

09 Governance, Risks and Compliance

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Governance

Alandalus Property Company has been committed to implementing best practices in governance, solidifying its position as one of the leading companies in this field. The company has been ranked among the top 10 companies in the sector in terms of institutional governance based on reliable and independent evaluations. It has also implemented ambitious strategies to meet Environmental, Social, and Governance (ESG) requirements, aligning with the disclosure guidelines of "Tadawul" and the Global Reporting Initiative (GRI) standards.

The company has been awarded the Silver Category for Social Responsibility by the Ministry of Human Resources and Social Development and has been rated at Level (B) in the MSCI ESG Index during its first evaluation phase since joining in August 2023.

In compliance with the requirements of Paragraph (1) of Article 87 of the Corporate Governance Regulations issued by the Board of the Capital Market Authority (CMA) on 18/01/2023 and subsequent amendments, the company has prepared a comprehensive report detailing its governance achievements for the fiscal year ending on 31/12/2024.

The company acknowledges the application of all provisions of the Corporate Governance Regulations issued by the CMA on 13/02/2017, as amended by the CMA Board’s decision on 18/01/2023, with the exception of the following provisions:

Article/ Paragraph Number	Article/Paragraph Text	Notes on Implementation
Article 36 Board Secretary Qualifications	The Board of Directors shall determine the qualifications required for the Board Secretary, which shall include the following: a. A university degree in law, finance, accounting, management, or equivalent. b. Relevant practical experience of no less than five years.	Although the paragraph remains advisory and has not yet been included in the company's internal governance regulations or the Board of Directors' bylaws, the company has practically applied it during 2024. The Board Secretary holds a university degree and has over five years of practical experience. The company will formally include the paragraph in its internal regulations once it becomes mandatory, reaffirming its commitment to best governance practices.
Article 37 Training	The company shall pay adequate attention to the training and qualification of Board members and executive management, developing the necessary programs, while considering the following: 1. Preparing programs for newly appointed Board members and executive management to familiarize them with the company's operations and activities, particularly: a. The company's strategy and objectives. b. The financial and operational aspects of the company's activities. c. The obligations, duties, responsibilities, and rights of Board members. d. The tasks and responsibilities of the company's committees. 2. Establishing mechanisms for Board members and executive management to access continuous training programs and courses to develop their skills and knowledge in areas related to the company's activities.	This paragraph remains advisory, and the company will implement it once it becomes mandatory. The company places significant emphasis on the development and qualification of executive management, providing continuous training programs and courses. This includes specialized training programs that enhance the skills and knowledge of executive management in areas related to the company's activities, supporting the efficient and effective achievement of its objectives.
Article 39 Evaluation	a) The Board of Directors shall—based on the Nominations Committee's proposal—establish the necessary mechanisms for the annual evaluation of the Board, its members, committees, and executive management, using appropriate performance indicators linked to the achievement of strategic objectives, risk management quality, internal control adequacy, and others. Strengths and weaknesses shall be identified, and recommendations for improvement shall be proposed in line with the company's interests. b) Performance evaluation procedures shall be documented, clear, and disclosed to Board members and relevant individuals. c) Performance evaluation shall include an assessment of the Board's skills and expertise, identifying strengths and weaknesses, and proposing ways to address weaknesses, such as nominating professional competencies to enhance the Board's performance. The evaluation shall also assess the Board's overall working mechanisms. d) Individual evaluations of Board members shall consider their active participation, commitment to duties and responsibilities, and attendance at Board and committee meetings. e) The Board shall arrange for an external evaluation of its performance by a specialized entity every three years.	This paragraph remains advisory, and the company will implement it once it becomes mandatory.
Article 67 Formation of the Risk Committee	A Risk Management Committee shall be formed by a decision of the Board of Directors, with its chairman and the majority of its members being non-executive Board members. Members must possess an appropriate level of knowledge in risk management and financial affairs.	This article remains advisory, and the company will implement it once it becomes mandatory.
Article 68 Risk Committee Responsibilities	Matters within the jurisdiction of the Risk Management Committee.	This article remains advisory, and the company will implement it once it becomes mandatory.
Article 69 Risk Committee Meetings	The Risk Management Committee shall meet periodically at least every six months or as needed.	This article remains advisory, and the company will implement it once it becomes mandatory.

