

**DAR AL ARKAN**

**REAL ESTATE DEVELOPMENT COMPANY**

SAUDI JOINT STOCK COMPANY

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AND AUDITORS' LIMITED REVIEW REPORT**

**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013**

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY**  
SAUDI JOINT STOCK COMPANY

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' LIMITED REVIEW REPORT  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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License No. 96

License No. 81

**AUDITORS' LIMITED REVIEW REPORT**

To the Shareholders  
Dar Al Arkan Real Estate Development Company  
(A Saudi Joint Stock Company)  
Riyadh – Kingdom of Saudi Arabia

**Scope of review**

We have reviewed the accompanying interim consolidated balance sheet of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") as at September 30, 2013 and the related interim consolidated statement of income for the three-month and nine-month periods then ended and the interim consolidated statements of cash flows and changes in shareholders' equity for the nine-month period then ended, prepared by the Company and submitted to us with all the information and explanations which we require. These interim consolidated financial statements are the responsibility of the Company's management.

We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review of interim financial statements consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. This limited review is substantially less in scope than an audit conducted in accordance with the Auditing Standards Generally Accepted in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**Review result**

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with the Accounting Standards Generally Accepted in the Kingdom of Saudi Arabia.

Deloitte & Touche  
Bakr Abulkhair & Co.

Ehsan A. Makhdoum  
License No. 358

Talal Abu-Ghazaleh & Co.

Abdul Wahab Ismail Khonkar  
License No. 432


19 Dhu Al Hijjah 1434  
24 October 2013



INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)  
AS AT 30 SEPTEMBER 2013

	Notes	30 September 2013 SR 000	30 September 2012 SR 000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		1,821,644	519,740
Accounts receivable, net	( 5 )	1,693,150	1,226,982
Prepaid expenses and others	( 6 )	306,693	523,393
Due from a related party	( 7 a )	143	591
Projects in progress – short-term	( 8 a )	46,339	48,966
Developed land – short-term		896,735	2,135,381
Total Current Assets		4,764,704	4,455,053
<b>Non-Current Assets</b>			
Projects in progress – long-term	( 8 b )	8,679,540	7,657,581
Investments in land under development	( 9 )	4,838,302	5,621,747
Developed land – long-term		1,931,614	833,658
Investment properties, net	( 10 )	2,706,691	2,758,331
Investment in associates	( 11 )	747,407	743,707
Property and equipment, net	( 12 )	75,093	78,837
Deferred charges, net	( 13 )	164	440
Total Non-Current Assets		18,978,811	17,694,301
<b>TOTAL ASSETS</b>		<b>23,743,515</b>	<b>22,149,354</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Islamic borrowings – current portion	( 14 )	1,439,313	1,424,113
Due to a related party	( 7 b )	196,135	198,111
Accounts payable	( 16 )	299,391	284,252
Accrued expenses and others	( 17 )	766,701	749,571
Total Current Liabilities		2,701,540	2,656,047
<b>Non-Current Liabilities</b>			
Islamic borrowings	( 14 )	4,187,862	3,310,525
Provision for end-of-service indemnities	( 18 )	18,124	15,461
Total Non-Current Liabilities		4,205,986	3,325,986
<b>Total liabilities</b>		<b>6,907,526</b>	<b>5,982,033</b>
<b>Shareholders' Equity</b>			
Share capital	( 19 )	10,800,000	10,800,000
Statutory reserve		816,768	716,768
Retained earnings		5,219,221	4,650,553
<b>Total Shareholders' Equity</b>		<b>16,835,989</b>	<b>16,167,321</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>23,743,515</b>	<b>22,149,354</b>

  
Managing Director

  
Chief Financial Officer

The accompanying notes form an integral part of these interim consolidated financial statements

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY**  
SAUDI JOINT STOCK COMPANY

**INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**  
**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013**

