

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'  
REVIEW REPORT  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REVIEW REPORT  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

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**Deloitte & Touche  
Bakr Abulkhair & Co.  
Deloitte**

License No. 96

**Talal Abu-Ghazaleh & Co.**  
Member of Talal Abu-Ghazaleh Organization



License No. 81

### INDEPENDENT AUDITORS' 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 June 30, 2010 and the related interim consolidated statement of income for the three-month and six-month periods then ended and the interim consolidated statements of cash flows and changes in shareholders' equity for the six-month period then ended, prepared by the Company and presented 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 review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A 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. It is substantially less in scope than an audit conducted in accordance with Generally Accepted Auditing Standards, 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 Generally Accepted Accounting Standards.

Deloitte & Touche  
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25 Rajab 1431  
7 July 2010



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

**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)**  
**AS AT 30 JUNE 2010**

	<u>Note</u>	<u>30 June 2010</u> SR 000	<u>30 June 2009</u> SR 000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		1,300,721	460,215
Accounts receivable	( 5 )	752,529	763,936
Prepaid expenses and others	( 6 )	764,361	1,034,362
Due from related parties	( 7 )	8,753	31,500
Projects in progress – short-term	( 8 a )	471,235	692,549
Developed land – short-term		271,065	2,576,945
<b>Total Current Assets</b>		<b>3,568,664</b>	<b>5,559,507</b>
<b>Non-Current Assets</b>			
Projects in progress – long-term	( 8 b )	8,552,899	7,988,906
Investments in land under development	( 9 )	4,397,240	3,683,391
Developed land – long-term		3,709,670	2,101,879
Investment properties		1,688,883	1,375,260
Investments in associates	( 10 )	1,162,360	1,152,400
Property and equipment	( 11 )	96,580	111,072
Deferred charges	( 12 )	2,436	2,257
<b>Total Non-Current Assets</b>		<b>19,610,068</b>	<b>16,415,165</b>
<b>TOTAL ASSETS</b>		<b>23,178,732</b>	<b>21,974,672</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Islamic borrowings – current portion	( 13 )	1,000,000	3,125,126
Accounts payable	( 15 )	416,535	435,331
Unpaid dividend		465,876	7,328
Accrued expenses and others	( 16 )	698,364	559,511
<b>Total Current Liabilities</b>		<b>2,580,775</b>	<b>4,127,296</b>
<b>Non-Current Liabilities</b>			
Islamic borrowings	( 13 )	6,705,465	5,058,798
Provision for end-of-service indemnities	( 17 )	12,926	9,297
<b>Total Non-Current Liabilities</b>		<b>6,718,391</b>	<b>5,068,095</b>
<b>Shareholders' Equity</b>			
Share capital	( 18 )	10,800,000	7,200,000
Statutory reserve		462,268	3,600,000
Retained earnings		2,352,557	1,979,281
<b>Equity attributable to Dar Al Arkan shareholders</b>		<b>13,614,825</b>	<b>12,779,281</b>
Non-controlling interests from Group subsidiaries		264,741	-
<b>Total Shareholders' Equity</b>		<b>13,879,566</b>	<b>12,779,281</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>23,178,732</b>	<b>21,974,672</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 THREE AND SIX-MONTH PERIOD ENDED 30 JUNE 2010

	Note	Three-month period ended		Six-month period ended	
		30 June		30 June	
		2010	2009	2010	2009
		SR 000	SR 000	SR 000	SR 000
Revenues from operations		1,114,437	1,482,369	2,259,375	2,720,084
Cost of operations		(583,583)	(769,545)	(1,250,099)	(1,494,426)
<b>Gross profit</b>	(4)	<b>530,854</b>	<b>712,824</b>	<b>1,009,276</b>	<b>1,225,658</b>
<b>Operating expenses:</b>					
General, administrative, selling and marketing expenses		(27,232)	(34,140)	(60,527)	(63,335)
Depreciation		(4,311)	(5,106)	(8,129)	(10,127)
Amortisation of deferred charges	(12, 13 a)	(7,303)	(5,371)	(13,372)	(9,772)
<b>Income for the period from operating activities</b>		<b>492,008</b>	<b>668,207</b>	<b>927,248</b>	<b>1,142,424</b>
<b>Other Income / ( expenses) :</b>					
Islamic Murabaha charges		(13,800)	(15,994)	(28,426)	(33,173)
Islamic Sukuk charges		(42,633)	(20,245)	(70,123)	(45,433)
Other income		12,425	1,301	25,950	1,966
<b>Income for the period before Zakat</b>		<b>448,000</b>	<b>633,269</b>	<b>854,649</b>	<b>1,065,784</b>
Zakat provision		(11,000)	(15,000)	(19,000)	(23,000)
<b>Net income for the period</b>		<b>437,000</b>	<b>618,269</b>	<b>835,649</b>	<b>1,042,784</b>
<b>Earnings per share (In Saudi Riyal)</b>					
From operating activities	(19)	0.46	0.62	0.86	1.06
From net income for the period		0.40	0.57	0.77	0.97

