# 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 2014**

**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 2014**

Deloitte.

Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants
P.O. Box 213
Riyadh 11411
Kingdom of Saudi Arabia
Tel: +966 (0) 11 282 8400
Fax: +966 (0) 11 293 0880
www.deloitte.com
License No. 96
Head Office: Riyadh

# 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") and its subsidiaries (collectively referred to as the "Group") as at September 30, 2014 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 Group and submitted to us with all the information and explanations which we required. These interim consolidated financial statements are the responsibility of the Group'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

Muharram 2, 1436
October 26, 2014

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

## INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
## AS AT 30 SEPTEMBER 2014

| | Notes | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | **SR 000** | **SR 000** |
| **Current Assets** | | | |
| Cash and cash equivalents | | **3,079,267** | 1,821,644 |
| Accounts receivable, net | ( 5 ) | **1,905,263** | 1,693,150 |
| Prepaid expenses and others | ( 6 ) | **900,216** | 306,693 |
| Due from a related party | ( 7 a ) | **193** | 143 |
| Projects in progress – short-term | ( 8 a ) | **-** | 46,339 |
| Developed land – short-term | | **932,304** | 896,735 |
| Total Current Assets | | **6,817,243** | 4,764,704 |
| **Non-Current Assets** | | | |
| Projects in progress – long-term | ( 8 b ) | **8,204,862** | 8,679,540 |
| Investments in land under development | ( 9 ) | **5,081,130** | 4,838,302 |
| Developed land – long-term | | **1,949,764** | 1,931,614 |
| Investment properties, net | ( 10 ) | **3,582,532** | 2,706,691 |
| Investment in associates | ( 11 ) | **760,907** | 747,407 |
| Property and equipment, net | ( 12 ) | **72,001** | 75,093 |
| Deferred charges, net | ( 13 ) | **-** | 164 |
| Total Non-Current Assets | | **19,651,196** | 18,978,811 |
| **TOTAL ASSETS** | | **26,468,439** | 23,743,515 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Islamic borrowings – current portion | ( 14 ) | **1,989,488** | 1,439,313 |
| Due to a related party | ( 7 b ) | **196,124** | 196,135 |
| Accounts payable | ( 16 ) | **185,441** | 299,391 |
| Accrued expenses and others | ( 17 ) | **808,402** | 766,701 |
| Total Current Liabilities | | **3,179,455** | 2,701,540 |
| **Non-Current Liabilities** | | | |
| Islamic borrowings | ( 14 ) | **5,819,204** | 4,187,862 |
| Provision for end-of-service indemnities | ( 18 ) | **17,861** | 18,124 |
| Total Non-Current Liabilities | | **5,837,065** | 4,205,986 |
| **Total liabilities** | | **9,016,520** | 6,907,526 |
| **Shareholders' Equity** | | | |
| Share capital | ( 19 ) | **10,800,000** | 10,800,000 |
| Statutory reserve | | **884,914** | 816,768 |
| Retained earnings | | **5,767,005** | 5,219,221 |
| **Total Shareholders' Equity** | | **17,451,919** | 16,835,989 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **26,468,439** | 23,743,515 |

Managing Director

Chief Financial Officer

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

## INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
## FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2014

| | | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|---|
| | Notes | 30 September 2014 | 30 September 2013 | 30 September 2014 | 30 September 2013 |
| | | SR 000 | SR 000 | SR 000 | SR 000 |
| Revenues from operations | | **751,014** | 721,559 | **2,449,313** | 2,238,241 |
| Cost of operations | | **(454,880)** | (415,104) | **(1,456,170)** | (1,348,135) |
| **Gross profit** | ( 4 ) | **296,134** | 306,455 | **993,143** | 890,106 |
| **Operating expenses:** | | | | | |
| General, administrative, selling and marketing expenses | | **(69,898)** | (40,426) | **(183,496)** | (118,611) |
| Depreciation | ( 12 ) | **(927)** | (989) | **(2,774)** | (3,051) |
| Amortisation of deferred charges | ( 13, 14 a ) | **(10,526)** | (7,366) | **(27,589)** | (18,824) |
| **Income for the period from operating activities** | | **214,783** | 257,674 | **779,284** | 749,620 |
| **Other Income / (expenses) :** | | | | | |
| Share of income from investment in associates | ( 11 ) | **5,000** | - | **13,500** | 3,250 |
| Islamic Murabaha charges | | **(31,242)** | (28,040) | **(82,719)** | (85,656) |
| Islamic Sukuk charges | | **(104,935)** | (65,345) | **(277,726)** | (136,749) |
| Other income / (expenses), net | | **8,888** | 24,035 | **39,079** | 7,765 |
| **Income for the period before Zakat** | | **92,494** | 188,324 | **471,418** | 538,230 |
| Zakat provision | ( 17 a ) | **(2,592)** | (5,000) | **(12,320)** | (13,600) |
| **Net income for the period** | | **89,902** | 183,324 | **459,098** | 524,630 |
| **Earnings per share for the period ( in Saudi Riyal )** | ( 20 ) | | | | |
| From operating activities | | **0.20** | 0.24 | **0.72** | 0.69 |
| From net income | | **0.08** | 0.17 | **0.43** | 0.49 |

