

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

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S  
REPORT FOR THE YEAR ENDED 31 DECEMBER 2013**

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

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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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, 2013, 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, 2013, 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

Rabi Al Thani 18, 1435 H  
February 18, 2014



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2013**

	<u>Notes</u>	<u>2013</u> SR 000	<u>2012</u> SR 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties, net	5	2,694,638	2,737,060
Development properties	6	15,581,373	14,868,656
Property and equipment, net	7	74,370	77,674
Investments in associates	8	747,407	744,157
Other assets		132	264
Total non-current assets		<u>19,097,920</u>	<u>18,427,811</u>
<b>Current assets</b>			
Development properties	6	971,639	891,034
Trade receivables and others	9	1,848,641	2,125,673
Cash and cash equivalents		2,279,132	535,771
Total current assets		<u>5,099,412</u>	<u>3,552,478</u>
<b>TOTAL ASSETS</b>		<u><b>24,197,332</b></u>	<u><b>21,980,289</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	10	5,159,269	3,289,359
End of service indemnities	12	17,348	16,575
Total non-current liabilities		<u>5,176,617</u>	<u>3,305,934</u>
<b>Current liabilities</b>			
Short-term borrowings	10	744,308	1,095,120
Trade payables and others	13	683,341	623,807
Current tax liabilities (Zakat)	14	600,245	644,069
Total current liabilities		<u>2,027,894</u>	<u>2,362,996</u>
<b>Total liabilities</b>		<u><b>7,204,511</b></u>	<u><b>5,668,930</b></u>
<b>Shareholders' Equity</b>			
Share capital	15	10,800,000	10,800,000
Statutory reserve		884,914	816,768
Retained earnings		5,307,907	4,694,591
<b>Total shareholders' equity</b>		<u><b>16,992,821</b></u>	<u><b>16,311,359</b></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u><b>24,197,332</b></u>	<u><b>21,980,289</b></u>

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 2013**

	<u>Notes</u>	<u>2013</u> <u>SR 000</u>	<u>2012</u> <u>SR 000</u>
Revenue		2,931,168	3,557,072
Cost of revenue		<u>(1,778,097)</u>	<u>(2,163,366)</u>
<b>GROSS PROFIT</b>	4	<b>1,153,071</b>	1,393,706
General, administrative, selling and marketing expenses		<b>(151,159)</b>	(154,601)
Depreciation	(5,7)	<b>(4,011)</b>	(21,197)
<b>OPERATING PROFIT</b>		<b>997,901</b>	1,217,908
Share of income from investment in associates	8 a	<b>3,250</b>	850
Finance costs	16	<b>(341,481)</b>	(297,567)
Other income, net		<b>39,320</b>	92,776
<b>PROFIT BEFORE ZAKAT</b>		<b>698,990</b>	1,013,967
Zakat expense	14 a	<b>(17,528)</b>	(25,430)
<b>NET PROFIT FOR THE YEAR</b>		<b>681,462</b>	988,537
<b>Other comprehensive income:</b>			
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>681,462</b>	988,537
<b>Total comprehensive income attributable to:</b>			
Dar Al Arkan shareholders		<b>681,462</b>	988,537
<b><u>Earnings per share (in Saudi Riyals)</u></b>			
Basic and diluted	17	<b>0.63</b>	0.92