	Notes	Three-month period ended		Nine-month period ended	
		30 September	30 September	30 September	30 September
		2013	2012	2013	2012
		SR 000	SR 000	SR 000	SR 000
Revenues from operations		721,559	728,522	2,238,241	2,680,222
Cost of operations		(415,104)	(399,141)	(1,348,135)	(1,595,341)
<b>Gross profit</b>	( 4 )	<b>306,455</b>	329,381	<b>890,106</b>	1,084,881
<b>Operating expenses:</b>					
General, administrative, selling and marketing expenses		(40,426)	(43,512)	(118,611)	(106,010)
Depreciation	( 10, 12 )	(989)	(5,470)	(3,051)	(16,526)
Amortisation of deferred charges	( 13, 14 a )	(7,366)	(10,270)	(18,824)	(19,875)
<b>Income for the period from operating activities</b>		<b>257,674</b>	270,129	<b>749,620</b>	942,470
<b>Other Income / (expenses) :</b>					
Share of income from investment in associates	( 11 )	-	-	3,250	400
Islamic Murabaha charges		(28,040)	(30,653)	(85,656)	(50,654)
Islamic Sukuk charges		(65,345)	(42,738)	(136,749)	(119,736)
Other income, net		24,035	31,147	7,765	94,619
<b>Income for the period before Zakat</b>		<b>188,324</b>	227,885	<b>538,230</b>	867,099
Zakat provision	( 17 a )	(5,000)	(7,000)	(13,600)	(22,600)
<b>Net income for the period</b>		<b>183,324</b>	220,885	<b>524,630</b>	844,499
<b>Earnings per share for the period ( in Saudi Riyal )</b>					
From operating activities	( 20 )	<b>0.24</b>	0.25	<b>0.69</b>	0.87
From net income		<b>0.17</b>	0.20	<b>0.49</b>	0.78

  
Managing Director

  
Chief Financial Officer

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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013

	Nine-month period ended	
	30 September 2013	30 September 2012
	SR 000	SR 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income for the period before zakat	538,230	867,099
<b>Adjustment for:</b>		
Depreciation	37,039	28,905
Amortisation of deferred charges	18,824	19,875
Provision for end-of-service indemnities	2,673	2,639
Share of income from investment in associates	(3,250)	(400)
Gain on disposal of investment in associates	-	(56,700)
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	(200,401)	726
Prepaid expenses and others	(1,807)	71,130
Due from related parties	-	(448)
Projects in progress – short-term	363	15,503
Developed land	140,424	(102,679)
Accounts payable	43,258	(54,344)
Accrued expenses and others	811	(36,279)
Zakat paid	(61,352)	(5,056)
End-of-service indemnities paid	(1,124)	(1,336)
<b>Net cash from operating activities</b>	<b>513,688</b>	<b>748,635</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Projects in progress – long-term	(1,540,955)	(410,231)
Investments in land under development	767,328	(538,821)
Advance payments to purchase land	327,895	(87,762)
Investment properties	(3,619)	(29,732)
Proceeds from disposal of investment in associates	-	1,001,700
Purchase of property and equipment	(470)	(384)
<b>Net cash used in investing activities</b>	<b>(449,821)</b>	<b>(65,230)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Islamic borrowings	1,223,972	(2,676,846)
Due to a related party	(1,966)	7,407
<b>Net cash from/(used in) financing activities</b>	<b>1,222,006</b>	<b>(2,669,439)</b>
Increase in cash and cash equivalents	1,285,873	(1,986,034)
Cash and cash equivalents, beginning of the period	535,771	2,505,774
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>1,821,644</b>	<b>519,740</b>
<b>Non-cash transaction</b>		
Projects under progress long term	-	599,584
Investment in associates	-	(525,547)
Non controlling Interest	-	(264,741)
Due to related parties	-	190,704

  
Managing Director

  
Chief Financial Officer

The accompanying notes form an integral part of these interim consolidated financial statements

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
SAUDI JOINT STOCK COMPANY

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013

	<u>Share Capital</u> SR 000	<u>Statutory Reserve</u> SR 000	<u>Retained Earnings</u> SR 000	<u>Equity attributable to Dar Al Arkan shareholders</u> SR 000
<b><u>2012</u></b>				
Balance as at 1 January 2012	10,800,000	716,768	3,806,054	15,322,822
Net income for the period	-	-	844,499	844,499
Balance as at 30 September 2012	<u>10,800,000</u>	<u>716,768</u>	<u>4,650,553</u>	<u>16,167,321</u>
<b><u>2013</u></b>				
Balance as at 1 January 2013	10,800,000	816,768	4,694,591	16,311,359
Net income for the period	-	-	524,630	524,630
Balance as at 30 September 2013	<u>10,800,000</u>	<u>816,768</u>	<u>5,219,221</u>	<u>16,835,989</u>



