DAR AL ARKAN
REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

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INDEX **PAGE**

Independent auditors' report	1 – 2
Consolidated statement of financial position	3
Consolidated statement of comprehensive income	4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	6
Notes to the consolidated financial statements	7 – 28

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Dar Al Arkan Real Estate Development Company (A Saudi joint stock company) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of a Matter

This report is issued in conformity with International Financial Reporting Standards for management purposes and should not be considered as replacement to the Company's consolidated financial statements issued in accordance with Generally Accepted Accounting Principles in the Kingdom of Saudi Arabia.

Deloitte & Touche
Bakr Abulkhair & Co.

Ehsan A. Makhdoum
License No. 358

26 Safar 1434 H
08 January 2013

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Notes	2012	2011
		SR 000	SR 000
ASSETS			
Non-current assets			
Investment properties, net	5	**2,737,060**	2,753,353
Development properties	6	**14,868,656**	13,689,617
Property and equipment, net	7	**77,674**	82,604
Investments in associates	8	**744,157**	1,162,760
Other assets		**264**	967
Total non-current assets		**18,427,811**	17,689,301
Current assets			
Development properties	6	**891,034**	2,171,072
Trade receivables and others	9	**2,125,673**	1,734,612
Cash and cash equivalents		**535,771**	2,505,774
Total current assets		**3,552,478**	6,411,458
TOTAL ASSETS		**21,980,289**	24,100,759
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term borrowings	10	**3,289,359**	2,757,756
End of service indemnities	12	**16,575**	14,158
Total non-current liabilities		**3,305,934**	2,771,914
Current liabilities			
Short-term borrowings	10	**1,095,120**	4,634,380
Trade payables and others	13	**623,807**	483,217
Current tax liabilities (Zakat)	14	**644,069**	623,685
Total current liabilities		**2,362,996**	5,741,282
Total liabilities		**5,668,930**	8,513,196
Equity			
Share capital	15	**10,800,000**	10,800,000
Statutory reserve		**816,768**	716,768
Retained earnings		**4,694,591**	3,806,054
Equity attributable to Dar Al Arkan shareholders		**16,311,359**	15,322,822
Non-controlling interests from Group subsidiaries		**-**	264,741
Total equity		**16,311,359**	15,587,563
TOTAL LIABILITIES AND EQUITY		**21,980,289**	24,100,759

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 SR 000	2011 SR 000
Revenue		**3,557,072**	3,312,510
Cost of sales		**(2,163,366)**	(1,943,497)
GROSS PROFIT	4	**1,393,706**	1,369,013
General, administrative, selling and marketing expenses		**(154,601)**	(91,793)
Depreciation		**(21,197)**	(8,510)
OPERATING PROFIT		**1,217,908**	1,268,710
Share of income from investment in associates	8 a	**850**	400
Finance costs	16	**(297,567)**	(231,100)
Other income, net		**92,776**	99,299
PROFIT BEFORE ZAKAT		**1,013,967**	1,137,309
Zakat expense	14 a	**(25,430)**	(49,374)
NET PROFIT FOR THE YEAR		**988,537**	1,087,935
Attributable to:			
Dar Al Arkan shareholders		**988,537**	1,087,935
Non-controlling interests from Group subsidiaries		**-**	-
		988,537	1,087,935
Earnings per share (in Saudi Riyals)			
Basic and diluted	17	**0.92**	1.01

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Statutory reserve	Retained earnings	Dar Al Arkan share-holders' equity	Non-Controlling interest	Total equity
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
Balance as at 1 January 2011	**10,800,000**	**607,768**	**2,827,119**	**14,234,887**	**264,741**	**14,499,628**
Net profit for the year	-	-	1,087,935	1,087,935	-	1,087,935
Transfer to statutory reserve	-	109,000	(109,000)	-	-	-
Balance as at 31 December 2011	**10,800,000**	**716,768**	**3,806,054**	**15,322,822**	**264,741**	**15,587,563**
Transferred/ De-consolidated	-	-	-	-	**(264,741)**	**(264,741)**
Net profit for the year	-	-	**988,537**	**988,537**	-	**988,537**
Transfer to statutory reserve	-	**100,000**	**(100,000)**	-	-	-
Balance as at 31 December 2012	**10,800,000**	**816,768**	**4,694,591**	**16,311,359**	**-**	**16,311,359**