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 SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	<u>Share capital</u> SR 000	<u>Statutory reserve</u> SR 000	<u>Retained earnings</u> SR 000	<u>Dar Al Arkan share- holders' equity</u> SR 000	<u>Non- Controlling interest</u> SR 000	<u>Total equity</u> SR 000
<b><u>2012</u></b>						
Balance as at 1 January 2012	10,800,000	716,768	3,806,054	15,322,822	264,741	15,587,563
Transferred/ de-consolidated	-	-	-	-	(264,741)	(264,741)
Transfer to statutory reserve	-	100,000	(100,000)	-	-	-
Net profit for the year	-	-	988,537	988,537	-	988,537
Other comprehensive	-	-	-	-	-	-
Total comprehensive income for the year	-	-	988,537	988,537	-	988,537
<b>Balance as at 31 December 2012</b>	<b><u>10,800,000</u></b>	<b><u>816,768</u></b>	<b><u>4,694,591</u></b>	<b><u>16,311,359</u></b>	<b><u>-</u></b>	<b><u>16,311,359</u></b>
<b><u>2013</u></b>						
Balance as at 1 January 2013	10,800,000	816,768	4,694,591	16,311,359	-	16,311,359
Transfer to statutory reserve	-	68,146	(68,146)	-	-	-
Net profit for the year	-	-	681,462	681,462	-	681,462
Other comprehensive	-	-	-	-	-	-
Total comprehensive income for the year	-	-	681,462	681,462	-	681,462
<b>Balance as at 31 December 2013</b>	<b><u>10,800,000</u></b>	<b><u>884,914</u></b>	<b><u>5,307,907</u></b>	<b><u>16,992,821</u></b>	<b><u>-</u></b>	<b><u>16,992,821</u></b>

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 CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	<b>2013</b>	<b>2012</b>
	<b>SR 000</b>	<b>SR 000</b>
<b>OPERATING ACTIVITIES</b>		
Profit before Zakat	698,990	1,013,967
<b>Adjustment for:</b>		
Depreciation	50,499	42,521
End of service indemnities	2,133	3,252
Finance costs	341,481	297,567
Gain on disposal of investment in associates	-	(56,700)
Share of profit from investment in associates	(3,250)	(850)
<b>Operating cash flows before movements in working capital</b>	<b>1,089,853</b>	<b>1,299,757</b>
Development properties	(793,322)	(498,585)
Trade receivables and others	277,032	(391,061)
Other assets	132	703
Trade payables and others	59,534	(50,114)
<b>Cash from operations</b>	<b>633,229</b>	<b>360,700</b>
Finance costs	(313,959)	(264,086)
Zakat paid	(61,352)	(5,046)
End-of-service indemnities paid	(1,360)	(835)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>256,558</b>	<b>90,733</b>
<b>INVESTING ACTIVITIES</b>		
Investment properties	(4,066)	(20,843)
Proceeds from disposal of investment in associates	-	1,001,700
Purchase of property and equipment	(707)	(455)
<b>NET CASH (USED IN)/ FROM INVESTING ACTIVITIES</b>	<b>(4,773)</b>	<b>980,402</b>
<b>FINANCING ACTIVITIES</b>		
Long term borrowings	1,491,576	(3,041,138)
<b>NET CASH FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>1,491,576</b>	<b>(3,041,138)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,743,361</b>	<b>(1,970,003)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	<b>535,771</b>	<b>2,505,774</b>
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<b>2,279,132</b>	<b>535,771</b>
<b>Non-cash transactions related to deconsolidation of a subsidiary (Note 8)</b>		
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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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**1. GENERAL INFORMATION**

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY** (the "Company"), is a Saudi 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 COMPANY**– 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.

**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 30/10/1430 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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***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 2013. 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.

- |  |              |  |
|--|--------------|--|
| • IAS 1  | Amendments   | - Presentation of items of other comprehensive income        |
| • IFRS 10  |              | - Consolidated financial statements                          |
| • IFRS 11  |              | - Joint arrangements   |
| • IFRS 12  |              | - Disclosure of interests in other entities                  |
| • IFRS 13  |              | - Fair value measurement                                     |
| • IAS 19   | Revised 2011 | - Employee benefits  |
| • IAS 27   | Revised 2011 | - Separate financial statements                              |
| • IAS 28   | Revised 2011 | - Associates and joint ventures                              |
| • IFRS 7   | Revised 2011 | - Disclosures on offsetting financial assets and liabilities |
| • Amendments to the basis for conclusions on IAS 1,16, 32, and 34 (annual improvements 2011) |              |  |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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**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 2013.