Managing Director



Chief Financial Officer

The accompanying notes form an integral part of these interim consolidated financial statements

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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**1. GENERAL INFORMATION:**

**DAR AL-ARKAN REAL ESTATE DEVELOPMENT COMPANY** (the “Company”), is a Saudi Joint Stock Company, registered in Riyadh under the Commercial Registration No. 1010160195 dated 16/4/1421H (corresponding to 18/7/2000G).

The Company and its subsidiaries (collectively referred as the “Group”) are predominantly engaged in the business of development, sale and lease of real estate projects and associated activities.

The Group operates in general construction of residential and commercial buildings (construction, maintenance, demolition and reconstruction). Below is the nature of business of the Group’s subsidiaries:

**DAR AL-ARKAN PROPERTIES COMPANY** – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010254063, dated 25/7/1429H (corresponding to 28/7/2008G). It operates in development and acquisition of commercial and residential real estate. It provides management, operation and maintenance of residential and commercial buildings and public facilities.

**DAR AL-ARKAN PROJECTS COMPANY** – is a limited liability company, a wholly owned subsidiary, company registered in Riyadh under the Commercial Registration No. 1010247583, dated 28/3/1429H (corresponding to 5/4/2008G). It operates in general construction of residential and commercial buildings (construction, maintenance, demolition and restructuring).

**DAR AL-ARKAN COMMERCIAL INVESTMENT COMPANY** – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010247585, dated 28/3/1429H (corresponding to 5/4/2008G). It operates in purchase and acquisition and lease of real estate investments.

**DAR AL-ARKAN SUKUK COMPANY** – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010256421, dated 16/9/1429H (corresponding to 16/9/2008G). It operates in Real Estate investments and development.

**SUKUK AL-ARKAN COMPANY** – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010274407, dated 11/10/1430H (corresponding to 01/10/2009G). It operates in development, maintenance and management of real estates, purchase of land and general contracting.

**THAWABIT INVESTMENT COMPANY**– is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010275449, dated 30/10/1430H (corresponding to 19/10/2009G). It operates in Real Estate investments and development.

**DAR SUKUK INTERNATIONAL COMPANY** – is a limited liability company, formerly known as Siyada Investment Company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010275448, dated 30/10/1430H (corresponding to 19/10/2009G). It operates in Real Estate investments and development.

Dar Al-Arkan Real Estate Development Company wholly owns directly and indirectly the above mentioned subsidiaries.

The accompanying interim consolidated financial statements include the assets, liabilities and the results of operations of the subsidiaries mentioned above.



**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 BASIS OF PREPARATION**

The interim consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organisation of Certified Public Accountants (SOCPA).

**2.2 ACCOUNTING CONVENTION**

The interim consolidated financial statements have been prepared on the historical cost basis, using accrual basis and going concern assumption except for commission rate swaps which are measured at fair value and investments in associates which are accounted for under equity method of accounting.

**2.3 BASIS OF CONSOLIDATION**

The interim consolidated financial statements of the Group incorporate the financial statements of the companies and enterprises controlled by the Group (its subsidiaries) made up to 30 September 2013.

Subsidiaries are entities over which the Group has the power to control the financial and operating policies to obtain economic benefit to the Group. Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets acquired/transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are initially measured at the fair value at the acquisition date irrespective of the extent of any non-controlling interests. The interests of non-controlling shareholders are stated at the non-controlling proportion of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the parent.

The excess of cost of acquisition over the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the carrying value of the identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the interim consolidated statement of income.