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 CASH FLOWS (UNAUDITED)
## FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2014

| | 2014 | 2013 |
|---|---|---|
| | SR 000 | SR 000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income for the period before Zakat | **471,418** | 538,230 |
| **Adjustment for:** | | |
| Depreciation | **40,494** | 37,039 |
| Amortisation of deferred charges | **27,589** | 18,824 |
| Provision for end-of-service indemnities | **2,208** | 2,673 |
| Provision for doubtful debts | **7,861** | - |
| Gain on disposal of property and equipment | **(30)** | - |
| Share of income from investment in associates | **(13,500)** | (3,250) |
| **Changes in operating assets and liabilities** | | |
| Accounts receivable | **(548,827)** | (200,401) |
| Prepaid expenses and others | **9,526** | (1,807) |
| Due from a related party | **(50)** | - |
| Projects in progress – short-term | **5,350** | 363 |
| Developed land | **(18,344)** | 140,424 |
| Accounts payable | **(81,657)** | 43,258 |
| Accrued expenses and others | **(13,430)** | 811 |
| Cash (used in)/generated from operations | **(111,392)** | 576,164 |
| Zakat paid | **(10,730)** | (61,352) |
| End-of-service indemnities paid | **(1,695)** | (1,124) |
| **Net cash (used in)/generated from operating activities** | **(123,817)** | 513,688 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Projects in progress – long-term | **575,595** | (1,540,955) |
| Investments in land under development | **(216,828)** | 767,328 |
| Advance payments to purchase land | **(425,541)** | 327,895 |
| Investment properties | **(886,435)** | (3,619) |
| Proceeds from disposal of property and equipment | **30** | - |
| Purchase of property and equipment | **(405)** | (470) |
| **Net cash used in investing activities** | **(953,584)** | (449,821) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Islamic borrowings | **1,877,658** | 1,223,972 |
| Due to a related party | **(122)** | (1,966) |
| **Net cash from financing activities** | **1,877,536** | 1,222,006 |
| Increase in cash and cash equivalents | **800,135** | 1,285,873 |
| Cash and cash equivalents, beginning of the period | **2,279,132** | 535,771 |
| **CASH AND CASH EQUIVALENTS, END OF THE PERIOD** | **3,079,267** | 1,821,644 |

**Non-cash transactions related to transfer of investment property (Note 10)**

| | | |
|---|---|---|
| Transfer of projects under progress-short-term to investment properties | **39,179** | - |

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 2014**

| 2013 | Share Capital<br>SR 000 | Statutory Reserve<br>SR 000 | Retained Earnings<br>SR 000 | Equity attributable to Dar Al Arkan shareholders<br>SR 000 |
|---|---|---|---|---|
| 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 | 10,800,000 | 816,768 | 5,219,221 | 16,835,989 |
| **2014** | | | | |
| **Balance as at 1 January 2014** | **10,800,000** | **884,914** | **5,307,907** | **16,992,821** |
| **Net income for the period** | - | - | **459,098** | **459,098** |
| **Balance as at 30 September 2014** | **10,800,000** | **884,914** | **5,767,005** | **17,451,919** |

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 "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.

## 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 and held for trading investments 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 2014.

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.

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% |

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.

***Held for trading investments***
Held for trading investments are recognised initially at fair value; transaction costs are taken directly to the interim consolidated statement of income and thereafter stated at fair value by reference to exchange quoted market bid prices at the close of business on the interim consolidated balance sheet date. The unrealized and realized gains and losses from sale of held for trading investments are recorded in the interim consolidated statement of income.