***Subsidiaries***

Subsidiaries are entities that are controlled by the Group. The Group controls an entity when, it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. 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 result 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 statement of comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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**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 period 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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

**2.11 REVENUE RECOGNITION**

Revenue represents the sale of development properties and rental activities. Revenue for sale of development properties 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 period 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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**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 periods 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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***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 2013 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**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 2013 and 2012 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:

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
<b>REVENUES</b>		
Sales of residential properties	459	25,293
Sales of land	2,822,281	3,478,997
Leasing of properties	108,428	52,782
<b>Total</b>	<u>2,931,168</u>	<u>3,557,072</u>
<b>COST OF REVENUES</b>		
Residential properties	363	21,026
Land	1,731,246	2,121,016
Leasing of properties	46,488	21,324
<b>Total</b>	<u>1,778,097</u>	<u>2,163,366</u>
<b>GROSS PROFIT</b>		
Residential properties	96	4,267
Land	1,091,035	1,357,981
Leasing of properties	61,940	31,458
<b>Total</b>	<u>1,153,071</u>	<u>1,393,706</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

5. INVESTMENT PROPERTIES, NET

	<u>2013</u> SR 000	<u>2012</u> SR 000
<b>COST</b>		
At beginning of the year	2,784,469	2,763,626
Additions during the year	4,066	15,575
Capitalisation of borrowing costs	-	5,268
At end of the year	<u>2,788,535</u>	<u>2,784,469</u>
<b>ACCUMULATED DEPRECIATION</b>		
At beginning of the year	47,409	10,273
Charge during the year	46,488	37,136
At end of the year	<u>93,897</u>	<u>47,409</u>
<b>CARRYING AMOUNT AT THE END OF THE YEAR</b>	<u><u>2,694,638</u></u>	<u><u>2,737,060</u></u>

Included within investment properties is land with an original cost of SR 578.1 million (31 December 2012: SR 578.1 million).

6. DEVELOPMENT PROPERTIES

	<u>2013</u> SR 000	<u>2012</u> SR 000
Property projects under development	2,718,238	3,214,085
Developed land	1,936,614	2,124,441
Land projects under development	10,926,521	9,530,130
<b>Non-current assets</b>	<u>15,581,373</u>	<u>14,868,656</u>
Property projects under development	44,529	46,702
Developed land	927,110	844,332
<b>Current assets</b>	<u>971,639</u>	<u>891,034</u>
<b>Total development properties</b>	<u><u>16,553,012</u></u>	<u><u>15,759,690</u></u>

Included within Land projects under development is land worth SR 4.86 billion (31 December 2012: SR 5.61 billion), which represents the Group's share of co-ownership with third parties according to the contracts of land development.

During the year the Group's management and directors conducted an internal review and valuation of the real estate portfolio consisting of investment properties and development properties which resulted in a fair value amounting to SR 29.45 billion (December 31, 2012: SR 28.3 billion) for a total cost of SR 19.25 billion (December 31, 2012: SR 18.5 billion), indicating an average uplift of 53% across the real estate portfolio. The management believes that the resultant uplift on the book value is realistic indication of the fair value of the properties of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

The movement in development properties during the years ended 31 December 2013 and 2012 is as follows:

<b>Non-current assets</b>	<b>Property projects under development</b>	<b>Developed land</b>	<b>Land projects under development</b>	<b>Total</b>
	<b>SR 000</b>	<b>SR 000</b>	<b>SR 000</b>	<b>SR 000</b>
<b><u>2013</u></b>				
Balance at 1 January 2013	3,214,085	2,124,441	9,530,130	14,868,656
Additions	25,636	43,187	2,285,804	2,354,627
Capitalisation of borrowing costs	88,539	-	-	88,539
Disposals	(610,022)	(231,014)	(889,413)	(1,730,449)
<b>Balance at 31 December 2013</b>	<b>2,718,238</b>	<b>1,936,614</b>	<b>10,926,521</b>	<b>15,581,373</b>
<b><u>2012</u></b>				
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
<b>Current assets</b>				
		<b>Property projects under development</b>	<b>Developed land</b>	<b>Total</b>
		<b>SR 000</b>	<b>SR 000</b>	<b>SR 000</b>
<b><u>2013</u></b>				
Balance at 1 January 2013		46,702	844,332	891,034
Additions/ adjustments		(1,810)	83,575	81,765
Disposals		(363)	(797)	(1,160)
<b>Balance at 31 December 2013</b>		<b>44,529</b>	<b>927,110</b>	<b>971,639</b>
<b><u>2012</u></b>				
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)
<b>Balance at 31 December 2012</b>		<b>46,702</b>	<b>844,332</b>	<b>891,034</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