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	SR 000	SR 000
OPERATING ACTIVITIES		
Profit before Zakat	**1,013,967**	1,137,309
Adjustment for:		
Depreciation	**42,521**	14,287
End of service indemnities	**3,252**	3,876
Finance costs	**297,567**	231,100
Gain on disposal of property and equipment	**-**	(290)
Gain on disposal of investment in associates	**(56,700)**	-
Share of profit from investment in associates	**(850)**	(400)
Operating cash flows before movements in working capital	**1,299,757**	1,385,882
Development properties	**(498,585)**	905,275
Trade receivables and others	**(391,061)**	490,143
Other assets	**703**	949
Trade payables and others	**(50,114)**	(44,858)
Cash from operations	**360,700**	2,737,391
Finance costs	**(264,086)**	(212,809)
Zakat paid	**(5,046)**	(12,763)
End-of-service indemnities paid	**(835)**	(2,317)
NET CASH FROMOPERATING ACTIVITIES	**90,733**	2,509,502
INVESTING ACTIVITIES		
Investment properties	**(20,843)**	(844,803)
Investment in associates	**1,001,700**	-
Purchase of property and equipment	**(455)**	(124)
Proceeds from disposal of property and equipment	**-**	326
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**980,402**	(844,601)
FINANCING ACTIVITIES		
Islamic borrowings	**(3,041,138)**	(347,640)
NET CASH USED IN FINANCING ACTIVITIES	**(3,041,138)**	(347,640)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(1,970,003)**	1,317,261
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**2,505,774**	1,188,513
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**535,771**	2,505,774
Non-cash transactions related to deconsolidation of a subsidiary (Note 8)		
Development properties	**599,584**	**-**
Investment in associates	**(525,547)**	**-**
Non-controlling Interests	**(264,741)**	**-**
Trade payables and others (due to related parties note 19b)	**190,704**	**-**

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

1. GENERAL INFORMATION

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY is an Islamic Shar'iah compliant Joint Stock Company established under the Company Laws & Regulations of The Kingdom of Saudi Arabia. The Company is registered in Riyadh under Commercial Registration No 1010160195 dated 16/04/1421H, corresponding to 18/07/2000 G. The Company is domiciled in The Kingdom of Saudi Arabia (K.S.A.) and its registered office address is P.O. Box No: 105633, Riyadh-11656, K.S.A.

The equity shares of the Company are listed with the security market of The Kingdom of Saudi Arabia.

The Company and its Subsidiaries are collectively called “the Group" and is predominantly engaged in the business of development, sale and leasing of real estate projects and associated activities. The Company manages its activities through subsidiaries established for each line of business. These Subsidiaries operate under their own commercial registration and are summarised below:

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 company, a wholly owned subsidiary, company 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 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 28/3/1429 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.

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

SIYADA INVESTMENT COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010275448, dated 30/10/1430 H (corresponding to 19/10/2009 G). 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 consolidated financial statements include the assets, liabilities and the results of operations of the subsidiaries mentioned above.

Non-controlling Interest

The Group has invested in Khozam Real Estate Development Company; a majority owned subsidiary and maintained control of the operations and consolidated with its financial statements up to 31 March 2012.Subsequent to 31 March 2012 the Group parent signed a technical and management service agreement (TMSA) with Khozam Real Estate Development Company (KDC) for supervision and technical support for Khozam project. Since the powers to govern the financial or operating policies of KDC are jointly bestowed with KDC shareholders', the assets and liabilities of KDC has been deconsolidated and accounted as investment in associates under equity method, hence no non-controlling interest is recognised in these financials.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), consistent with the Group's accounting policies with the exception of any changes to accounting policies as described below.

2.2 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards and interpretations effective in the current year

In the current year, the Group has adopted all new Interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for adoption in the annual periods beginning on or after 1 January 2012. The adoption of these interpretations has not led to any changes in the Group's accounting policies or disclosures provided in the consolidated financial statements.

Standards and interpretations in issue but not yet adopted

The following standards, amendments and interpretations were in issue at the date of authorisation of these financial statements, but not yet effective, and therefore were not applied in these consolidated financial statements.

The impact of the adoption of these standards is currently being assessed; however the directors anticipate that the adoption of these standards, amendments and interpretations in future periods will not have a significant impact on the consolidated financial statements of the Group.

	Effective for annual periods beginning on or after
IFRS 9, 'Financial instruments – classification and measurement of financial assets and accounting for financial liabilities and de-recognition	1 January 2015
IFRS 10, 'Consolidated Financial Statements'	1 January 2013
IFRS 11, 'Joint Arrangements'	1 January 2013
IFRS 12, 'Disclosure of Interests in Other Entities'	1 January 2013
IFRS 13, 'Fair Value Measurement'	1 January 2013
IAS 1, 'Presentation of Financial Statements' - 'Amendments to revise the way other comprehensive income is presented	1 January 2013
IAS 28, Investment in associates and joint ventures (as amended in 2011)	1 January 2013
IFRS 7, ' Financial instruments: Disclosure- amendment about offsetting of financial assets and financial liabilities	1 January 2013

2.3 ACCOUNTING CONVENTION

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments at fair value and investment in associates at equity method, the principal accounting policies are set out below.

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements of the Group incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December 2012.

Subsidiaries

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 or 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 as the fair value of the assets given, 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 in a business combination are initially measured at 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 fair values 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 fair value of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the consolidated statement of comprehensive 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 consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the consolidated financial position at cost as adjusted by the post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interests in those associates are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When a partial sale of an associate results in losing significant influence over that associate, the remaining investment is measured at fair value on the date of sale and recognised as a financial asset. The difference between the attributable share of carrying amount for the retaining interest in that associate and its fair value is included in the determination of gain or loss of the disposal of the associates. In addition, the Group reclassifies the gains or losses from equity, previously recognised, in the comprehensive income to the profit and loss account.