All intra-group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

***Investments in associates***

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results, assets and liabilities of associates are incorporated in these interim consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the interim consolidated balance sheet at the Group's share of the net assets of the associate. Losses of the associates in excess of the Group's interests in those associates are not recognised.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)**

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Any excess of cost of acquisition over the Group's share of the identifiable net assets acquired of the associate at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is recognised in the interim consolidated statement of income.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interests in the relevant associate or joint venture. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

## **2.4 PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land, over their estimated useful lives, using the straight-line method, on the following basis:

Buildings	3%
Leasehold improvements	5% - 20%
Vehicles	25%
Machinery and tools	20%
Office equipment	20% - 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the interim consolidated statement of income.

At each date of preparation of the interim consolidated financial statements, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

## **2.5 INVESTMENT PROPERTIES**

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following basis:

Buildings	3%
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)**

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Gains or losses arising from the retirement or disposal of investment properties being the difference between the net disposal proceeds and carrying value are included in the interim consolidated statement of income for the period of the retirement/disposal except those that relate to sale and leaseback arrangements.

**2.6 FINANCE CHARGES**

Financing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other financing costs are recognised in the interim consolidated statement of income in the period in which they are incurred.

**2.7 FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised on the Group's interim consolidated balance sheet when the Group has become a party to the contractual provisions of the instrument.

***Accounts receivable***

Accounts receivable are initially recognised at transaction value. They are subsequently measured for their realisable value and a provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with original terms of the agreement. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the interim consolidated statement of income.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the Group with maturities of less than three months.

***Financial liabilities***

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities include Islamic Sukuk and Islamic Murabaha; these are recorded initially at cost. Direct transaction costs are subsequently carried at their amortised cost and are recognised in the interim consolidated statement of income over the term of the instrument.

***Accounts payables***

Accounts payables are initially recognised at cost and subsequently at amortised cost using the effective commission method.

***Commission rate swaps***

Commission rate swaps are measured at fair value. Fair value is recorded as an asset when the fair value is positive and as a liability when the fair value is negative. The fair value is determined as per the market quoted prices, cash flow discount and pricing methods, as appropriate.

Changes in fair value of commission rate swaps held for trading are recognised directly in the interim consolidated statement of income, and are included in other income.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)**

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**2.8 IMPAIRMENT OF TANGIBLE ASSETS**

At the date of each interim consolidated balance sheet, the Group reviews the carrying amounts of its tangible assets for any indication that those assets have suffered impairment losses. When such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of realisable value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the interim consolidated statement of income.

**2.9 REVENUE RECOGNITION**

Revenue represents the sale of residential properties and land. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and significant risks and rewards of ownership have been transferred to the buyer. Revenue is measured at the value of consideration received. With respect to rental income, the Group recognises revenue on a straight line basis over the lease term.

**2.10 ZAKAT**

Zakat is calculated and recognised in the interim consolidated statement of income for the period and for each financial period separately pursuant to Zakat Regulation in the Kingdom of Saudi Arabia. The provision for Zakat is adjusted in the financial period in which the final assessment of Zakat is issued. Variances between the amount of provision for Zakat as per the consolidated financial statements and the provision as per final assessment issued by the Department of Zakat and Income Tax ("DZIT") are recognised in the interim consolidated statement of income as changes in accounting estimates and included in the financial period in which the final assessment of Zakat is issued.

**2.11 FOREIGN CURRENCIES**

Transactions in currencies other than Saudi Riyals, the presentational and functional currency of the Group, are recorded at the rates of exchange prevailing on the dates of the transactions. At each interim consolidated balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to Saudi Riyals at the rates prevailing on the interim consolidated balance sheet date. Non-monetary assets and liabilities that are denominated in foreign currencies are translated to Saudi Riyals at the rates prevailing at the date when the cost was determined.

**2.12 STATUTORY RESERVE**

According to the article (176) of the Companies' Regulation, the Group retains 10% of net income against the statutory reserve. The Group may stop the deductions when this reserve reaches 50% of the share capital. This reserve is not available for dividend distribution.

**2.13 END-OF-SERVICE INDEMNITIES**

The Group provides end-of-service benefits to its employees in accordance with the labour law provision of Saudi Arabia. The entitlement to these indemnities is based upon the employee's final salary, length of service and the completion of a minimum service period. The costs of these indemnities are accrued over the period of employment at the rate of the employee's current salary and are paid on cessation of employment.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)**

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**2.14 RETIREMENT BENEFIT COSTS**

The Group makes contributions in line with the General Organisation for Social Insurance Regulations and are calculated as a percentage of employees' wages. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan. Payments made to defined contribution retirement benefit plans are charged as an expense as they fall due.

