the significant related parties balances as at 31 March:

(i) Amounts due from related parties

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>2017 SR</i>	<i>2016 SR</i>
<u>Current:</u>			
FAS Holding Company for Hotels	Affiliate	150,000,000	50,000,000
Food and Entertainment Company Limited (a)	Affiliate	8,546,450	24,265,587
Abdul Mohsin Al Hokair Group for Tourism and Development (a)	Affiliate	5,183,388	10,473,439
Coffee Centers Company Limited (a)	Affiliate	4,664,918	3,709,401
Tadaris Al Najd Security Company	Affiliate	3,314,044	15,599,888
Kids Space Company Limited (a)	Affiliate	-	30,410,413
Billy Games Company Limited (a)	Affiliate	-	20,655,165
Akwaan Properties for Real Estate	Affiliate	-	3,064,158
Others	Affiliate	544,615	2,065,962
		172,253,415	160,244,013
<u>Non-current:</u>			
FAS Holding Company for Hotels	Affiliate	200,322,570	350,322,569
Al Madaen Star Real Estate	Affiliate	14,122,477	14,122,477
		214,445,047	364,445,046

(ii) Amounts due to related parties:

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>2017 SR</i>	<i>2016 SR</i>
Fawaz Abdulaziz Al Hokair & Co. (b)	Affiliate	209,501,639	197,296,788
Nesk Trading Company Limited (b)	Affiliate	13,530,010	55,503,141
Saudi FAS Holding Company	Ultimate Parent Company	3,068,243	68,681,809
		226,099,892	321,481,738

(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 11 and 25).

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7. PREPAYMENTS AND OTHER CURRENT ASSETS

	2017 SR	2016 SR
Advances to suppliers	60,643,413	72,869,806
Prepaid rent	13,635,119	22,798,187
Employees' receivables	5,740,007	4,823,063
Others	5,536,116	3,672,562
	<u>85,554,655</u>	<u>104,163,618</u>

8. ADVANCES TO A CONTRACTOR – RELATED PARTY

Advances to a contractor represents advance paid to Fawaz Abdulaziz Al Hokair & Real Estate Company (an affiliate) for the construction of shopping malls, which are under various stages of completion (note 6).

9. 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 the Kingdom of Saudi Arabia. The movement of the investment during the year is as follow:

	Percentage of ownership	Opening balance SR	Share of net income SR	Dividend SR	Ending balance SR
2017	25%	36,196,890	8,821,507	(10,000,000)	35,018,397
2016	25%	47,549,229	8,647,661	(20,000,000)	36,196,890

10. AVAILABLE FOR SALE INVESTMENTS

	2017 SR	2016 SR
Investments in real estate projects (i)	224,834,204	225,782,871
Investments real estate fund (ii)	7,335,317	8,671,465
	<u>232,169,521</u>	<u>234,454,336</u>

(i) Investments in real estate projects:

	2017 SR	2016 SR
Amlak International for Real Estate Finance Company (a)	121,500,000	121,500,000
Yanbu Real Estate (b)	53,334,204	53,384,204
Khomasiat Taibah Limited Company (c)	50,000,000	50,000,000
Akwani properties (d)	-	898,667
	<u>224,834,204</u>	<u>225,782,871</u>

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 has 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 investment in real estate held by Yanbu Real Estate (Mosahama).

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10. AVAILABLE FOR SALE INVESTMENTS (continued)

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

- 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 has assigned the investment to the benefit of the Company.
- d) During the year ended 31 March 2017, the Company transferred its investment in Akwan properties to the ultimate parent company, Saudi FAS Holding Company. This investment was previously assigned to the Company's benefit in prior years by the ultimate parent company.

(ii) *Investments real estate fund:*

- e) 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 7.3 million as of 31 December 2016 (31 December 2015: SR 8.7 million). The unrealised loss amounting to SR 1.3 million (2016: SR 1.2 million) has been recognised in available for sale investments as part of equity.