Article/ Paragraph Number	Article/Paragraph Text	Notes on Implementation
Article 82 Employee Incentives	<p>a. Forming committees or holding specialized workshops to listen to employees’ opinions and discuss important decision-making matters.</p> <p>b. Programs for granting employees shares in the company or a share of its profits, and retirement programs.</p>	This article remains advisory, and the company will implement it once it becomes mandatory.
Article 92 Formation of the Corporate Governance Committee	If the Board of Directors forms a specialized Corporate Governance Committee, it shall delegate the powers stipulated under Article 94 of these regulations. The committee shall monitor governance applications and provide the Board with reports and recommendations at least annually.	This article remains advisory, and the company will implement it once it becomes mandatory. However, the Board of Directors and all its committees perform their duties in a manner that reflects corporate governance principles and aligns with the provisions of Alandalus Property Company’s internal governance regulations.



Risk Management:

The company places great importance on risk management within its operations to protect its assets, ensure business continuity, achieve its strategic objectives, and avoid potential losses. To this end, the company adopts a proactive approach to identifying, assessing, and mitigating risks. It continuously works to identify, analyze, and evaluate risks related to all its activities, determines acceptable risk levels, assigns responsibility for managing risks, and clarifies the tasks and responsibilities assigned to relevant personnel. The company also ensures continuous monitoring to maintain compliance with these standards and achieve effective oversight.

Key Objectives of the Company in Risk Management:

- Establishing a risk-aware culture and embedding risk management principles in the company’s operations, systems, and workforce.
- Aligning the fundamentals of risk management with the company’s vision, mission, objectives, and strategy.
- Enhancing risk management capabilities and implementing risk management processes with high efficiency.
- Improving capital utilization and cost performance while promoting proactive risk management.
- Facilitating risk-based decision-making.
- Strengthening risk governance and accountability by establishing a clear risk management governance framework and defining related tasks and responsibilities.
- Protecting the company’s assets, achieving its objectives, and ensuring its continuity.
- Enhancing credibility with a wide range of stakeholders.

Risk Management Methodology:

The company’s risk management methodology includes several stages that enable it to identify, analyze, and develop strategies to address risks. The stages of the risk management methodology are as follows:

1. Risk Identification
2. Risk Analysis
3. Risk Assessment and Prioritization
4. Risk Mitigation
5. Risk Monitoring and Review
6. Communication and Documentation of Information

Key Risks Faced by the Company: The Company faces various types of risks, including operational, financial, market, and legal risks. Below are the most prominent risks, although this list does not encompass all potential risks, as there may be additional risks currently unknown or deemed non-material by the company.

01

Market Risks:

The value of properties owned or invested in by the company may decline, and demand for these properties may decrease due to fluctuations in real estate asset values, property prices, and changes in the real estate market. Additionally, there are potential risks related to expropriation by authorized entities or government actions for public benefit. Furthermore, the implementation of certain government projects and constructions may hinder access to the company’s centers, affecting visitor numbers and, consequently, the company’s operations and results. The company is committed to monitoring potential market risks and effectively addressing them through well-thought-out risk assessment plans and taking the necessary measures to mitigate their impact.

02

Real Estate Project Execution Risks:

Real estate projects undertaken by the company are subject to potential risks, including delays in obtaining necessary government approvals and permits for land subdivision and other required government clearances. This may lead to delays in completing projects on time. Additionally, there is a risk of exceeding the initially estimated costs. The company addresses this by conducting feasibility studies and estimating projected costs during the planning phase.

03

Operational Risks:

3.1 Impact of Retail Sector Performance on Profitability:

The company’s results are closely tied to the performance of the retail sector, which directly affects the performance of tenants and their ability to continue leasing retail spaces within the company’s commercial centers. This also impacts their ability to meet financial obligations as tenants, which could negatively and significantly affect the company’s operations and results. The company is committed to providing a unique environment for tenants, enabling them to conduct their business according to the highest standards, and places great emphasis on selecting tenants with high financial solvency.

3.2 Leasing Activity Risks:

The company cannot guarantee the renewal of lease contracts or the re-leasing of units under the same terms and value upon the expiration of any lease. This is one of the most prominent risks the company faces in its leasing activities. To mitigate this risk, the company continuously enhances shopper services to meet customer expectations, maintains an optimal tenant mix, and improves leasing terms.

3.3 Non-Renewal of Lease Contracts:

The inability to renew lease contracts or the loss of key tenants may negatively impact the company’s revenues and profits. The company strives to build strong relationships with tenants and proactively takes steps to renew contracts and maintain contractual relationships.

04

4. Competition Risks:

Real estate development companies continuously compete to create new destinations and projects that attract tenants and shoppers. Competitors may offer features and services that surpass those provided by the company in its commercial centers, which could negatively and significantly affect the number of visitors to the company's centers. This may lead to reduced revenues for tenants, non-renewal of leases, lower occupancy rates, or tenant demands for reduced rents. To mitigate these risks, the company continuously develops and updates its existing projects while creating new, unique destinations that attract customers and visitors. The company also focuses on customer satisfaction, participation in social and national initiatives, and media coverage to enhance its reputation and customer loyalty.