7. PROPERTY AND EQUIPMENT, NET

<u>2013</u>	<u>Land and buildings</u>	<u>Leasehold improvement</u>	<u>Vehicles</u>	<u>Machinery and tools</u>	<u>Office equipment</u>	<u>Total</u>
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
<b>COST</b>						
Balance at 1 January 2013	109,145	19,037	9,250	13,536	39,411	190,379
Additions for the year	-	-	-	-	707	707
<b>Balance at 31 December 2013</b>	<b>109,145</b>	<b>19,037</b>	<b>9,250</b>	<b>13,536</b>	<b>40,118</b>	<b>191,086</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance at 1 January 2013	33,075	18,866	9,184	13,404	38,176	112,705
Depreciation for the year	3,016	104	64	38	789	4,011
<b>Balance at 31 December 2013</b>	<b>36,091</b>	<b>18,970</b>	<b>9,248</b>	<b>13,442</b>	<b>38,965</b>	<b>116,716</b>
<b>CARRYING AMOUNT AT 31 December 2013</b>	<b>73,054</b>	<b>67</b>	<b>2</b>	<b>94</b>	<b>1,153</b>	<b>74,370</b>
<u>2012</u>	<u>Land and buildings</u>	<u>Leasehold improvements</u>	<u>Vehicles</u>	<u>Machinery and tools</u>	<u>Office equipment</u>	<u>Total</u>
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
<b>COST</b>						
Balance at 1 January 2012	109,145	19,037	9,250	13,404	39,088	189,924
Additions for the year	-	-	-	132	323	455
<b>Balance at 31 December 2012</b>	<b>109,145</b>	<b>19,037</b>	<b>9,250</b>	<b>13,536</b>	<b>39,411</b>	<b>190,379</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance 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
<b>Balance at 31 December 2012</b>	<b>33,075</b>	<b>18,866</b>	<b>9,184</b>	<b>13,404</b>	<b>38,176</b>	<b>112,705</b>
<b>CARRYING AMOUNT AT 31 DECEMBER 2012</b>	<b>76,070</b>	<b>171</b>	<b>66</b>	<b>132</b>	<b>1,235</b>	<b>77,674</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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. Movement in investments in associates is as follows:

a. *Investments in associates:*

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
Investments, beginning of year	744,157	1,162,760
Transfer on deconsolidation during the year	-	525,547
Sold during the year	-	(945,000)
Share of profit during the year	3,250	850
Investments, end of year	<u>747,407</u>	<u>744,157</u>

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	(140)	
Balance, end of the year	<u>747,407</u>	

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

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
Total assets	4,294,648	3,130,861
Total liabilities	(2,519,817)	(1,427,922)
Net assets	<u>1,774,831</u>	<u>1,702,939</u>
Group's share of net assets of associates	<u>747,407</u>	<u>744,157</u>
Total revenue for the year	146,199	115,228
Total profit for the year	<u>69,614</u>	<u>45,304</u>
<b>Group's share of profit for the year</b>	<u>3,250</u>	<u>850</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

9. TRADE RECEIVABLES AND OTHERS

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
Trade receivables – net provision for doubtful debts (SR 4.48 million in 2013 and 2012)	1,364,297	1,492,749
Trade receivables – related party (note 19a)	143	143
Advance payments to purchase land	409,400	563,270
Prepayments and others	74,801	69,511
	<u>1,848,641</u>	<u>2,125,673</u>