Any excess of cost of acquisition over the Group's share of the fair values of identifiable net assets 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 fair values of identifiable net assets of the associate or joint venture at the date of acquisition (i.e. discount on acquisition) is recognised in the consolidated statement of comprehensive 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.

2.5 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 consolidated statement of comprehensive income.

At each date of preparation of the 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.

2.6 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 consolidated statement of comprehensive income for the year of the retirement/disposal except those that relate to sale and leaseback arrangements.

2.7 DEVELOPMENT PROPERTIES

Development properties principally comprise completed projects (including properties held for sale and developed land held for sale) and projects under development (including property projects under construction, land projects under development and land waiting for development). Projects under development include those properties in progress of development or waiting for development to commence.

All development properties are accounted for at the lower of cost and net realisable value. Cost comprises direct material cost, direct labour costs, borrowing costs and those overheads that have been incurred in bringing the development properties to their present location and condition. Cost is calculated using the average method. Net realisable value represents the estimated selling price less all estimated costs to completion and selling costs to be incurred.

The operating cycle of development properties is such that the majority of development properties will not be realised within 12 months. These have been split between non-current and current development properties.

2.8 IMPAIRMENT OF TANGIBLE ASSETS

At the date of each consolidated statement of financial position, 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 fair 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 consolidated statement of comprehensive income.

2.9 ISLAMIC BORROWING COSTS

Islamic borrowing 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 borrowing costs are recognised in finance costs in the consolidated statement of comprehensive income in the year in which they are incurred.

2.10 FINANCIAL INSTRUMENTS

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

Trade receivables
Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest rate method less any provision for impairment. 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. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective commission rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the consolidated statement of comprehensive 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 original maturities of less than three months.

Financial liabilities
Financial liabilities include Islamic Sukuk and Islamic Murabaha and are classified according to the substance of the respective contractual arrangement and are initially measured at their fair value, net of transaction costs. Financial liabilities are subsequently carried at their amortised cost, with commission cost being recognised on an effective yield basis in the consolidated statement of comprehensive income over the term of the instrument.

Trade payables
Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method.

Islamic variable financial instruments
The Group initially recognises Islamic variable financial 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 year. The accounting for changes in the fair value of an Islamic variable financial instrument depends on the intended use and the resulting designation of the Islamic variable financial instrument. The resulting gain or loss is recognised in the consolidated statement of comprehensive income immediately, unless the Islamic variable financial instrument 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 an Islamic variable financial instrument designated as a fair value hedge, the gain or loss is recognised in the consolidated statement of comprehensive income in the year 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.

2.11 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, which is assessed to be at the time of legal completion of the sale or unconditional exchange. Revenue is measured at the fair value of consideration received. With respect to rental income, the Group recognises revenue on a straight line basis over the lease term.

2.12 ZAKAT TAXATION

Zakat is calculated pursuant to Zakat Regulation in the Kingdom of Saudi Arabia and recognised in the consolidated statement of comprehensive income in each year. The provision is based on an estimate of Zakat that is adjusted in the financial year in which the final assessment of Zakat is issued. Any change in the estimate resulting from the final assessment is recognised in that period.

2.13 FOREIGN CURRENCIES

Transactions in currencies other than Saudi Riyals, the presentational and functional currency of each subsidiary within the Group, are recorded at the rates of exchange prevailing on the dates of the transactions. At the date of each consolidated statement of financial position, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date Non-monetary assets and liabilities carried at fair value, that are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.The resulting exchange gains or losses are recognised in the consolidated statement of comprehensive income.

2.14 STATUTORY RESERVE

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

2.15 END OF SERVICE INDEMNITIES

The Group provides end of service benefits to its employees in accordance with the labour law provisions 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, based on the estimated ultimate payment.

2.16 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.

2.17 LEASING

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience, internal controls, advice from external experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting judgments will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below:

Revenue Recognition
The Group recognises revenue on its development properties when significant risks and rewards of ownership transfer to the buyer, which is assessed to be at the time of legal completion of the sale or unconditional exchange.

With respect to land projects, the Group receives an initial non-refundable deposit with the balance being paid on a deferred basis, which typically does not exceed three months. The Group recognises the full amount of the consideration at the time the sale contract is signed.

With respect to residential and commercial projects, The Group typically receives an initial deposit on the signature of the sales contract and a final payment on delivery of the units. Revenue from the sale of these properties is only recognized when the completed property is delivered to the purchaser.

With respect to rental income, the Group recognises revenue on a straight line basis over the lease term.

Recognition of cost of sales
The Group has developments which typically contain a number of individual projects within each development. In order to determine cost of sales related to properties or units sold during the year, management must estimate and to average the costs of the entire development, including infrastructure costs and overall construction costs. These costs must then be allocated to each project within the development and each unit within a project. These estimates are reviewed regularly on a profit per project basis and revised as necessary. Any significant change in these estimates may result in additional costs being recorded in future periods related to revenue recognised in a prior period.

Classification of properties
The Group's properties are classified as either development properties or investment properties. Management has made various judgments to determine whether a property qualifies as an investment property (properties held to earn rentals and/or for capital appreciation) or as a development property that comprises properties held for sale, developed land held for sale, property projects under construction, land projects under development and land awaiting development. In making its judgment, management considers its intended use of property. When management assess that certain investment properties will be disposed off, their carrying cost will be transferred to development properties as long as they are under development and not generating revenues. Further, at each reporting date management categorises individual projects as long term or short term depending on its estimated completion date. If a completion date is expected to be within a year of the consolidated statement of financial position date, the project is classified as current.