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

	2017 SR	2016 SR
Cost:		
At the beginning and end of the year	7,000,000	7,000,000
Revaluation adjustments:		
At the beginning of the year	1,671,465	2,918,284
Unrealised loss during the year	(1,336,148)	(1,246,819)
At the end of the year	335,317	1,671,465
Net carrying amount	7,335,317	8,671,465

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11. INVESTMENT PROPERTIES

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

	Shorter of economic life or lease term				
	Buildings	Buildings	Building on	Projects under	Total
	Buildings on leasehold land	Buildings	leasehold land	construction	2017
	Land	Buildings	SR	SR	SR
	SR	SR	SR	SR	SR
Cost:					
At the beginning of the year	3,473,600,570	2,173,730,104	2,118,456,676	1,204,472,705	8,970,260,055
Additions	1,418,309,050	8,113,100	29,157,598	1,170,306,809	2,625,886,557
Transfer to related parties (note 6)	(2,700,000)	-	-	(123,099,927)	(125,799,927)
Write-off	-	(29,031,951)	(29,787,781)	-	(58,819,732)
Transfers	-	637,868,572	731,508,956	(1,369,377,528)	-
At the end of the year	4,889,209,620	2,790,679,825	2,849,335,449	882,302,059	11,411,526,953
Depreciation:					
At the beginning of the year	-	461,905,470	656,365,393	-	1,118,270,863
Charge for the year	-	76,383,076	141,872,434	-	218,255,510
Write-off	-	(6,908,746)	(5,968,524)	-	(12,877,270)
At the end of the year	-	531,379,800	792,269,303	-	1,323,649,103
Net book value					
At 31 March 2017	4,889,209,620	2,259,300,025	2,057,066,146	882,302,059	10,087,877,850
At 31 March 2016	3,473,600,570	1,711,824,634	1,462,091,283	1,204,472,705	7,851,989,192

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. INVESTMENT PROPERTIES (continued)

Net book value of the Group's land at 31 March is as follows:

	Owned by the Group / partners	Title deeds registered with bank Yes / No	2017 SR	2016 SR
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	-
- Hamra Mall (**)	Group	Yes	256,100,000	-
			1,022,002,912	515,902,912
Lands				
- Oyoun Al Raed land	Group	Yes	1,770,439,948	1,770,439,948
- Oyoun Al Basateen	Group	Yes	1,067,162,500	1,067,162,500
- Dammam land	Group	Yes	117,395,210	117,395,210
- Aziz Mall land – generator (*)	Partners	No	-	2,700,000
- Khalij Mall land (**)	Group	Yes	290,209,050	-
- Dammam Airport (**)	Group	Yes	210,000,000	-
- Al Qassim Land (**)	Group	Yes	350,000,000	-
- Abha land (**)	Group	Yes	62,000,000	-
			3,867,206,708	2,957,697,658
Total lands net book value			4,889,209,620	3,473,600,570

(*) The Company's partners have resolved in their meeting held on 2 Rajab 1438H (corresponding to 30 March 2017) to transfer Aziz Mall land – generator to Saudi FAS Holding Company (the ultimate parent company) at the net book value.

(**) During 2016, the Company's partners 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 Saudi FAS Holding Company (the ultimate parent company) in line with the Murabaha facility agreement signed on 6 April 2016 (note 13 A-ii).

As at 31 March 2017, the title deeds of plots of land amounting to SR 4,889.2 million (2016: SR 3,470.9 million) are registered in the name of local banks against a long-term loan (note 13).

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 6).

As at 31 March 2017, an amount of SR 112.4 million (2016: SR 83.5 million) was capitalised as cost of borrowings for the construction of projects under construction (note 13).

As at 31 March 2017, an amount of SR 6.6 million (2016: SR 6.5 million) was capitalised as amortised transaction cost for the construction of projects under construction (note 13 - i).