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

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
Islamic Sukuk	4,600,000	2,437,500
Islamic Murabaha	1,389,321	2,002,941
	5,989,321	4,440,441
Less: Un-amortised transaction costs (note 10 b)	(85,744)	(55,962)
<b>Borrowings end of the year</b>	<b>5,903,577</b>	<b>4,384,479</b>
Less: Short-term borrowings	(744,308)	(1,095,120)
<b>Long-term borrowings</b>	<b>5,159,269</b>	<b>3,289,359</b>

a. Repayable as follows:

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
Within one year	754,632	1,107,369
In the second year	2,250,105	1,233,800
In the third to fifth years inclusive	2,984,584	2,099,272
	<u>5,989,321</u>	<u>4,440,441</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**b. Islamic borrowings transaction costs:**

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
Balance, beginning of the year	55,962	55,367
Additions during the year	63,068	46,742
Capitalisation during the year	(5,764)	(12,666)
Amortisation charge for the year	<u>(27,522)</u>	<u>(33,481)</u>
Balance, end of the year	<u>85,744</u>	<u>55,962</u>

**c. Analysis of borrowings:**

**Islamic Sukuk**

This represents SR 4.60 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 750 million of Islamic Sukuk issued by the Group maturing in 2014 of which SR 650 million repaid and cancelled during 2013 resulting an outstanding of SR 100 million as at 31 December 2013.

The first three of the above listed Islamic Sukuk's are denoted in US dollars. Since the Saudi Arabian Riyal is limited to fluctuations in the US Dollar there is no exposure to foreign exchange risk. The investment profit is payable to the Saudi SPV, through which the Sukuk was issued, by the sale of properties owned by the Group. The beneficiary rights of these properties are with Dar Al Arkan Real Estate Development Company and its subsidiaries with the rights to buy back the ownership of these properties upon the full repayment of the Sukuk. The Group has issued a corporate guarantee to the Sukuk holders. The facility due in 2015 has index linked commission rate swap arrangements which effectively reduce the fixed rate commission (Note 11).

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2013.

**Islamic Murabaha**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**Summary of the Murabahas:**

Maturity date	Outstanding		
	Balance SR 000	Short-term SR 000	Long-term SR 000
2014	86,072	86,072	-
2015	749,499	377,727	371,772
2016	553,750	190,833	362,917
	<b>1,389,321</b>	<b>654,632</b>	<b>734,689</b>

The total weighted average effective annual commission rate for the year ended 31 December 2013 is 7.6% (31 December 2012: 6.7%)

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2013.

**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. In July 2012, the Group has 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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments;

- Level 1: Quoted prices in active markets for the same instrument (i.e., without modification or additions);
- Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data and
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

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 2.0 thousand (USD 0.5 thousand) (31 December 2012: SR 10.03 million (USD 2.67 million)). The change in the fair value during the year amounting to SR 10.03 million (USD 2.67 million) has been recognised as other expense in the consolidated statement of comprehensive income (SR 42.81 million (USD 11.42 million) for the year ended 31 December 2012).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**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 ended 31 December 2013 was SR 2.13 million (31 December 2012: SR 3.25 million).

**13. TRADE PAYABLES AND OTHERS**

	<u>2013</u>	<u>2012</u>
	<b>SR 000</b>	<b>SR 000</b>
Trade payables	<b>267,098</b>	256,133
Due to related parties (note 19b)	<b>196,246</b>	198,101
Accruals	<b>184,248</b>	127,000
Unpaid dividend	<b>35,749</b>	36,027
Other payables	-	6,546
	<u><b>683,341</b></u>	<u>623,807</u>

Trade payables and others principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days (31 December 2012: 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:**

	<u>2013</u>	<u>2012</u>
	<b>SR 000</b>	<b>SR 000</b>
Balance beginning of the year	<b>644,069</b>	623,685
Estimated Zakat for the year	<b>17,528</b>	25,430
Payment made during the year	<b>(61,352)</b>	(5,046)
<b>Estimated Zakat provision, end of the year</b>	<u><b>600,245</b></u>	<u>644,069</u>