Investment Properties
Investment properties are the interests in land and/or buildings that are held for their investment potential for generating lease revenues and/or capital appreciation or both. These are not used for generating sales revenues through normal business operations. The investment properties are initially recognised at cost and the cost of an acquisition is measured at fair value of the assets acquired / transferred. All developments costs directly attributable to the properties are capitalized to derive the total cost. Current carrying cost represents total cost for under construction properties and for the completed properties it is total cost less accumulated depreciation. During the construction phase the management does not believe the fair values are reliably determinable, however the group encourages independent valuation for the completed properties, to assess their fair value, wherever appropriate and reliable. Any sustained depletion in the fair value of a property compared to its current cost is recognised as impairment loss in the consolidated statement of comprehensive income.

Carrying value of development properties
The Group's principal activity is currently the development and sale of land and the development and sale of residential and commercial property. Due to the nature of this activity, much of the development is speculative in nature. Accordingly, the consolidated statement of financial position at 31 December 2012 reflects current assets that are not covered by forward sales contracts.

The Group assesses the net realisable value of its investment properties and its development properties at each reporting date. This assessment is based on a profit per project basis and compares the carrying and future costs to the expected selling price per unit based on historical activities. As a result of this process, there have been no instances where the estimated net realisable value of the site was less than its current carrying value within the consolidated statement of financial position. A change of these estimates in the future could have an impact on the valuation of the development properties.

4. REPORTING SEGMENTS

Management has organised the Group into three segments. Management develops its strategic planning and business model around these segments that consist of:

- Projects – the development of basic infrastructure on undeveloped land ("Land Projects") and the development of residential and commercial projects and the sale of units on such projects ("Residential and Commercial Projects").
- Investments – the investment in companies that Management believes are complementary to the Group's real estate development operations.
- Properties – management of properties that the Group has retained as rental properties including commercial and residential units on its Master-Planned Communities.

The Group does not allocate share of profits of associates, general administration, selling and marketing costs including directors' salaries, finance costs, other income and Zakat expense to its segments. Substantially all of segment operating activity (including revenue and costs) for the year ended 31 December 2012 and 2011 was generated from the Projects segment and as a result there is no breakout provided of revenue and segment profit by segment. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2.

The Group operates exclusively in Saudi Arabia and all its revenues are derived from its portfolio of properties which the Group manages.

Major products

The revenue and gross margin from sales of land, sales of residential and commercial projects and leasing of properties are presented below:

	2012	2011
	SR 000	SR 000
REVENUES		
Sales of residential properties	**25,293**	77,346
Sales of land	**3,478,997**	3,220,167
Leasing of properties	**52,782**	14,997
Total	**3,557,072**	3,312,510
COST OF SALES		
Residential properties	**21,026**	64,470
Land	**2,121,016**	1,873,250
Leasing of properties	**21,324**	5,777
Total	**2,163,366**	1,943,497
GROSS PROFIT		
Residential properties	**4,266**	12,876
Land	**1,357,981**	1,346,917
Leasing of properties	**31,459**	9,220
Total	**1,393,706**	1,369,013

5. INVESTMENT PROPERTIES, NET

	2012	2011
	SR 000	SR 000
COST		
At beginning of the year	**2,763,626**	1,918,823
Additions	**15,575**	830,585
Capitalisation of borrowing costs	**5,268**	14,218
At end of the year	**2,784,469**	2,763,626
ACCUMULATED DEPRECIATION		
At beginning of the year	**10,273**	4,496
Charge during the year	**37,136**	5,777
At end of the year	**47,409**	10,273
CARRYING AMOUNT AT THE END OF THE YEAR	**2,737,060**	2,753,353

6. DEVELOPMENT PROPERTIES

	2012	2011
	SR 000	SR 000
Property projects under development	**3,214,085**	3,868,580
Developed land	**2,124,441**	759,757
Land projects under development	**9,530,130**	9,061,280
Non-current assets	**14,868,656**	13,689,617
Property projects under development	**46,702**	64,469
Developed land	**844,332**	2,106,603
Current assets	**891,034**	2,171,072
Total development properties	**15,753,690**	15,860,689

Included within Land projects under development is land worth SR 5.61 billion (31 December 2011: SR 5.08 billion), which represents the Group's share of co-ownership with third parties according to the contracts of land development.

During the year, in addition to regular internal review and valuation of real estate portfolio by its directors, the management also valued around 19% of its total real estate properties independently by leading valuation agencies. Both the valuations, internal and external, show a stable increase of fair value across the portfolio of properties over its previous year average uplift of 53%. The management believes that the resultant uplift on the book value signified by these valuations is realistic indication of the fair value of the properties of the Group. At this rate the total property portfolio of SAR 18.5 billion will have an extrapolated fair market value of SAR 28.3 billion.