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12. 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

	Tools and equipment SR	Furniture and fixtures SR	Vehicles SR	Leasehold improvements SR	Total 2017 SR	Total 2016 SR
Cost:						
At the beginning of the year	71,743,277	57,297,649	3,410,003	-	132,450,929	91,494,432
Additions	36,678,281	18,799,700	42,767	25,224,612	80,745,360	41,442,152
Transfer to a related party (note 6)	-	-	-	-	-	(485,655)
Reclass	(398,132)	-	398,132	-	-	-
At the end of the year	108,023,426	76,097,349	3,850,902	25,224,612	213,196,289	132,450,929
Depreciation:						
At the beginning of the year	41,628,462	27,083,712	2,852,117	-	71,564,291	58,749,543
Charge for the year (note 21)	10,857,763	8,404,198	245,385	1,378,183	20,885,529	12,863,124
Transfer to a related party (note 6)	-	-	-	-	-	(48,376)
Reclass	(398,132)	-	398,132	-	-	-
At the end of the year	52,088,093	35,487,910	3,495,634	1,378,183	92,449,820	71,564,291
Net book value						
31 March 2017	55,935,333	40,609,439	355,268	23,846,429	120,746,469	
31 March 2016	30,114,815	30,213,937	557,886	-		60,886,638

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13. LONG-TERM LOANS

The movement in long-term loans is as follows:

	2017 SR	2016 SR
Balance at the beginning of the year	4,484,000,000	3,813,500,000
Addition of a new facility (A)	3,886,000,000	900,000,000
Repayments	(2,349,000,000)	(229,500,000)
	<u>6,021,000,000</u>	<u>4,484,000,000</u>
Less: un-amortised transaction costs	(162,868,146)	(78,759,297)
	<u>5,858,131,854</u>	<u>4,405,240,703</u>
Less: current portion of long-term loans	(66,000,000)	(351,000,000)
Balance at the end of the year	<u><u>5,792,131,854</u></u>	<u><u>4,054,240,703</u></u>

Below is the repayment schedule of the outstanding long-term loans as at 31 March:

	2017 SR	2016 SR
Within one year	66,000,000	351,000,000
Between two to five years	3,132,500,000	2,941,812,500
More than five years	2,822,500,000	1,191,187,500
	<u><u>6,021,000,000</u></u>	<u><u>4,484,000,000</u></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 partners.

Un-amortised transaction costs movement as follow:

	2017 SR	2016 SR
Balance at the beginning of the year	78,759,297	74,625,789
Additions during the year related to a new facility	103,651,575	16,000,000
Amortised transaction cost during the year (note i below)	(19,542,726)	(11,866,492)
Balance at the end of the year	<u><u>162,868,146</u></u>	<u><u>78,759,297</u></u>

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

	2017 SR	2016 SR
Capitalised to investment properties – projects under construction (note 11)	6,614,242	6,462,648
Amortisation charge for the year (note 22)	12,928,484	5,403,844
Balance at the end of the year	<u><u>19,542,726</u></u>	<u><u>11,866,492</u></u>

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13. LONG-TERM LOANS (continued)

A) During 2017, the Group;

- (i) On 6 April 2016, Riyadh Centres Company Limited (a subsidiary) has 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 2017, The company has utilised 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 and personal and corporate guarantees from the partners. The Murabaha facility is repayable in 17 unequal semi-annual basis starting from April 2018.

B) During 2016 and previous years, the Group obtained the following:

- (i) Long-term loan facility for construction of Oyoum 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 partners. The loan is repayable on a semi-annual basis and the principal repayment will start after three years 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.
- (ii) 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 partners. The loan is repayable on a semi-annual basis and the principal repayment will start after three years 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.
- (iii) 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 partners. 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 (note 13 A-i).
- (iv) 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 partners. 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 (note 13 A-i).