  
Managing Director

  
Chief Financial Officer

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

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

	Six-month period ended 30 June	
	2010	2009
	SR 000	SR 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income for the period before zakat	854,649	1,065,784
<b>Adjustment for:</b>		
Depreciation	8,129	10,127
Amortisation of deferred charges	13,372	9,772
Provision for end-of-service indemnities	2,358	2,062
Share of income from associates	-	(400)
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	93,383	184,711
Prepaid expenses and others	(531,555)	702,273
Due from related parties	(6,044)	25,542
Projects in progress – short-term	206,196	455,651
Developed land – short-term	15,563	(250,004)
Accounts payable	(54,422)	264,124
Accrued expenses and others	510,104	(69,548)
End-of- service indemnities paid	(1,470)	(654)
<b>Net cash from operating activities</b>	<b>1,110,263</b>	<b>2,399,440</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Projects in progress – long-term	38,137	(1,216,141)
Investments in land under development	(713,849)	44,089
Developed land – long-term	461,983	(1,329,983)
Investment properties	(171,091)	(784,397)
Investments in associates	-	(32,000)
Purchase of property and equipment	(1,401)	(1,034)
<b>Net cash used in investing activities</b>	<b>(386,221)</b>	<b>(3,319,466)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Islamic borrowing	(566,816)	663,766
Dividends	(1,080,000)	-
<b>Net cash (used in) from financing activities</b>	<b>(1,646,816)</b>	<b>663,766</b>
Decrease in cash and cash equivalents	(922,774)	(256,260)
Cash and cash equivalents, beginning of the period	2,223,495	716,475
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>1,300,721</b>	<b>460,215</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 CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

	<u>Share Capital</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Equity attributable to Dar Al Arkan Shareholders</u>
	SR 000	SR 000	SR 000	SR 000
<b><u>2009</u></b>				
Balance as at 1 January 2009	7,200,000	3,600,000	936,497	11,736,497
Net income for the period	-	-	1,042,784	1,042,784
Balance as at 30 June 2009	<u>7,200,000</u>	<u>3,600,000</u>	<u>1,979,281</u>	<u>12,779,281</u>
<b><u>2010</u></b>				
Balance as at 1 January 2010	10,800,000	462,268	2,596,908	13,859,176
Dividends (note 20)	-	-	(1,080,000)	(1,080,000)
Net Income for the period	-	-	835,649	835,649
Balance as at 30 June 2010	<u>10,800,000</u>	<u>462,268</u>	<u>2,352,557</u>	<u>13,614,825</u>

Managing Director

Chief Financial Officer

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

**1. GENERAL INFORMATION**

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

The Group is 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 25/7/1429 H (corresponding to 28/7/2008 G). 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, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010247583, dated 28/3/1429 H (corresponding to 5/4/2008 G). It operates in general construction of residential and commercial buildings (construction/maintenance/demolition/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 28/3/1429 H (corresponding to 5/4/2008 G). It operates in purchase and acquisition, 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 16/9/1429 H (corresponding to 16/9/2008 G). 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 11/10/1430 H (corresponding to 01/10/2009 G). It operates in development, maintenance and management of real estates, purchase of land and general contracting.

Dar Al-Arkan Real Estate Development Company wholly owns directly or 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.