05

Legal and Reputational Risks:

The company is exposed to risks of legal claims from various parties, including tenants, customers, visitors to its commercial centers, guests, partners, suppliers, employees, regulatory authorities, operators, landowners, and real estate brokers. The company may also need to file lawsuits against defaulting tenants to collect rent, which incurs litigation costs. Adverse rulings in such cases could impact the company's operations, results, financial position, and future outlook. The company manages these risks through internal legal advisors and external legal counsel to protect its rights and interests.

Additionally, the company faces the risk of non-compliance with regulations and laws issued by official authorities, which could result in fines, penalties, or project suspensions. The company ensures compliance with all regulations and legislation to avoid such risks.

06

Financial Risks:**6-1. Increased Operating and Maintenance Expenses:**

The company's complexes and centers require continuous maintenance to maintain operational conditions at optimal levels and retain their appeal to tenants and visitors. If these expenses exceed expectations, it could have a significant negative impact on the company's operations and results. The company balances cost reduction with maintaining the quality and level of services provided in its centers.

6-2. Liquidity Shortages:

The company may face temporary difficulties in providing the necessary liquidity to meet its obligations. Liquidity risks may arise from the inability to quickly sell financial assets at values close to their fair value. The company manages liquidity risks by securing necessary financing when needed.

6-3. Rising Financing Costs:

The company may need to obtain financing to execute its current and future projects. Rising interest rates in financing could increase financing costs, negatively impacting profitability and cash flows. The company mitigates this risk by adopting a suitable financing policy, selecting appropriate financing terms, and ensuring that its debt does not exceed acceptable levels.

07

Technological Risks:**7.1 Cybersecurity:**

With the use of technology to store and manage customer and project data, the company is exposed to risks of cyberattacks that may target data theft or system disruption, threatening information security, the company's reputation, and data loss. The company ensures the use and development of programs to protect systems and information, encrypting data to safeguard its privacy.

7.2 Disruption of Project Management Systems:

The company relies on specific software to manage its projects and related costs. Any malfunction or downtime in these systems could cause delays, cost overruns, and difficulties in efficiently monitoring project progress. The company is committed to implementing modern project management systems to ensure projects are executed efficiently and within the specified schedule. It also seeks to improve performance and reduce risks by adopting best practices in project management.

7.3 Technological Obsolescence:

The increasing innovations in real estate, such as smart buildings and artificial intelligence, require the company to keep pace with these developments to maintain its competitiveness. The company is committed to continuous technological developments and keeps pace with technological obsolescence to ensure maximum benefit from modern innovations and avoid associated risks.

7.4 Integration with Smart Building and Sustainability Standards:

The growing demand for smart buildings and renewable energy applications increases the need for advanced technologies. The company may face challenges in effectively integrating these technologies, impacting customer satisfaction and environmental compliance requirements. The company seeks to implement smart building and sustainability standards to achieve an advanced, environmentally friendly environment, while taking measures to mitigate the risks associated with these technologies to ensure business sustainability and mitigate future challenges.

Compliance

Alandalus Property Company strives to adhere to the best corporate governance practices, ensuring the protection of shareholders' and stakeholders' rights. Governance at Alandalus Property forms the cornerstone of all its operations and activities, reflecting the company's commitment to implementing a robust and effective governance framework that maximizes value for shareholders and all related parties in a sustainable and long-term manner. The company is committed to transparency and ethical practices in all its operations to build trust with investors and stakeholders. Alandalus Property also adheres to Environmental, Social, and Governance (ESG) standards, enhancing its business continuity and reflecting its role as a responsible company supporting sustainable development.

The company ensures full compliance with the regulations of the Capital Market Authority (CMA) and other regulatory bodies by implementing policies and procedures that guarantee effective compliance and mitigate operational and financial risks. It also fosters a culture of compliance within the company through continuous guidance and training to ensure full adherence by all employees, contributing to the achievement of its strategic goals and strengthening its market position.