The movement in development properties during the year ended 31 December 2012 and 2011 is as follows:

Non-current assets	**Property projects under development**	**Developed land**	**Land projects under development**	**Total**
	SR 000	**SR 000**	**SR 000**	**SR 000**
2012				
Balance at 1 January 2012	**3,868,580**	**759,757**	**9,061,280**	**13,689,617**
Additions	**2,520**	**73,901**	**2,300,848**	**2,377,269**
Capitalisation of borrowing costs	**141,897**	**-**	**-**	**141,897**
Transfers	**42,764**	**1,290,783**	**(642,348)**	**691,199**
Disposals	**(841,676)**	**-**	**(1,189,650)**	**(2,031,326)**
Balance at 31 December 2012	**3,214,085**	**2,124,441**	**9,530,130**	**14,868,656**
2011				
Balance at 1 January 2011	3,677,456	2,929,939	9,703,022	16,310,417
Additions	25,819	-	812,199	838,018
Capitalisation of borrowing costs	165,305	-	-	165,305
Transfers	-	(1,754,132)	-	(1,754,132)
Disposals	-	(416,050)	(1,453,941)	(1,869,991)
Balance at 31 December 2011	3,868,580	759,757	9,061,280	13,689,617

Current assets	**Property projects under development**	**Developed land**	**Total**
	SR 000	**SR 000**	**SR 000**
2012			
Balance at 1 January 2012	**64,469**	**2,106,603**	**2,171,072**
Additions	**3,259**	**118,202**	**121,461**
Transfers	**-**	**(1,290,783)**	**(1,290,783)**
Disposals	**(21,026)**	**(89,690)**	**(110,716)**
Balance at 31 December 2012	**46,702**	**844,332**	**891,034**
2011			
Balance at 1 January 2011	184,660	270,887	455,547
Additions	4,492	75,843	80,335
Transfers	(60,213)	1,763,132	1,702,919
Disposals	(64,470)	(3,259)	(67,729)
Balance at 31 December 2011	64,469	2,106,603	2,171,072

During April 2012, the Group parent signed a technical and management service agreement (TMSA) with Khozam Real Estate Development Company (KDC), a consolidated subsidiary of the Group, for supervision and technical support for Khozam project. Since the powers to govern the financial or operating policies of KDC are bestowed with Jeddah Development and Urban Regeneration Company, the assets and liabilities of KDC have been deconsolidated from the Group's financial statements and accounted for as investment in associates under equity method of accounting.

7. PROPERTY AND EQUIPMENT, NET

2012	Land and buildings	Leasehold improvement	Vehicles	Machinery and tools	Office equipment	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
COST						
At 1 January 2012	**109,145**	**19,037**	**9,250**	**13,404**	**39,088**	**189,924**
Additions	**-**	**-**	**-**	**132**	**323**	**455**
At 31 December 2012	**109,145**	**19,037**	**9,250**	**13,536**	**39,411**	**190,379**
ACCUMULATED DEPRECIATION						
At 1 January 2012	**30,059**	**18,570**	**9,040**	**13,268**	**36,383**	**107,320**
Charge for the year	**3,016**	**296**	**144**	**136**	**1,793**	**5,385**
At 31 December 2012	**33,075**	**18,866**	**9,184**	**13,404**	**38,176**	**112,705**
CARRYING AMOUNT AT 31 DECEMBER 2012	**76,070**	**171**	**66**	**132**	**1,235**	**77,674**

2011	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						
At 1 January 2011	109,145	19,037	9,990	13,390	39,074	190,636
Additions	-	-	-	14	110	124
Disposals	-	-	(740)	-	(96)	(836)
At 31 December 2011	109,145	19,037	9,250	13,404	39,088	189,924
ACCUMULATED DEPRECIATION						
At 1 January 2011	27,042	18,070	9,904	11,152	33,442	99,610
Charge for the year	3,017	621	233	2,104	2,535	8,510
Adjustments	-	(121)	(357)	12	466	-
Disposals	-	-	(740)	-	(60)	(800)
At 31 December 2011	30,059	18,570	9,040	13,268	36,383	107,320
CARRYING AMOUNT AT 31 DECEMBER 2011	79,086	467	210	136	2,705	82,604

8. INVESTMENTS IN ASSOCIATES

Investment in associates represents investments in share of companies, where the Group exercises significant influence. The shares of these companies are not publicly traded. The Group's ownership in these privately owned companies ranges from 15% to 51%. For entities where the investment is less than 20%, management believes that it is able to exert significant influence due to its involvement at board level. The Group has invested 51% in Khozam Real Estate Development Company (KDC) and maintained control of the operations and consolidated KDC's financial statements with its financial statements up to 31 March 2012. Subsequent to 31 March 2012, the Group signed a Technical and Management Service Agreement (TMSA) with KDC for supervision and technical support for Khozam project. Since the power to govern the financial and operating policies of KDC are bestowed with Jeddah Development and Urban Regeneration Company, the assets and liabilities of KDC have been deconsolidated from the Group's financial statements and accounted for as investment in associates under equity method of accounting. Movement in investment in associates is as follows:

a. *Investments in associates*:

	2012	2011
	SR 000	**SR 000**
Investments, beginning of year	**1,162,760**	1,162,360
Transfer on deconsolidation during the year	**525,547**	-
Sold during the year	**(945,000)**	-
Share of profit during the year	**850**	400
Investments, end of year	**744,157**	1,162,760

b. 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	**525,547**	**51%**
Accumulated share of losses	**(3,390)**	
Balance, end of the year	**744,157**	

c. Summarised financial information in respect of the Group's associates is set out below:

	2012	2011
	SR 000	**SR 000**
Total assets	**3,130,861**	2,870,575
Total liabilities	**(1,427,922)**	(1,555,998)
Net assets	**1,702,939**	1,314,577
Group's share of net assets of associates	**492,178**	255,696
Total revenue	**115,228**	94,602
Total accumulated profit/(loss) for the year	**45,304**	29,326
Group's share of accumulated loss end of the year	**(3,390)**	(4,240)

Details of transactions with associates are disclosed under note 19 "Related Party Transactions" of these consolidated financial statements.

9. TRADE RECEIVABLES AND OTHERS

	2012	2011
	SR 000	**SR 000**
Trade receivables – net provision for doubtful debts (SR 4.48 million in 2012 and 2011)	**1,492,749**	1,227,708
Trade receivables – related party (note 19a)	**143**	143
Advance payments to purchase land	**563,270**	375,506
Prepayments and others	**69,511**	131,255
	2,125,673	1,734,612

The fair value of financial assets included above approximates the carrying amount. The maximum credit taken for sales is less than 90 days, which also represents the maximum ageing of trade receivables. No penalties are charged for delayed payments.

10. LONG-TERM BORROWINGS

	2012	2011
	SR 000	**SR 000**
Islamic Sukuk – International	**1,687,500**	5,437,500
Islamic Sukuk – Local	**750,000**	750,000
Islamic Murabaha	**2,002,941**	1,260,003
	4,440,441	7,447,503
Less: Un-amortised transaction costs (note 10 b)	**(55,962)**	(55,367)
Borrowings end of the year	**4,384,479**	7,392,136
Less: Short-term borrowings	**(1,095,120)**	(4,634,380)
Long-term borrowings	**3,289,359**	2,757,756

a. Repayable as follows:

	2012	2011
	SR 000	**SR 000**
Within one year	**1,107,369**	4,634,380
In the second year	**1,233,800**	187,143
In the third to fifth years inclusive	**2,099,272**	2,625,980
	4,440,441	7,447,503

b. Islamic borrowings transaction costs:

	2012	**2011**
	SR 000	**SR 000**
Balance, beginning of the year	**55,367**	91,217
Additions during the year	**46,742**	2,589
Capitalisation during the year	**(12,666)**	(20,148)
Amortisation charge for the year	**(33,481)**	(18,291)
Balance, end of the year	**55,962**	55,367

c. Analysis of borrowings:

Islamic Sukuk – International

This represents SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group maturing in 2015. The beneficiary rights of the 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 investment profit is payable to the Saudi SPV, through which, the Sukuk was issued by the sale of properties owned by the Group. 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 (refer note 11).

On the due date of 16 July 2012 the group has repaid SR 3.75 billion (USD 1 billion) of Islamic Sukuk carried in the books of the Group.

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 maturing in 2014.

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2012.

Islamic Murabaha

This represents the bilateral Murabaha facilities from local and international commercial banks, secured against certain real estate land and 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 5 years with various repayment schedules like annual roll revolvers, bullet payments and instalment repayments ranging from monthly, 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
2013	542,500	542,500	-
2014	253,214	167,143	86,071
2015	1,127,227	377,727	749,500
2016	80,000	20,000	60,000
	2,002,941	**1,107,370**	**895,571**

The total weighted average effective annual commission rate for the year ended 31 December 2012 is 6.7% (31 December 2011: 4.9%)

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2012.

11. 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. During the year, the group have 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.

The cumulative positive fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards amounted to SR 10.03 million (USD 2.67 million) (31 December 2011: SR 52.84 million (USD 14.10 million). The change in the fair value during the year amounting to SR 42.81 million (USD 11.42 million) has been recognised as other expenses in the consolidated statement of comprehensive income. (SR 25.07 million (USD 6.68 million) for year ended 31 December 2011).

12. END OF SERVICE INDEMNITIES

The Group provides end of service benefits to its employees in accordance with the labour law provision in Saudi Arabia. The total cost charged to consolidated statement of comprehensive income for the year was SR 3.25 million (31 December 2011: SR 3.88 million).

13. TRADE PAYABLES AND OTHERS

	2012	2011
	SR 000	SR 000
Trade payables	**256,133**	338,596
Due to related parties (note 19b)	**198,101**	-
Accruals	**127,000**	103,553
Unpaid dividend	**36,027**	36,441
Other payables	**6,546**	4,627
	623,807	483,217

Trade payables and others principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit year taken for trade purchases is 30 days (31 December 2011: 30 days).

The fair value of financial liabilities included above approximates the carrying amount.