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. In case of breach of covenant at any point of time, the management ensures that it reconciles its position with the lending banks and that it has obtained a formal waiver from the related lender.

As at 31 March 2017, an amount of SR 112.4 million (2016: SR 83.5 million) was capitalised as cost of borrowings for the construction of projects under construction (note 11).

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14. UNEARNED REVENUE

Unearned revenue represents rentals received from tenants in advance.

	2017 SR	2016 SR
Balance at the beginning of the year	446,117,270	337,673,158
Advance rentals received from tenants	1,918,231,708	1,960,657,797
	<u>2,364,348,978</u>	<u>2,298,330,955</u>
Revenue recognised in consolidated statement of income	(2,039,002,320)	(1,852,213,685)
Balance at the end of the year	<u>325,346,658</u>	<u>446,117,270</u>

15. ACCRUALS AND OTHER CURRENT LIABILITIES

	2017 SR	2016 SR
Accrued finance charges	97,757,375	23,262,125
Tenants security deposits	94,978,757	70,238,413
Employees' accruals	17,765,166	13,066,526
Accrued expenses	6,989,557	10,329,196
Others	7,287,314	2,473,705
	<u>224,778,169</u>	<u>119,369,965</u>

16. ZAKAT

Charge for the year

Zakat charge for the year amounting to SR 27,154,423 consists of the current year provision (2016: SR 32,998,878).

The current year zakat provision is based on the following:

	2017 SR	2016 SR
Partners' equity, beginning balance	4,663,644,804	4,555,438,293
Income before zakat	1,021,322,848	1,032,962,521
Non-current liabilities	5,818,974,551	4,075,179,597
Non-current assets	(11,087,065,719)	(10,380,620,491)

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:

	2017			2016
	Company SR	Subsidiaries SR	Total SR	Total SR
Balance at beginning of the year	2,000,000	86,492,940	88,492,940	53,461,618
Provision for the year	-	27,154,423	27,154,423	32,998,878
Transferred to a subsidiaries	(3,913,213)	3,913,213	-	-
Prior years adjustment	2,000,000	(32,444)	1,967,556	4,032,444
Paid during the year	-	(261,078)	(261,078)	(2,000,000)
Balance at end of the year	<u>86,787</u>	<u>117,267,054</u>	<u>117,353,841</u>	<u>88,492,940</u>

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16. 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, Saudi FAS Holding Company, is preparing and submitting consolidated zakat return for the ultimate parent company and its wholly owned subsidiaries, including Arabian Centres Company Limited to GAZT as per GAZT letter. Accordingly, the consolidated zakat returns for the years ended 31 March 2007 to 2015 have been submitted to GAZT. It should be noted that despite the fact that the ultimate parent company is submitting a consolidated zakat return including its wholly owned subsidiaries, the Group's management computes and records the zakat provision based on the Group's individual Zakat base / adjusted income.

On 5 Jumad Awal 1436H (corresponding to 24 February 2015), the ultimate parent company received a letter from GAZT requesting the ultimate parent company and its subsidiaries to submit individual zakat return for each company instead of consolidated zakat returns previously submitted starting from 31 March 2007 to 31 March 2016. The ultimate parent company has submitted its appeal which is still under GAZT review as at 31 March 2017.

17. CAPITAL

On 3 Jumad Awal 1436H (corresponding to 22 February 2015), the partners of the Company have approved admission of new partners and increase the capital of the Company from SR 1 million to SR 4,450 million through transfer of partners' contribution account amounting to SR 2,257,183,825 as of 28 February 2015 and retained earnings amounting to SR 2,191,816,175. The legal formalities related to this resolution were completed before the year ended 31 March 2015. The partners and their respective holdings as at 31 March 2017 and 2016 are as follows:

<i>Name of partner</i>	<i>Ownership %</i>	<i>Number of shares</i>	<i>Amount SR</i>
FAS Real Estate Company Limited	52	2,314,000	2,314,000,000
Saaf International Co. Limited	3	133,500	133,500,000
Mr. Fawaz Abdulaziz Al Hokair	15	667,500	667,500,000
Mr. Salman Abdulaziz Al Hokair	15	667,500	667,500,000
Dr. Abdul Majeed Abdulaziz Al Hokair	15	667,500	667,500,000
	<u>100</u>	<u>4,450,000</u>	<u>4,450,000,000</u>

18. STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's articles of association, the Company has established a statutory reserve by appropriation of 10% of the annual net income until the reserve equals 50% of capital. This reserve is not available for dividend distribution.