**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 is currently under process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

15. SHARE CAPITAL

	<u>2013</u> SR 000	<u>2012</u> SR 000
<b>Authorised:</b>		
1,080,000,000 ordinary shares of SR 10 each (31 December 2012: 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
<b>At the end of the year</b>	<b>10,800,000</b>	<b>10,800,000</b>

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

16. FINANCE COSTS

	<u>2013</u> SR 000	<u>2012</u> SR 000
Charges on Sukuk	203,618	153,860
Charges on Islamic Murabaha	110,341	110,226
Amortisation of finance costs	27,522	33,481
	<b>341,481</b>	<b>297,567</b>

During the year ended 31 December 2013 the Group had annual weighted average capitalisation effective rate of 2.52% (31 December 2012: 3.41%).

17. EARNINGS PER SHARE

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

	<u>2013</u> SR 000	<u>2012</u> SR 000
<b>Earnings</b>		
For the purpose of basic earnings per share (Net profit for the year)	681,462	988,537
<b>Number of shares</b>		
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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**18. OPERATING LEASE ARRANGEMENTS**

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

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
<b>Amounts due:</b>		
Within one year	272	593
Between one and five years	647	920
After five years	217	167
	<u>1,136</u>	<u>1,680</u>

**19. RELATED PARTY TRANSACTIONS**

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

**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, included in trade receivable (refer note # 9) are as follows:

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
Balance, beginning of the year	143	143
Sales during the year	-	11,054
Commission during the year	-	(13)
Collection during the year	-	(11,041)
<b>Balance, end of the year</b>	<u>143</u>	<u>143</u>

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**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, included in trade payable and other (refer note # 13) are as follows:

	<u>2013</u> SR 000	<u>2012</u> SR 000
Balance, beginning of the year	198,101	-
Balance transferred as on 1 April 2012	-	205,425
Expenses/assets	-	(84)
Repayment of advances	(3,815)	(8,710)
Profit charged	1,960	1,470
<b>Balance, end of the year</b>	<b><u>196,246</u></b>	<b><u>198,101</u></b>

**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 trade payable under trade payable and others (refer note # 13) are as follows:

	<u>2013</u> SR 000	<u>2012</u> SR 000
Fees & expenses charged for the year	6,733	-
Amount paid during the year	(5,437)	-
<b>Balance, end of the year</b>	<b><u>1,296</u></b>	<b><u>-</u></b>

**(ii) Alkhair Capital Saudi Arabia**

The Group directly and through Bank Alkhair B.S.C 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. The details of the transactions indirectly through Bank Alkhair B.S.C, are as follows:

**Transactions for Group's engagement through Bank Alkhair  
B.S.C**

	<u>2013</u> SR 000	<u>2012</u> SR 000
Fees and expenses shared during the year	1,406	-
<b>Total amount for the year</b>	<b><u>1,406</u></b>	<b><u>-</u></b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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For the year ended 31 December 2013 and the year ended 31 December 2012, no other transactions are entered into 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 2013 was SR 2.13 million (31 December 2012: SR 3.25 million), and the outstanding contribution as at 31 December 2013 is SR 155 thousand (31 December 2012: SR 230 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 (borrowings adjusted with 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 the following risks:

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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***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 trade 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 0.25% and 0.24% (0.42 % and 0.31 % for 2012) and SAIBOR varied between 0.96% and 0.95% (0.99% and 0.95 % for 2012).

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

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
+ 25 basis points	<u>14,973</u>	<u>11,101</u>
- 25 basis points	<u>(14,973)</u>	<u>(11,101)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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The net profit of the Group for the reported period 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 30%, as historically, the management capitalises approximately 30% 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 total weighted average effective annual commission rate for the year ended 31 December 2013 is 7.6% (31 December 2012: 6.7%)

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 2013 amounts to SR 85 million (31 December 2012: SR 107 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 2013, there were no significant claims notified (31 December 2012: None).