Disclosures During 2024:

Disclosure Title	Publication Date
The Board of Directors of Alandalus Property Company invites its shareholders to attend the Sixth Extraordinary General Assembly Meeting (First Meeting) via modern technological means.	12/03/2024
Alandalus Property Company announces the Board of Directors’ recommendation to distribute cash dividends to shareholders for the second half of 2023.	07/03/2024
Alandalus Property Company announces its annual financial results for the period ending on 31/12/2023.	07/03/2024
Alandalus Property Company announces the results of the Sixth Extraordinary General Assembly Meeting (First Meeting).	07/03/2024
Alandalus Property Company announces the appointment of the Chairman of the Board, Vice Chairman, Board Secretary, formation of committees, and appointment of company representatives.	18/03/2024
Alandalus Property Company announces the formation of the Audit Committee.	18/03/2024
Alandalus Property Company announces the leasing of the Yasmin Alandalus Office Building to the Expenditure Efficiency and Government Projects Authority for SAR 114,330,758 (including VAT) for five years, renewable.	21/03/2024
Alandalus Property Company announces the latest developments regarding its joint project with Dr. Sulaiman Al-Habib Medical Services Group in Jeddah (Dr. Sulaiman Al-Habib Hospital).	24/03/2024
The Board of Directors of Alandalus Property Company invites its shareholders to attend the Eighteenth Ordinary General Assembly Meeting (First Meeting) via modern technological means.	23/04/2024
Alandalus Property Company announces its preliminary consolidated financial results for the period ending on 31/03/2024 (three months).	19/05/2024
Alandalus Property Company announces a conference call to discuss its financial results for the first quarter of 2024 with financial analysts and investors.	19/05/2024
Alandalus Property Company announces the results of the Eighteenth Ordinary General Assembly Meeting (First Meeting).	20/05/2024
Supplementary announcement from Alandalus Property Company regarding the results of the Eighteenth Ordinary General Assembly Meeting (First Meeting).	20/05/2024
Alandalus Property Company announces the publication of its Environmental, Social, and Governance (ESG) Sustainability Report.	04/06/2024
Alandalus Property Company announces its dividend distribution policy for the years 2024, 2025, and 2026.	02/07/2024
Alandalus Property Company announces the establishment of a premium commercial center in Makkah through its joint venture company, Masat Real Estate Company, in which it holds a 25% stake.	21/07/2024
Alandalus Property Company announces its preliminary financial results for the period ending on 30/06/2024 (six months).	06/08/2024
Alandalus Property Company announces a capital increase in one of its sister companies, West Jeddah Hospital Company, in which it holds a 50% stake, with the remaining 50% held by Dr. Sulaiman Al-Habib Medical Services Group (a related party).	07/08/2024
Alandalus Property Company announces the establishment of an office building project in Al Malqa District on King Salman Road in Riyadh.	08/09/2024
Alandalus Property Company announces the resignation and appointment of a Board member.	09/10/2024
Alandalus Property Company announces the Board of Directors’ recommendation regarding the transfer of the statutory reserve to retained earnings.	09/10/2024
The Board of Directors of Alandalus Property Company invites its shareholders to attend the Seventh Extraordinary General Assembly Meeting (First Meeting) via modern technological means.	27/10/2024
Alandalus Property Company announces its preliminary financial results for the period ending on 30/09/2024 (nine months).	04/11/2024
Alandalus Property Company announces the results of the Seventh Extraordinary General Assembly Meeting (First Meeting).	02/12/2024

Results of the Annual Review of Internal Control Effectiveness:

The company’s operations during the fiscal year ending on 31/12/2024 were reviewed by the Internal Audit Department, under the supervision of the Audit Committee of the Board of Directors, to assess the effectiveness of the internal control system and procedures. The review also evaluated financial and administrative policies, procedures, and financial reporting processes.

Based on the results of the audit plan, the committee concluded the following:

The internal control systems demonstrate no material weaknesses and are effective in preventing and detecting errors, with no major breaches occurring during the year. Necessary actions have been taken to address observations in internal audit reports, ensuring the implementation of corrective measures. The company continuously and regularly works to develop systems and policies, enhancing administrative controls and ensuring the efficiency and effectiveness of oversight activities and risk management, all under the guidance of the Board of Directors and the supervision of the Audit Committee.

Dividend Distribution Policy:

A. Dividend Distribution in Accordance with the Company’s Bylaws:

1. The Ordinary General Assembly, when determining the share of profits for shareholders, may decide to establish reserves to the extent that serves the company’s interests or ensures stable dividend distribution to shareholders, as much as possible. The Assembly may also allocate amounts from net profits to achieve social purposes for the company’s employees.
2. The General Assembly determines the percentage of net profits to be distributed to shareholders after deducting reserves, if any.

The Board of Directors may, after fulfilling the regulatory requirements set by the relevant authorities, distribute semi-annual dividends as it deems appropriate.