**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (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 generally accepted accounting standards issued by the Saudi Organisation of Certified Public Accountants (SOCPA). The significant accounting policies adopted by the Company in preparing its interim consolidated financial statements are in conformity with those described in the Company's annual report for the year ended 31 December 2009 and are summarised below:

**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 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 June 2010.

Subsidiaries are entities over which the Group has the power to govern 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 historical cost of the assets acquired, 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 historical cost 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)**

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*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. Any excess of cost of acquisition over the Group's share of the identifiable net assets acquired of the associate or joint venture at the date of acquisition is recognised 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 or joint venture 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 or joint venture 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:

Freehold buildings	3%
Plant and machinery	20%
Office equipment	20% - 25%
Leasehold improvements	5% - 20%
Vehicles	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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)

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**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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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 receivables***

Accounts receivables 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)**

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***Derivative financial instruments***

The Group initially recognises derivative instruments as either a financial asset or a financial liability, at fair value, and subsequently re-measured to their fair value at the end of each reporting period. The accounting for changes in the fair value of a derivative depends on the intended use and the resulting designation of the derivative. The resulting gain or loss is recognised in the consolidated statement of income immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

For a derivative instrument designated as a fair value hedge, the gain or loss is recognised in the consolidated statement of income in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

**2.8 IMPAIRMENT OF TANGIBLE ASSETS**

At the date of each interim consolidated balance sheet, the Company 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 development properties. 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.

**2.10 ZAKAT TAXATION**

Zakat is calculated and recognised in the interim consolidated statement of income for the period and for each financial year separately pursuant to Zakat Regulation in the Kingdom of Saudi Arabia. The provision for Zakat is adjusted in the financial year 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 are recognised in the interim consolidated statement of income as changes in accounting estimates and included in the financial year 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 at the rates prevailing on the interim consolidated balance sheet date. Non-monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the cost was determined.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)

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**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.

**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.

**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 organised 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. There are currently no revenue streams being recognised during the period from DAR Properties or DAR Investments, as such only one reportable segment is recognised as at 30 June 2010.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)**

***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 ("Sales of land") and the development and sale of residential and commercial projects ("Sales of residential properties").

Information in respect of these products is presented below:

	Six-month period ended	
	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
<b>REVENUES</b>		
Sales of residential properties	252,213	271,720
Sales of land	2,007,162	2,448,364
<b>Total</b>	<b>2,259,375</b>	<b>2,720,084</b>
<b>COST OF SALES</b>		
Residential properties	218,219	211,250
Land	1,031,880	1,283,176
<b>Total</b>	<b>1,250,099</b>	<b>1,494,426</b>
<b>GROSS PROFIT</b>		
Residential properties	33,994	60,470
Land	975,282	1,165,188
<b>Total</b>	<b>1,009,276</b>	<b>1,225,658</b>
<b>5. ACCOUNTS RECEIVABLE</b>		
	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
Customers	757,008	768,415
Provision for doubtful debtors	(4,479)	(4,479)
<b>Total</b>	<b>752,529</b>	<b>763,936</b>

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)**

**6. PREPAID EXPENSES AND OTHERS**

	<b>30 June 2010</b> <b>(Unaudited)</b>	<b>30 June 2009</b> <b>(Unaudited)</b>
	<b>SR 000</b>	<b>SR 000</b>
Advance payments to purchase land	658,950	644,832
Advance for investments	-	251,875
Advance payments to contractors	69,691	125,752
Advance payments to suppliers	4,362	3,413
Prepaid expenses	16,260	6,233
Employees' advances and receivables	2,838	2,219
Others	12,260	38
<b>Total</b>	<b>764,361</b>	<b>1,034,362</b>

**7. RELATED PARTY TRANSACTIONS**

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 sale 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 balance with Saudi Home Loans as at 30 June 2010 is SR 8,753 thousand (30 June 2009: SR 31,500 thousand).

For the period ended 30 June 2010 and the period ended 30 June 2009, the Group entered into transactions with non-associate related parties in aggregate amounts of SR Nil and SR 12.4 million respectively, for the transactions related to general financial advisory services provided to the Group.

**8. PROJECTS IN PROGRESS**

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

	<b>30 June 2010</b> <b>(Unaudited)</b>	<b>30 June 2009</b> <b>(Unaudited)</b>
	<b>SR 000</b>	<b>SR 000</b>
Residential and commercial development	471,235	692,549
<b>Total</b>	<b>471,235</b>	<b>692,549</b>

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

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

	<b>30 June 2010</b> <b>(Unaudited)</b>	<b>30 June 2009</b> <b>(Unaudited)</b>
	<b>SR 000</b>	<b>SR 000</b>
Residential and commercial development	2,854,505	2,680,045
Land development projects	5,698,394	5,308,861
<b>Total</b>	<b>8,552,899</b>	<b>7,988,906</b>

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
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Long-term projects in progress represent residential projects and land owned by the Group, which will not be completed within the next twelve months.