19. DIVIDENDS DISTRIBUTION

The Company's partners 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 amounting to SR 715,000,000 (2016: SR 870,000,000). An amount of SR 485,000,000 (2016: SR 870,000,000) out of that total dividend is transferred to the partners' account.

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20. ADVERTISEMENT AND PROMOTION EXPENSES

	2017 SR	2016 SR
Advertisement	10,523,388	15,699,645
Promotions	8,599,522	8,199,777
	<u>19,122,910</u>	<u>23,899,422</u>

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2017 SR	2016 SR
Employees' salaries and other benefits	74,368,522	50,486,164
Professional fees	25,932,778	35,989,638
Provision for doubtful receivables (note 5)	22,931,392	26,164,067
Depreciation (note 12)	20,885,529	12,863,124
Insurance	7,026,396	5,740,232
Government expenses	1,738,806	2,589,768
Head office rent expense	1,645,070	-
Communication and internet	1,340,851	735,988
Others	2,768,047	2,811,234
	<u>158,637,391</u>	<u>137,380,215</u>

22. FINANCIAL CHARGES

	2017 SR	2016 SR
Commission expense on long-term loans	166,024,588	100,026,975
Amortisation of transaction costs (note 13 - i)	12,928,484	5,403,844
Bank charges	168,064	369,677
	<u>179,121,136</u>	<u>105,800,496</u>

23. OTHER INCOME

	2017 SR	2016 SR
Dividend income from available for sale investments	5,737,500	8,925,000
Free tickets	2,152,617	-
Others	4,135,830	1,688,264
	<u>12,025,947</u>	<u>10,613,264</u>

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24. COMMITMENTS AND CONTINGENCIES

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

	2017 SR	2016 SR
Commitments for projects under construction (note 11)	2,605,139,308	2,491,733,817
Commitments to purchase equity investments (note 10)	-	2,696,000
Letters of guarantee	5,400,000	5,400,000

25. OPERATING LEASE COMMITMENTS

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

	2017 SR	2016 SR
Less than one year	285,746,450	404,192,193
One to five years	1,401,742,795	2,309,824,277
More than five years	5,652,813,044	10,285,168,330
	7,340,302,289	12,999,184,800

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 6).

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.

The above commitments include lease agreement with the ultimate parent company, Saudi FAS Holding Company, amounted to SR nil (2016: SR 768 million).

Payments under operating leases are recognised as expenses under cost of revenues during the year which amounted to SR 212 million (2016: SR 161 million).

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise of financial assets and financial liabilities. The Group's financial assets consist of bank balances, account receivables, certain other assets, due from related parties, and available for sale investments. The Group financial liabilities consist of loans, due to related parties, payables and accruals.

The fair values of financial instruments are not materially different from their carrying values at the consolidated balance sheet date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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27. 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 and liquidity 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

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 at 31 March 2017. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

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.

Tenant receivables

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

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 6). The Group does not hold collateral as a security. This assessment is undertaken each financial year 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 partners.

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.

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27. RISK MANAGEMENT (continued)

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

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.

28. 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.

At the consolidated balance sheet date, gross accounts receivable were SR 282,195,144 (2016: SR 195,732,142) with SR 48,416,479 (2016: SR 26,164,067) allowance for doubtful receivables. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the 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.

29. COMPARATIVE FIGURES

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