**2.15 LEASING**

Rentals payable under operating leases are charged to the interim consolidated statement of income on a straight-line basis over the term of the relevant lease.

**2.16 OPERATING EXPENSES**

The Group follows accrual basis of accounting to record the operating expenses and recognised as expenses in the interim consolidated statement of income in the period in which they are incurred. Expenses that are deferred for more than one financial year are allocated to expenses over such periods using historical cost.

**3. USE OF ESTIMATES**

The preparation of interim consolidated financial statements in conformity with 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 interim 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 estimate.

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS**

**Business segments**

For management reporting purposes, management has organized the Group around three divisions which match its entity structure. These are in line with its strategic planning and business model and include DAR Projects, DAR Investments and DAR Properties.

**Geographical regions**

The Group operates exclusively in Saudi Arabia and all its revenues derive from its portfolio of properties which the Group manages. As such there is no additional geographical information.

**Products and services**

DAR projects is principally focused on the development of basic infrastructure on undeveloped land and the sale of such land ("Sale of land") and the development of residential and commercial projects for Sale ("Sale of residential properties") or leasing such developed properties to generate rental revenue ("Lease income").

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)

Information in respect of these products is presented below:

	Nine-month period ended	
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
<b>REVENUES FROM OPERATIONS</b>		
Sale of residential properties	459	21,747
Sale of land	2,157,439	2,631,435
Leasing of properties	80,343	27,040
<b>Total</b>	<b>2,238,241</b>	<b>2,680,222</b>
<b>COST OF OPERATIONS</b>		
Residential properties	363	18,151
Land	1,313,784	1,564,811
Leasing of properties	33,988	12,379
<b>Total</b>	<b>1,348,135</b>	<b>1,595,341</b>
<b>GROSS PROFIT</b>		
Residential properties	96	3,596
Land	843,655	1,066,624
Leasing of properties	46,355	14,661
<b>Total</b>	<b>890,106</b>	<b>1,084,881</b>
<b>5. ACCOUNTS RECEIVABLE, NET</b>		
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Customers	1,697,629	1,231,461
Provision for doubtful debts	(4,479)	(4,479)
<b>Total</b>	<b>1,693,150</b>	<b>1,226,982</b>
<b>6. PREPAID EXPENSES AND OTHERS</b>		
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Advance payments to purchase land	235,375	463,268
Accrued income	27,906	9,700
Prepaid expenses and other assets	21,443	11,641
Advance payments to contractors	12,355	14,391
Employees' advances and receivables	5,946	3,763
Advance payments to suppliers	3,632	4,039
Positive value of commission rate SWAP (Note 15)	-	16,555
Others	36	36
<b>Total</b>	<b>306,693</b>	<b>523,393</b>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)

7. RELATED PARTY TRANSACTIONS

a) Due from a related party

During the period, the Group sold residential homes to individuals who sought financing from Saudi Home Loans, which is an associate to the Group. In these instances, Saudi Home Loans pays the consideration in respect of the residential property sold to the Group on behalf of the individual. There is no recourse to the Group if such lending by Saudi Home Loans results in a bad debt. The details of the transactions are as follows:

	Nine-month period ended	
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Balance, beginning of the period	143	143
Sales	-	8,634
Commission	-	(10)
Collections	-	(8,176)
<b>Balance, end of the period</b>	<b>143</b>	<b>591</b>

b) Due to a related party

Management of Khozam Real Estate Development Company (KDC), which is an associate of the Group, requested the Group to invest its excess cash balance at a nominal profit. The details of the transactions are as follows:

	Nine-month period ended	
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Balance, beginning of the period	198,101	205,425
Repayment of advances	(3,436)	(8,294)
Profit charged	1,470	980
<b>Balance, end of the period</b>	<b>196,135</b>	<b>198,111</b>

c) Other related party transactions

The Group engaged Bank Alkhair B.S.C, a non associate entity, to provide general financial advisory, Shariah' compliance advises and management support for the recent international sukuk. The details of the transactions, included in accounts payable (refer note: 16), are as follows:

	Nine-month period ended	
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Fees and expenses charged during the period	3,864	-
Amount paid during the period	(3,750)	-
<b>Balance, end of the period</b>	<b>114</b>	<b>-</b>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)

For the nine-month period ended 30 September 2013 and 2012, no other transactions were entered with entities that have common Board Members or Shareholders to the Group.