During the period, the Group's management capitalised Islamic Sukuk charges in the amount of SR 72 million (30 June 2009: SR 88 million) under projects in progress.

**9. INVESTMENTS IN LAND UNDER DEVELOPMENT**

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

**10. INVESTMENTS IN ASSOCIATES**

This item represents investments in shares of companies that are not publicly traded. The Group's ownership in these companies ranges from 15% to 34%.

**11. PROPERTY AND EQUIPMENT**

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

(Unaudited)	Land and Buildings	Leasehold Improvements	Vehicles	Plant and machinery	Office equipment	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
<b>Cost</b>						
Balance at 1 January 2010	109,145	18,885	9,990	13,346	37,667	189,033
Additions for the period	-	151	-	-	1,250	1,401
<b>Balance at 30 June 2010</b>	<b>109,145</b>	<b>19,036</b>	<b>9,990</b>	<b>13,346</b>	<b>38,917</b>	<b>190,434</b>
<b>Accumulated Depreciation</b>						
Balance at 1 January 2010	24,025	16,221	8,944	8,496	28,414	86,100
Depreciation for the period	1,509	1,308	909	1,230	2,798	7,754
Transfers during the period	-	-	-	(491)	491	-
<b>Balance at 30 June 2010</b>	<b>25,534</b>	<b>17,529</b>	<b>9,853</b>	<b>9,235</b>	<b>31,703</b>	<b>93,854</b>
<b>Net book value 30 June 2010</b>	<b>83,611</b>	<b>1,507</b>	<b>137</b>	<b>4,111</b>	<b>7,214</b>	<b>96,580</b>
Net book value 30 June 2009	92,679	3,958	1,675	1,876	10,884	111,072

Included within land and buildings are land with an original cost of SR 9.50 million (30 June 2009: SR 9.50 million).



INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)

12. DEFERRED CHARGES

The movement during the period is as below:

	Six- month period ended	
	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
Balance, beginning of the period	2,956	2,604
Amortisation charge for the period	(520)	(347)
Balance, end of the period	<u>2,436</u>	<u>2,257</u>

13. ISLAMIC BORROWINGS

	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
Islamic Sukuk – International	5,437,500	6,000,000
Islamic Sukuk – Local	750,000	750,000
Islamic Murabaha	<u>1,632,793</u>	<u>1,557,195</u>
	7,820,293	8,307,195
Less: Un-amortised transaction costs	<u>(114,828)</u>	<u>(123,271)</u>
Islamic borrowings – end of the period	7,705,465	8,183,924
Less: Islamic borrowing – current portion	<u>(1,000,000)</u>	<u>(3,125,126)</u>
Islamic borrowing – long-term	<u>6,705,465</u>	<u>5,058,798</u>

Repayable as follows:

	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
Within one year	1,000,000	3,150,000
In the second year	432,793	50,000
In the third to fifth year inclusive	6,387,500	4,307,195
After five years	-	800,000
	<u>7,820,293</u>	<u>8,307,195</u>

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FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)**

(a) Islamic borrowings transaction costs:

	Six- month period ended	
	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
Balance, beginning of the period	95,313	124,267
Additions during the period	46,409	26,810
Capitalisation during the period	(14,042)	(18,381)
Amortisation charge for the period	(12,852)	(9,425)
Balance, end of the period	<b>114,828</b>	<b>123,271</b>

**Analysis of borrowings:**

**Islamic Sukuk – International**

This represents SR 5.44 billion of Islamic Sukuk comprising:

- 1) SR 3.75 billion (USD 1 billion) of Islamic Sukuk carried in the books of the Group, issued by Dar Al Arkan International Sukuk Company at LIBOR plus profit margins of 2.25% and maturing in 2012.
- 2) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar International Sukuk Company at 10.75% and maturing in 2015.