***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.

### 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 (125) 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.

### 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").

Information in respect of these products is presented below:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| **REVENUES FROM OPERATIONS** | | |
| Sale of residential properties | **8,000** | 459 |
| Sale of land | **2,349,257** | 2,157,439 |
| Leasing of properties | **92,056** | 80,343 |
| **Total** | **2,449,313** | 2,238,241 |
| **COST OF OPERATIONS** | | |
| Residential properties | **5,240** | 363 |
| Land | **1,409,209** | 1,313,784 |
| Leasing of properties | **41,721** | 33,988 |
| **Total** | **1,456,170** | 1,348,135 |
| **GROSS PROFIT** | | |
| Residential properties | **2,760** | 96 |
| Land | **940,048** | 843,655 |
| Leasing of properties | **50,335** | 46,355 |
| **Total** | **993,143** | 890,106 |

## 5. ACCOUNTS RECEIVABLE, NET

| | **2014** | **2013** |
|---|---|---|
| | **SR 000** | **SR 000** |
| Customers | **1,917,603** | 1,697,629 |
| Provision for doubtful debts | **(12,340)** | (4,479) |
| **Total** | **1,905,263** | 1,693,150 |

## 6. PREPAID EXPENSES AND OTHERS

| | **2014** | **2013** |
|---|---|---|
| | **SR 000** | **SR 000** |
| Advance payments to purchase land | **834,941** | 235,375 |
| Prepaid expenses and other assets | **20,933** | 21,443 |
| Accrued income | **20,351** | 27,906 |
| Advance payments to contractors | **12,123** | 12,355 |
| Employees' advances and receivables | **5,961** | 5,946 |
| Advance payments to suppliers | **2,689** | 3,632 |
| Short term investment- trading (note 6a) | **3,182** | - |
| Others | **36** | 36 |
| **Total** | **900,216** | 306,693 |

**a) Short term investment – Trading**

The group has an investment, classified as held for trading, through portfolio management account with a leading Saudi Asset Management broking institution ("fund manager') and as per the portfolio management agreement the fund manager is allowed to trade in debt and equity securities on behalf of the Group. The transaction during the period is detailed below:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Purchased / sold during the period | **2,360** | - |
| | **2,360** | - |
| Realised gains | **2,462** | - |
| Commissions | **(140)** | - |
| **Total** | **4,682** | |
| Transfers/withdrawals | **(1,500)** | - |
| **Balance, end of the period** | **3,182** | - |

Investment includes SR 3.2 million as at 30 September 2014 (30 September 2013 SR nil) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

## 7. RELATED PARTY TRANSACTIONS

The significant transactions and balances with related parties are as follows:

**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:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Balance, beginning of the period | **143** | 143 |
| Expenses incurred | **50** | - |
| **Balance, end of the period** | **193** | 143 |

**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:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Balance, beginning of the period | **196,246** | 198,101 |
| Repayment of advances | **(1,102)** | (3,436) |
| Profit charged | **980** | 1,470 |
| **Balance, end of the period** | **196,124** | 196,135 |

**c) Other related party transactions**

**(i) Bank Alkhair B.S.C**

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 to note: 16), are as follows:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Fees and expenses charged during the period | **1,296** | 3,864 |
| Amounts paid during the period | **(1,181)** | (3,750) |
| **Balance, end of the period** | **115** | 114 |

**(ii) Alkhair Capital Saudi Arabia**

The Group engaged Alkhair Capital Saudi Arabia, an associate entity, to provide general financial advisory, representing and filing the documents on behalf of the Group for requirements with CMA and other statutory bodies, Shariah' compliance reviews and management support for the recent international sukuk issuances and the partial pre-closure of Sukuk III and leasing/ subleasing of properties. The details of the transactions are as follows:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Fees, lease rentals charged during the period | **4,000** | - |
| Amount paid during the period | **(4,000)** | |
| **Balance, end of the period** | **-** | - |

For the nine-month period ended 30 September 2014 and 2013, 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:***

| | 2014<br>SR 000 | 2013<br>SR 000 |
|---|---|---|
| Residential and commercial development | - | 46,339 |
| **Total** | - | 46,339 |

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:***

| | 2014<br>SR 000 | 2013<br>SR 000 |
|---|---|---|
| Residential and commercial development | **2,159,634** | 2,992,803 |
| Land development projects | **6,045,228** | 5,686,737 |
| **Total** | **8,204,862** | 8,679,540 |

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 24.94 million (30 September 2013: 65.76 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.