8. PROJECTS IN PROGRESS

a) *Projects in progress – short-term:*

	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Residential and commercial development	46,339	48,966
<b>Total</b>	<b>46,339</b>	<b>48,966</b>

Short-term projects in progress represent costs incurred on projects executed by the Group for the purpose of re-sale in the short term.

b) *Projects in progress – long-term:*

	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Residential and commercial development	2,992,803	3,199,429
Land development projects	5,686,737	4,458,152
<b>Total</b>	<b>8,679,540</b>	<b>7,657,581</b>

Long-term projects in progress represent residential projects and land owned by the Group, which will not be completed within the next twelve months and are held for future revenue generation.

During the period, the Group's management capitalised Islamic Sukuk charges in the amount of SR 65.76 million (30 September 2012: 118.09 million) under projects in progress.

9. INVESTMENTS IN LAND UNDER DEVELOPMENT

This represents the Group's co-ownership in land with third parties according to contracts for land development.



NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)

10. INVESTMENT PROPERTIES, NET

	Nine-month period ended	
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
<b>COST</b>		
At beginning of the period	2,784,469	2,763,626
Additions	3,619	24,464
Capitalisation of borrowing costs	-	5,268
At end of the period	<u>2,788,088</u>	<u>2,793,358</u>
<b>ACCUMULATED DEPRECIATION</b>		
At beginning of the period	47,409	10,273
Charged during the period	33,988	24,754
At end of the period	<u>81,397</u>	<u>35,027</u>
<b>CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<u><u>2,706,691</u></u>	<u><u>2,758,331</u></u>

Included within investment properties is land with an original cost of SR 578.1 million (30 September 2012: SR 578.1 million).

11. INVESTMENT IN ASSOCIATES

This represents investment in shares of the companies that are not publicly traded. The Group's ownership in these companies ranges from 15% to 51%. Movement in investment in associates is as follows:

	Nine-month period ended	
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Balance, beginning of the period	744,157	1,162,760
Sold during the period	-	(945,000)
Transfer on deconsolidation	-	525,547
Share of income	3,250	400
Balance, end of the period	<u><u>747,407</u></u>	<u><u>743,707</u></u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)

a. Summarised details of holding in respect of the Group's associates is set out below:

Name of the entity	Amount invested SR 000	% of Holding
Saudi Home Loans	120,000	15%
Alkhair Capital Saudi Arabia	102,000	34%
Khozam Real Estate Development Company	525,547	51%
Accumulated share of losses	(140)	
Balance, end of the period	<u>747,407</u>	

Details of transactions with associates are disclosed under Note 7 "Related Party Transactions" of these interim consolidated financial statements.

12. PROPERTY AND EQUIPMENT, NET

Details of cost, accumulated depreciation and net book value of property and equipment are as follows:

	Land and Buildings SR 000	Leasehold improvements SR 000	Vehicles SR 000	Machinery and tools SR 000	Office Equipment SR 000	Total SR 000
<b>Cost</b>						
<b>Balance at 1 January 2013</b>	109,145	19,037	9,250	13,536	39,411	190,379
<b>Additions for the period</b>	-	-	-	-	470	470
<b>Balance at 30 September 2013</b>	<u>109,145</u>	<u>19,037</u>	<u>9,250</u>	<u>13,536</u>	<u>39,881</u>	<u>190,849</u>
<b>Accumulated Depreciation Balance at 1 January 2013</b>	33,075	18,866	9,184	13,404	38,176	112,705
<b>Depreciation for the period</b>	2,262	82	64	29	614	3,051
<b>Balance at 30 September 2013</b>	<u>35,337</u>	<u>18,948</u>	<u>9,248</u>	<u>13,433</u>	<u>38,790</u>	<u>115,756</u>
<b>Net book value 30 September 2013</b>	<u>73,808</u>	<u>89</u>	<u>2</u>	<u>103</u>	<u>1,091</u>	<u>75,093</u>
Net book value 30 September 2012	<u>76,824</u>	<u>232</u>	<u>87</u>	<u>157</u>	<u>1,537</u>	<u>78,837</u>