14. CURRENT TAX LIABILITIES (ZAKAT)

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

	2012	2011
	SR 000	SR 000
Balance beginning of the year	**623,685**	587,074
Estimated Zakat for the current year	**25,430**	49,374
Payment made during the year	**(5,046)**	(12,763)
Estimated Zakat provision, end of the year	**644,069**	623,685

b) The Company has received the assessments from DZIT for the years 2003, 2004, 2005, 2006, 2008 and 2009 and has filed an objection for the years 2003 to 2006 which is still under the review of DZIT. The Company has not received DZIT assessment for year 2007. The filing of the consolidated zakat return for year 2010 and 2011 are currently under process.

15. SHARE CAPITAL

	2012	2011
	SR 000	SR 000
Authorised:		
1,080,000,000 ordinary shares of SR 10 each (31 December 2011: 1,080,000,000)	**10,800,000**	10,800,000
Issued and fully paid shares of SR 10 each		
At the start of the year	**10,800,000**	10,800,000
At the end of the year	**10,800,000**	10,800,000

The Group has one class of ordinary shares which carry no right to fixed income.

16. FINANCE COSTS

	2012	2011
	SR 000	SR 000
Charges on Sukuk	**153,860**	149,783
Charges on Islamic Murabaha	**89,855**	50,571
Bank charges	**20,371**	12,455
Amortisation of finance costs	**33,481**	18,291
	297,567	231,100

During the year ended 31 December 2012 the Group had annual weighted average capitalisation effective rate of 3.41% (31 December 2011: 2.90%).

17. EARNINGS PER SHARE

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

	2012	2011
	SR 000	SR 000
Earnings		
For the purpose of basic earnings per share		
(Net profit for the year)	**988,537**	1,087,935
Number of shares	**Number**	**Number**
Weighted average number of ordinary shares		
For the purposes 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.

18. OPERATING LEASE ARRANGEMENTS

The minimum lease payments under non-cancellable operating lease rentals are as follows:

	2012	2011
	SR 000	SR 000
Amounts due:		
Within one year	**593**	593
Between one and five years	**920**	1,313
After five years	**167**	367
	1,680	2,273

19. RELATED PARTY TRANSACTIONS

a) Due from related parties

During the year, 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 non performing receivables. The details of the transactions are as follows:

	2012 SR 000	2011 SR 000
Balance, beginning of the year	**143**	1,364
Sales during the year	**11,054**	35,120
Commission during the year	**(13)**	(26)
Collection during the year	**(11,041)**	(36,315)
Balance, end of the year	**143**	143

b) Due to related parties

The Khozam Real Estate Development Company (KDC) management requested to invest excess cash balance of KDC with the group at a nominal profit. The details of the transactions are as follows:

	2012 SR 000	2011 SR 000
Balance transferred as on 1 April 2012	**205,425**	-
Expenses/assets	**(84)**	-
Repayment of advances	**(8,710)**	-
Profit charged	**1,470**	
Balance, end of the year	**198,101**	-

For the year ended 31 December 2012 and 2011, no transactions are entered with entities that have common Board Members or Shareholders to the Group.

In addition, the Group entered into certain other transactions with related parties that did not have a significant impact on the financial position or comprehensive income of the Group.

See also note 8.

20. RETIREMENT BENEFIT PLANS

The Group makes payments to defined contribution retirement benefit plans in the form of the General Organisation of Social Insurance that are charged as an expense as they fall due. Payments are made on the basis of a percentage of qualifying salary for certain employees to this state-managed scheme.

The total cost charged to the consolidated statement of comprehensive income for the year ended 31 December 2012 was SR 3.25 million (31 December 2011: SR 3.88 million), and the outstanding contribution as at 31 December 2012 is SR 230 thousand (31 December 2011: SR 172 thousand).

21. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its parent company through optimisation of debt and equity balances. The Group's overall strategy remains unchanged from 2007, when the Group diversified its sources of funding and issued two medium term Sukuks ranging from 3-5 years. Considering the track record of timely repayment of the first two sukuks and the group expertise developed over the past five years to access international markets for shariah' compliant funding, the management continue to maintain its relationship with the capital markets and monitor the markets for future issuance. The Group adhere to international best practices in corporate governance and consider the capital market transactions to create additional shareholders value.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in cash and cash equivalents and equity, comprising share capital, statutory reserve, and retained earnings. The Group is not subject to any externally imposed capital requirements.

Gearing ratio
The Group consistently monitors its gearing ratio, to ensure compliance with external covenant requirements.

22. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are mainly comprised of Islamic Murabaha (term and annual revolving) facilities taken from banks, issue of Islamic Sukuk, trade payable and other payables to contractors and suppliers. The paramount objectives of these financial instruments are to raise the funding base for various projects as well as for the working capital requirement of the Group.

The Group also has financial assets in the form of bank deposits, cash in hand, due from related parties and trade and other receivables, which are integral and directly derived out of its regular business. On the reporting date the Group has not entered into any non Islamic financial variable instrument contracts by way of currency hedging, commission rate swap agreements or similar instruments.

The Group's financial operations are subject to following risks:

1. Credit Risk
2. Commission Rate Risk
3. Liquidity Risk
4. Foreign Currency Risk
5. Islamic financial variable instrument

Credit Risk
The Credit Risk can be defined as a loss of value of an asset as a result of a failure by a customer or a counter party to such commercially valid and legally enforceable contract to comply with its obligations.