## 10. INVESTMENT PROPERTIES, NET

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| **COST** | | |
| At beginning of the period | **2,788,535** | 2,784,469 |
| Transfers | **39,179** | - |
| Additions | **886,435** | 3,619 |
| At end of the period | **3,714,149** | 2,788,088 |
| **ACCUMULATED DEPRECIATION** | | |
| At beginning of the period | **93,897** | 47,409 |
| Charged during the period | **37,720** | 33,988 |
| At end of the period | **131,617** | 81,397 |
| **CARRYING AMOUNT AT THE END OF THE PERIOD** | **3,582,532** | 2,706,691 |

Included within investment properties is land with an original cost of SR 578.1 million (30 September 2013: 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:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Balance, beginning of the period | **747,407** | 744,157 |
| Share of income | **13,500** | 3,250 |
| Balance, end of the period | **760,907** | 747,407 |

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

| **Name of the entity** | **Amount invested** | **% of Holding** |
|---|---|---|
| | **SR 000** | |
| Saudi Home Loans | **120,000** | **15%** |
| Alkhair Capital Saudi Arabia | **102,000** | **34%** |
| Khozam Real Estate Development Company (i) | **525,547** | **51%** |
| Accumulated share of profit, net | **13,360** | |
| Balance, end of the period | **760,907** | |

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

(i) The Group had invested 51% in Khozam Real Estate Development Company (KDC), with Jeddah Development and Urban Regeneration Company (JDURC). As per the arrangements the power to govern the financial and operating activities which affect the returns of KDC is jointly bestowed with the shareholders, accordingly the Group does not have any right to variable returns or absolute power to control with the ability to affect the returns of the investee company, consequently the Group's investment in KDC is accounted for as investment in associates under equity method of accounting.

## 12. PROPERTY AND EQUIPMENT, NET

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

| | Land and Buildings | Leasehold improvements | Vehicles | Machinery and tools | Office Equipment | Total |
|---|---|---|---|---|---|---|
| | SR 000 | SR 000 | SR 000 | SR 000 | SR 000 | SR 000 |
| **Cost** | | | | | | |
| **Balance at 1 January 2014** | **109,145** | **19,037** | **9,250** | **13,536** | **40,118** | **191,086** |
| **Additions for the period** | **-** | **-** | **-** | **-** | **405** | **405** |
| **Disposal for the period** | **-** | **-** | **(114)** | **-** | **-** | **(114)** |
| **Balance at 30 September 2014** | **109,145** | **19,037** | **9,136** | **13,536** | **40,523** | **191,377** |
| **Accumulated Depreciation** | | | | | | |
| **Balance at 1 January 2014** | **36,091** | **18,970** | **9,248** | **13,442** | **38,965** | **116,716** |
| **Depreciation for the Period** | **2,262** | **52** | **-** | **29** | **431** | **2,774** |
| **Disposal for the period** | **-** | **-** | **(114)** | **-** | **-** | **(114)** |
| **Balance at 30 September 2014** | **38,353** | **19,022** | **9,134** | **13,471** | **39,396** | **119,376** |
| **Net book value 30 September 2014** | **70,792** | **15** | **2** | **65** | **1,127** | **72,001** |
| Net book value 30 September 2013 | 73,808 | 89 | 2 | 103 | 1,091 | 75,093 |

Included within land and buildings are land with an original cost of SR 9.50 million (30 September 2013: SR 9. 50 million).

## 13. DEFERRED CHARGES, NET

The movement during the period is as below:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Balance, beginning of the period | **132** | **264** |
| Amortisation charge for the period | **(132)** | **(100)** |
| Balance , end of the period | **-** | **164** |

## 14. ISLAMIC BORROWINGS

| | 2014 | 2013 |
|---|---|---|
| | **SR 000** | **SR 000** |
| Islamic Sukuk | **6,000,000** | 4,125,000 |
| Islamic Murabaha | **1,926,488** | 1,579,199 |
| | **7,926,488** | 5,704,199 |
| Less: Un-amortised transaction costs | **(117,796)** | (77,024) |
| **Islamic borrowings – end of the period** | **7,808,692** | 5,627,175 |
| Less: Islamic borrowings – current portion | **(1,989,488)** | (1,439,313) |
| Islamic borrowings - long-term | **5,819,204** | 4,187,862 |

(a) ***Islamic borrowings transaction costs***:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Balance, beginning of the period | **85,744** | 55,962 |
| Additions during the period | **60,759** | 43,718 |
| Capitalisation during the period | **(1,250)** | (3,932) |
| Amortisation charge for the period | **(27,457)** | (18,724) |
| Balance, end of the period | **117,796** | 77,024 |

***Analysis of borrowings:***

***Islamic Sukuk***

This represents SR 6 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.