The beneficiary rights are for Dar Al Arkan Real Estate Development Company and its subsidiaries. These Sukuk were issued through the sale of land owned by the Group with the rights to buy back the beneficial ownership of these land upon the repayment of the full amount of the Sukuk. The Group has issued a corporate guarantee to the Sukuk holders.

The Islamic Sukuk (International) is 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.

**Islamic Sukuk - Local**

This represents an Islamic Sukuk issued by the Group for the amount of SR 750 million at SIBOR plus profit margins of 4%, maturing in 2014.

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 30 June 2010.

**Islamic Murabaha**

This represents SR 1.7 billion Murabaha facilities from local commercial banks, in the form of Islamic Murabaha, letters of guarantee and letters of credit comprising:

- 1) An amount of SR 400 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus annual profit margins of 2.5%. The facility is repayable in eight equal semi-annual payments starting in 2010.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)

2) Amounts of SR 400 million in the form of short-term Islamic Murabahas bearing finance charges at prevailing rates between the local banks plus annual profit margins ranging from 1.50% to 2.75%.

3) An amount of SR 500 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus an annual profit margins of 3.50% and matures in 2011.

4) An amount of SR 400 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus an annual profit margins of 2.25% and matures in 2012. As at 30 June 2010, the Group has utilised SR 332.8 million. This facility is collateralised by specific assets of a subsidiary.

The facility agreements include certain financial covenants, which the Group was in compliance with as at 30 June 2010.

There were no defaults or breaches of loan terms during the current or preceding periods.

**14. COMMISSION RATE SWAP DERIVATIVES**

The Group uses commission rate swaps to hedge against the cash flow risk arising on certain fixed rate exposures. This hedging relationship and objective, including details of the hedged items and hedging instrument is formally documented and the transaction is accounted for under hedge accounting.

The Group agreed to exchange fixed rate commission liability with floating rate commission amounts, calculated on agreed notional principal amounts. The commission rate swap notional amount is SR 843.75 million (US\$ 225 million) maturing on 18 February 2015. The effect of this swap is to convert the fixed-rate commission expense to a floating-rate commission expense, by settling the floating rate commission on a quarterly basis, then on a semi-annual basis collecting from the counterparty bank the fixed rate on the commission rate swap. This commission rate swap transaction will take effect on 18 August 2010.

**15. ACCOUNTS PAYABLE**

The detail of the above account is as follows:

	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
Contractors	285,428	208,498
Suppliers	70,019	48,056
Advances from customers	60,454	172,454
Others	634	6,323
<b>Total</b>	<b>416,535</b>	<b>435,331</b>

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)**

**16. ACCRUED EXPENSES AND OTHERS**

	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
Zakat provision	579,075	533,074
Islamic Murabaha charges	9,152	11,137
Islamic Sukuk charges	93,347	9,483
Accrued expenses	15,888	5,759
Other credit balances	902	58
<b>Total</b>	<b>698,364</b>	<b>559,511</b>

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

This item represents the balance of provision for end-of-service indemnities as at 30 June. During the period the Group's management charged an amount of SR 2.36 million (30 June 2009: SR 2.06 million) to expenses. The movement during the period is as below:

	Six-month period ended	
	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
Balance, beginning of the period	12,038	7,889
Charged to expenses during the period	2,358	2,062
Paid during the period	(1,470)	(654)
<b>Balance, end of the period</b>	<b>12,926</b>	<b>9,297</b>

**18. 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.

**19. EARNINGS PER SHARE**

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

	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	SR 000	SR 000
<b>Earnings</b>		
For the purpose of basic earnings per share:		
Income for the period from operating activities	927,248	1,142,424
Net income for the period	835,649	1,042,784
<b>Number of shares</b>	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares For the purpose of basic earnings per share	1,080,000,000	1,080,000,000

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 SIX-MONTH PERIOD ENDED 30 JUNE 2010 (CONTINUED)**

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**20. DIVIDENDS**

On 10 Rajab 1431H (corresponding to 23 June 2010), the shareholders' General Assembly held its ordinary meeting and approved the Board of Directors recommendation to distribute dividends of SR 1 per share to shareholders who were recorded in the shareholders register as of the date of the General Assembly meeting.

**21. COMMITMENTS**

As at 30 June 2010, the Group and its subsidiaries have commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 444.37 million (30 June 2009: SR 629.56 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.

**23. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.