The general sales policy of the Group is "No Credit" terms, but in some cases there are enhanced payment schedules or staggered payment request by selected customers which have been accommodated. In such cases the Group has an exposure of credit risk with respect to the amount due from those customers. However, in such cases the Group holds back the final delivery or possession of the property to mitigate the risk until the full amount due is paid to the satisfaction of the contract. The monitoring and follow up of balances is completed regularly and as a result the Group's exposure to losses is limited.

With respect to the credit risk exposure of other financial assets, namely, due from related parties, bank deposits and other receivables, the maximum credit risk of the Group is limited to their carrying values, in case there is a failure of the other party to meet its obligation.

As of the reporting date, the Group does not have significant credit risk concentration with any single party or a group.

Commission Rate Risk

Commission Rate Risk is associated with a change in the commission rate available when renegotiating financial instruments that are influenced by the current global financial market conditions. The Group is exposed to commission rate risk with respect to its floating commission covenants agreed for its long term Sukuk borrowings and other Islamic Murabaha (revolving credit) facilities obtained from local banks.

The short term revolving borrowings' rates are renegotiated at every renewal proposal to achieve the best possible commission rate to reflect the given financial credentials and related risk perception of the Group.

The Group has a specific shariah' complaint commission rate swap contract to manage its commission rate risk. The Group's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence the commission exposure of the Group is variable according to the changes in the LIBOR &SAIBOR.

The commission rate sensitivity analysis is performed based on the commission rate exposure of the Group for floating rate liabilities outstanding at the end of the consolidated statement of financial position date. The calculations are done on floating commission rates assuming the liabilities outstanding for a whole year as at the consolidated statement of financial position date.

During the year under review the average rate of 3 months LIBOR varied between 0.42% and 0.31% (0.58 % and 0.33 % for 2011) and SAIBOR varied between 0.99% and 0.95% (0.78% and 0.60 % for 2011).

The sensitivity of commission variance on the Group's external borrowings which affects the consolidated financial statements of the Group is shown below:

	2012	**2011**
	SR 000	**SR 000**
+ 25 basis points	**11,101**	16,509
- 25 basis points	**(11,101)**	(16,509)

The net profit of the Group for the reported year would have been affected by the above amount as a result of such changes in floating commission rates. Due to the capitalisation of borrowing costs directly attributed to projects in progress, there would be timing differences on such an impact to the Group's current profit and loss account and the current impact would be limited to around 54%, as historically, the management capitalises approximately 46% of borrowing costs to projects in progress as explained in note 2.9.

Liquidity Risk
Liquidity Risk can result from a difficulty to meet the financial commitments and obligations of the Group as per the agreed terms and covenants.

To mitigate the liquidity risk and associated losses of business and brand value opportunities; the Group, where possible, keeps sufficient liquid assets in all business conditions. The Group refrains from funding its long term capital requirements through short term borrowings and related party current account transactions. Currently the long term projects are funded from long term or revolving borrowings only. The Group also has a dynamic cash flow assessment policy and system by which it can estimate and plan the maturities as well as required resources to meet such obligations.

The weighted average effective annual commission rate for the year ended 31 December 2012 is 6.7% (31 December 2011: 4.9%).

See notes 10 and 13 for further details

Foreign Currency Risk
Foreign Currency Risk is associated with the change in the value of the carrying value in the functional currency due to the variation of the underlying foreign currency obligation or right by way of transaction or translation reasons. The functional currency of the Group is the Saudi Riyal that is pegged against the US Dollar with a fixed exchange rate of 3.75 Saudi Riyals per US Dollar. Since transactions, other than US Dollars, are negligible; the Group does not assume any significant foreign currency risk.

Islamic financial variable Instruments Risk
As part of its asset and liability management, the Group uses Islamic finance variable instruments- for hedging its exposure to commission rate and cash flow risks. This is generally achieved by hedging specific transactions. The Group uses Islamic finance variable instruments primarily to manage exposures to foreign currency and commission rate risks. The Group's principal objective in holding Islamic finance variable instruments is to reduce the cash outflows associated with changes in foreign currency and fixed commission rates. The Group's Islamic finance variable instruments are exposed to credit risk to the extent of that counterparty's inability to meet the contractual obligations. The Group mitigates such risks by dealing with major financial institutions as its counterparties. The group Management does not expect any material losses or risk from the default of counterparties as the potential risk of such defaults is periodically monitored.

23. COMMITMENTS

To complete the long term construction and development of investment and development properties, the Group have committed to a number of contractual arrangements and agreements. Such contracts are cancellable at the Group's discretion with no penalties. The estimated uncompleted contracts outstanding as at 31 December 2012 amounts to SR 107 million (31 December 2011: SR 195 million).

These commitments are expected to be settled within the duration of the projects in progress and shall be funded through prospective property sales and external borrowings, if necessary.

24. CONTINGENCIES

During the normal course of business there are general litigations and legal claims. Management takes legal advice as to the likelihood of success of claims and no provision is made when the action is unlikely to succeed.

At 31 December 2012 there were no significant claims notified (31 December 2011: None).

25. COMPARATIVE FIGURES

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