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 1.12 billion (USD 300 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 2016.

4) SR 1.50 billion (USD 400 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.5% and maturing in 2019.

Islamic Sukuks listed above 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. The facility due in 2015 has index linked 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 2014.

***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 quarterly and half yearly as detailed below.

**Summary of the Murabahas:**

| Maturity date | Outstanding Balance SR 000 | Short-term SR 000 | Long-term SR 000 |
|---|---|---|---|
| 2015 | **88,477** | **-** | **88,477** |
| 2016 | **410,625** | **190,834** | **219,791** |
| 2018 | **1,427,386** | **118,901** | **1,308,485** |
| TOTAL | **1,926,488** | **309,735** | **1,616,753** |

The facility agreements include certain financial covenants, which the Group was in compliance with as at 30 September 2014.

## 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.

During October 2013, considering the steady upward change of commission rate and to avoid losses, the Group had cancelled and closed one of its index linked commission rate swap capped at 12.55%.

The cumulative fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards amounted to SR nil (USD nil) (30 September 2013: SR (17.61) million (USD (4.70) million). The change in the fair value during the period amounting to SR 2.0 thousand (USD 0.5 thousand) has been recognised as other expense in the interim consolidated statement of income (SR 27.64 million (USD 7.37 million) for the period ended 30 September 2013).

## 16. ACCOUNTS PAYABLE

| | 2014 | 2013 |
|---|---|---|
| | **SR 000** | **SR 000** |
| Contractors | **148,060** | 163,957 |
| Suppliers (a) | **23,021** | 33,721 |
| Others | **8,683** | 4,262 |
| Advances from customers | **5,677** | 97,451 |
| **Total** | **185,441** | 299,391 |

(a) Suppliers include SR 115K, balance due to a related party (refer Note 7c (i)).

## 17. ACCRUED EXPENSES AND OTHERS

| | 2014 | 2013 |
|---|---|---|
| | **SR 000** | **SR 000** |
| Zakat provision (a) | **601,835** | 596,317 |
| Islamic Sukuk charges | **110,826** | 63,300 |
| Dividend payable | **35,397** | 35,753 |
| Unearned revenue | **27,785** | 18,862 |
| Islamic Murabaha charges | **18,923** | 19,051 |
| Accrued expenses | **13,636** | 15,809 |
| Negative value of commission rate SWAP (Note 15) | **-** | 17,609 |
| **Total** | **808,402** | 766,701 |

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

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Balance beginning of the period | **600,245** | 644,069 |
| Estimated Zakat for the period | **12,320** | 13,600 |
| Paid during the period | **(10,730)** | (61,352) |
| **Estimated Zakat provision, end of the period** | **601,835** | 596,317 |

**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 issued with an additional zakat liability. The basis for this additional liability is being formally contested by the Company and is awaiting a response from DZIT. The management believes that the ultimate outcome of the appeals filed and actions taken by the Company cannot be determined reliably at this stage, however, the carrying provisions are sufficient to meet any additional liability, if required. The Company has not received DZIT assessment for year 2010 and 2011. The filing of the consolidated zakat return for year 2012 and 2013 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:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| Balance, beginning of the period | **17,348** | 16,575 |
| Charged to expenses during the period | **2,208** | 2,673 |
| Paid during the period | **(1,695)** | (1,124) |
| **Balance, end of the period** | **17,861** | 18,124 |

## 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:

| | For the nine-month period ended 30 September | |
|---|---|---|
| | **2014** | **2013** |
| | **SR 000** | **SR 000** |
| ***Earnings*** | | |
| For the purpose of basic earnings per share: | | |
| Income for the period from operating activities | **779,284** | 749,620 |
| Net income for the period | **459,098** | 524,630 |
| ***Number of shares*** | **Number** | **Number** |
| 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.

## 21. COMMITMENTS

As at 30 September 2014, the Group has commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 81 million (30 September 2013: SR 85 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.