B. Details of the Company’s Dividend Distribution Policy:

1. Shareholders are entitled to their share of dividends in accordance with the General Assembly’s resolution. The resolution specifies the entitlement date and distribution date. Dividend entitlement is granted to shareholders registered with the Securities Depository Center (Edaa) at the end of the second trading day following the entitlement date. The Board of Directors must execute the General Assembly’s resolution regarding dividend distribution within 15 days of the entitlement date specified in the resolution or in the Board’s decision regarding interim dividends. The Board may, after fulfilling the regulatory requirements, distribute semi-annual dividends.
2. 2. The Board may distribute interim dividends to shareholders on a semi-annual basis, subject to the following conditions:
 - The Ordinary General Assembly authorizes the Board to distribute interim dividends through an annual resolution.
 - The company demonstrates consistent profitability.
 - The company has reasonable liquidity and can reasonably forecast its profit levels.
 - The company has distributable profits based on the latest audited financial statements, sufficient to cover the proposed dividends after deducting any distributions or capitalizations made after the financial statements’ date.
 - The company intends to distribute 60% of its annual net profits for the years 2024, 2025, and 2026 on a semi-annual basis, in accordance with the Capital Market Authority’s regulations and the Companies Law.
 - Dividend distribution is recorded against retained earnings accumulated from previous years or distributable reserves formed from profits, or both. The company must consider the sequence and regularity of dividend distribution based on its financial capabilities and available liquidity. The Board of Directors must disclose and announce the regular dividend percentages it decides to distribute to shareholders on time.

Company Policy on Dividend Distribution Shareholder Entitlement to Dividends

- 1. Shareholders are entitled to dividends in accordance with the resolution of the General Assembly regarding dividend distribution or based on a decision by the Board of Directors to distribute interim dividends. The resolution specifies the entitlement date and the distribution date. Shareholders registered in the company's shareholder records at the end of the specified entitlement date are eligible for dividends. Implementation of Dividend Distribution.
- 2. The Board of Directors must execute the General Assembly's resolution regarding dividend distribution within 15 days from the entitlement date specified in the resolution. This applies to both General Assembly-approved dividends and interim dividends declared by the Board. Interim Dividend Distribution.
- 3. The Board may distribute interim dividends on a semi-annual basis, provided the following conditions are met:
 - The Board may distribute interim dividends on a semi-annual basis, provided the following conditions are met:
 - The General Assembly grants annual authorization to the Board to distribute interim dividends.
 - The company demonstrates consistent profitability.
 - The company has sufficient liquidity and can reasonably forecast its profitability.
 - The company has distributable profits, as per the latest audited financial statements, sufficient to cover the proposed interim dividends after accounting for previously distributed or capitalized profits.
 - The company intends to distribute 60% of its annual net profit for 2024, 2025, and 2026 on a semi-annual basis.
 - Factors Influencing Dividend Distribution.
 - Dividend distribution depends on various factors, including:
 - Profitability: Sufficient earnings to allow for legal dividend distribution.
 - Financial Position: The company's overall financial health.
 - Cash Flows & Investments: Capital investments, cash flow management, and future financing needs, while maintaining a strong financial strategy.
 - Debt Obligations: Any restrictions imposed by financing agreements that might limit dividend distribution.
 - Legal & Regulatory Considerations: Compliance with applicable laws and regulations.

Dividends Distributed During 2024:

Dividends Distributed and Proposed for the Fiscal Year 2024		Proposed Dividends for the End of the Fiscal Year 2024		
	Interim Dividends for the Second Half of 2023 26/03/2024	Interim Dividends for the First Half of 2024	23,333,333.25	Amount (SAR)
Percentage	2.5%	0%	2.5%	5%
Total	23,333,333.25	0	23,333,333.25	46,666,666.5

Declarations

The Board of Directors of Alandalus Property Company declares the following:

- The company and its affiliates have not previously issued any debt instruments nor authorized such issuances.
- The accounting records have been prepared correctly.
- The internal control system has been established on sound foundations and implemented effectively.
- There is no significant doubt about the company's ability to continue its operations.

Ambitions and Aspirations:

Despite the challenges and significant changes facing the Saudi market, we are determined to achieve more remarkable successes. We are fully prepared to leverage our unique capabilities and enhance the growth and expansion of our business in the coming years. By implementing our advanced and innovative strategy, aligned with Saudi Vision 2030, we are intensifying our efforts to meet the requirements of this vital phase and prepare for a better future.

Conclusion

In conclusion, we extend our deepest gratitude and appreciation to the members of the Board of Directors of Alandalus Property Company, all its employees, investors, and partners for their continuous efforts and unwavering support. Together, we look forward to embarking on a new chapter in the company's journey of success, building on significant achievements and outstanding performance, toward sustainable growth and a bright future.