Included within land and buildings are land with an original cost of SR 9.50 million (30 September 2012: SR 9.50 million).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)

13. DEFERRED CHARGES, NET

The movement during the period is as below:

	Nine-month period ended	
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Balance, beginning of the period	264	967
Amortisation charge for the period	(100)	(527)
Balance, end of the period	<u>164</u>	<u>440</u>

14. ISLAMIC BORROWINGS

	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Islamic Sukuk	4,125,000	2,437,500
Islamic Murabaha	1,579,199	2,361,512
	<u>5,704,199</u>	<u>4,799,012</u>
Less: Un-amortised transaction costs	(77,024)	(64,374)
<b>Islamic borrowings – end of the period</b>	<u>5,627,175</u>	<u>4,734,638</u>
Less: Islamic borrowings – current portion	(1,439,313)	(1,424,113)
Islamic borrowings - long-term	<u>4,187,862</u>	<u>3,310,525</u>

(a) *Islamic borrowings transaction costs:*

	Nine-month period ended	
	30 September 2013 (Unaudited) SR 000	30 September 2012 (Unaudited) SR 000
Balance, beginning of the period	55,962	55,367
Additions during the period	43,718	40,430
Capitalisation during the period	(3,932)	(12,075)
Amortisation charge for the period	(18,724)	(19,348)
Balance, end of the period	<u>77,024</u>	<u>64,374</u>

***Analysis of borrowings:***

***Islamic Sukuk***

This represents SR 4.13 billion of Islamic Sukuk comprising:

- 1) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar International Sukuk Company II at 10.75% and maturing in 2015.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)**

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2) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 5.75% and maturing in 2018.

3) SR 750 million of Islamic Sukuk issued by the Group maturing in 2014.

The first two of the above listed Islamic Sukuk's are denoted in US dollars. Since the Saudi Arabian Riyal is limited to fluctuations in the US Dollar there is no exposure to foreign exchange risk. The investment profit is payable to the Saudi SPV, through which the Sukuk was issued, by the sale of properties owned by the Group. The beneficiary rights of these properties are with Dar Al Arkan Real Estate Development Company and its subsidiaries with the rights to buy back the ownership of these properties upon the full repayment of the Sukuk. The Group has issued a corporate guarantee to the Sukuk holders. This facility has index based commission rate swap arrangements which effectively reduce the fixed rate commission (Note 15).

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 30 September 2013.

***Islamic Murabaha***

This represents the bilateral Murabaha facilities from local and international commercial banks, secured against certain real estate properties, in the form of Islamic Murabaha, letters of guarantee and letters of credit. These facilities comprise of long- term and short- term tenures ranging from 6 months to 4 years with various repayment schedules like annual roll revolvers, bullet payments and installment repayments ranging from monthly, quarterly and half yearly as detailed below.

**Summary of the Murabahas:**

Maturity date	Outstanding	Short-term	Long-term
	Balance		
	SR 000	SR 000	SR 000
2014	167,143	167,143	-
2015	843,931	377,727	466,204
2016	568,125	157,500	410,625
	<b>1,579,199</b>	<b>702,370</b>	<b>876,829</b>

The facility agreements include certain financial covenants, which the Group was in compliance with as at 30 September 2013.

**15. COMMISSION RATE SWAP**

The Group, through a shari'ah compliant arrangement, agreed to exchange fixed rate commission liability with floating rate commission amounts, calculated on agreed notional principal amounts. In July 2012, the group replaced its existing commission rate swap with two new index linked swap facilities for a notional amount of SR 843.75 million (US\$ 225 million) each, maturing on 18 February 2015 whereby the counter party banks shall periodically calculate the floating commission rate based on their respective and designated index performance for the period and settle the differential amounts, if any with respect to the original fixed rate of the commission applicable for the securities at semi-annual basis. The index performance is capped at 10.75% and 12.55% respectively for this index linked swap facilities.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
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The cumulative fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards amounted to SR (17.61) million (USD (4.70) million) (30 September 2012: SR 16.55 million (USD 4.41 million). The change in the fair value during the period amounting to SR 27.64 million (USD 7.37 million) has been recognised as other expense in the interim consolidated statement of income (SR 36.26 million (USD 9.67 million) for the nine-month period ended 30 September 2012).

**16. ACCOUNTS PAYABLE**

	<b>30 September 2013 (Unaudited)</b>	<b>30 September 2012 (Unaudited)</b>
	<b>SR 000</b>	<b>SR 000</b>
Contractors	163,957	223,476
Advances from customers	97,451	7,519
Suppliers (a)	33,721	38,418
Others	4,262	14,839
<b>Total</b>	<b>299,391</b>	<b>284,252</b>

(a) Suppliers include SR 114K, balance due to a related party (refer Note 7c).

**17. ACCRUED EXPENSES AND OTHERS**

	<b>30 September 2013 (Unaudited)</b>	<b>30 September 2012 (Unaudited)</b>
	<b>SR 000</b>	<b>SR 000</b>
Zakat provision (a)	596,317	641,229
Islamic Sukuk charges	63,300	27,287
Dividend payable	35,753	36,286
Islamic Murabaha charges	19,051	17,629
Unearned revenue	18,862	-
Negative value of commission rate SWAP (Note 15)	17,609	-
Accrued expenses	15,809	27,140
<b>Total</b>	<b>766,701</b>	<b>749,571</b>

a) *The movement in provision for Zakat is as follows:*

	<b>Nine-month period ended</b>	
	<b>30 September 2013 (Unaudited)</b>	<b>30 September 2012 (Unaudited)</b>
	<b>SR 000</b>	<b>SR 000</b>
Balance beginning of the period	644,069	623,685
Estimated Zakat for the period	13,600	22,600
Payment made during the period	(61,352)	(5,056)
<b>Estimated Zakat provision, end of the period</b>	<b>596,317</b>	<b>641,229</b>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)

b) The Company has received the assessments from DZIT for the years 2003 to 2009 and has filed an objection for the years 2008 and 2009 which is still under the review of DZIT. The Company has not received DZIT assessment for year 2010 and 2011. The filing of the consolidated zakat return for year 2012 is currently under process.

**18. PROVISION FOR END-OF-SERVICE INDEMNITIES**

This item represents the balance of provision for end-of-service indemnities and the movement during the period is as below:

	<u>Nine-month period ended</u>	
	<u>30 September 2013 (Unaudited) SR 000</u>	<u>30 September 2012 (Unaudited) SR 000</u>
Balance, beginning of the period	16,575	14,158
Charged to expenses during the period	2,673	2,639
Paid during the period	<u>(1,124)</u>	<u>(1,336)</u>
<b>Balance, end of the period</b>	<b><u>18,124</u></b>	<b><u>15,461</u></b>

**19. SHARE CAPITAL**

The Company has one class of 1,080,000,000 authorised, issued and fully paid ordinary shares of SR 10 each, which carry no right to fixed income.

**20. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share is based on the following data:

	<u>Nine-month period ended</u>	
	<u>30 September 2013 (Unaudited) SR 000</u>	<u>30 September 2012 (Unaudited) SR 000</u>
<b>Earnings</b>		
For the purpose of basic earnings per share:		
Income for the period from operating activities	<u>749,620</u>	<u>942,470</u>
Net income for the period	<u>524,630</u>	<u>844,499</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares For the purpose of basic earnings per share	<u>Number</u> <b><u>1,080,000,000</u></b>	<u>Number</u> <b><u>1,080,000,000</u></b>

There is no dilution of ordinary shares and as such the basic and diluted earnings per share calculation are consistent.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2013 (CONTINUED)**

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**21. COMMITMENTS**

As at 30 September 2013, the Group has commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 85 million (30 September 2012: SR 106 million).

**22. INTERIM RESULTS**

The results of operations for the interim periods may not be a fair indication of the results of the full year operations of the Group.