

DAR AL ARKAN

REAL ESTATE DEVELOPMENT COMPANY

SAUDI JOINT STOCK COMPANY

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AND AUDITORS' LIMITED REVIEW REPORT

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016

DAR AL ARKAN
REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' LIMITED REVIEW REPORT
FOR THE THREE-MONTH PERIOD ENDED 31MARCH 2016

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AUDITORS' LIMITED REVIEW REPORT

To the Shareholders

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

Scope of review:

We have reviewed the accompanying interim consolidated balance sheet of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group") as at March 31, 2016 and the related interim consolidated statements of income, cash flows and changes in shareholders' equity for the three-month period then ended and the related notes from (1) to (22), which form an integral part of these interim financial statements. These interim consolidated financial statements have been prepared by the Company and submitted to us with all the information and explanations which we required.

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

Review conclusion:

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

For Al-Kharashi Co.


Suliman Al-Kharashi
Certified Public Accountant
License No. (91)



6 Rajab 1437
April 13, 2016

Mohammed A Al-hajj



Mohammed A Al-hajj
Certified Public Accountant
License No. (119)



DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS AT 31 MARCH 2016

	Notes	2016 SR 000	2015 SR 000
ASSETS			
Current Assets			
Cash and cash equivalents		1,484,322	694,897
Accounts receivable, net	(5)	1,573,400	1,971,523
Prepaid expenses and others	(6)	977,325	930,216
Developed land – short-term		317,325	584,133
Total Current Assets		4,352,372	4,180,769
Non-Current Assets			
Projects in progress –long-term	(8)	8,723,930	9,194,942
Investments in land under development	(9)	6,075,402	5,522,252
Developed land – long-term		1,858,854	1,963,764
Investment properties, net	(10)	3,483,489	3,551,149
Investment in associates	(11)	781,007	766,907
Property and equipment, net	(12)	67,702	70,573
Deferred charges	(13)	828	-
Total Non-Current Assets		20,991,212	21,069,587
TOTAL ASSETS		25,343,584	25,250,356
LIABILITIES AND EQUITY			
Current Liabilities			
Islamic borrowings – current portion	(14)	1,495,189	759,984
Due to a related party	(7 b)	194,212	195,595
Accounts payable	(15)	174,791	179,303
Accrued expenses and others	(16)	728,958	791,861
Total Current Liabilities		2,593,150	1,926,743
Non-Current Liabilities			
Islamic borrowings	(14)	4,744,365	5,589,729
Provision for end-of-service indemnities	(17)	21,543	19,077
Total Non-Current Liabilities		4,765,908	5,608,806
Total liabilities		7,359,058	7,535,549
Shareholders' Equity			
Share capital	(18)	10,800,000	10,800,000
Statutory reserve		978,300	942,384
Retained earnings		6,206,226	5,972,423
Total Shareholders' Equity		17,984,526	17,714,807
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		25,343,584	25,250,356

Managing Director

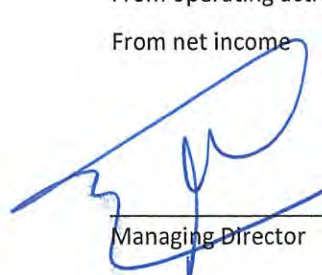


Chief Financial Officer

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016

	Notes	Three-month period ended	
		31 March 2016	31 March 2015
		SR 000	SR 000
Revenues from operations		434,607	722,357
Cost of operations		<u>(243,011)</u>	<u>(391,434)</u>
Gross profit	(4)	191,596	330,923
Operating expenses:			
General, administrative, selling and marketing expenses		(37,395)	(61,344)
Depreciation	(12)	(911)	(918)
Amortisation of deferred charges	(13,14a)	<u>(8,355)</u>	<u>(10,618)</u>
Income for the period from operating activities		144,935	258,043
Other Income / (expenses) :			
Share of income from investment in associates	(11)	3,300	3,500
Islamic Murabaha charges		(24,310)	(25,000)
Islamic Sukuk charges		(64,451)	(85,960)
Other (expenses)/ income, net		<u>(121)</u>	<u>504</u>
Income for the period before Zakat		59,353	151,087
Zakat provision		<u>(1,500)</u>	<u>(3,796)</u>
Net income for the period		<u>57,853</u>	<u>147,291</u>
Earnings per share for the period			
(in Saudi Riyal)	(19)		
From operating activities		<u>0.13</u>	<u>0.24</u>
From net income		<u>0.05</u>	<u>0.14</u>


Managing Director




Chief Financial Officer

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016

	2016	2015
	SR 000	SR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the period before Zakat	59,353	151,087
Adjustment for:		
Depreciation	19,152	17,220
Amortisation of deferred charges	8,355	10,618
Provision for end-of-service indemnities	934	735
Provision for doubtful debts	1,000	3,804
Share of income from investment in associates	(3,300)	(3,500)
Changes in operating assets and liabilities		
Accounts receivable	374,287	(227,549)
Prepaid expenses and others	(2,516)	(5,230)
Due from a related party	-	143
Developed land	224,770	196,012
Accounts payable	1,358	11,623
Accrued expenses and others	43,784	(18,501)
Cash generated from operations	727,177	136,462
Zakat paid	(13,675)	(20,000)
End-of-service indemnities paid	(364)	(202)
Net cash generated from operating activities	713,138	116,260
CASH FLOWS FROM INVESTING ACTIVITIES		
Projects in progress – long-term	(72,854)	(278,886)
Investments in land under development	(93,001)	(76,622)
Advance payments to purchase land	-	(108,289)
Investment properties	(93)	-
Investment in associates	(1,500)	-
Purchase of property and equipment	(197)	(212)
Net cash used in investing activities	(167,645)	(464,009)
CASH FLOWS FROM FINANCING ACTIVITIES		
Islamic borrowings	(62,191)	(1,267,533)
Short term deposit with banks	-	1,175,000
Due to a related party	(41)	(17)
Net cash used in financing activities	(62,232)	(92,550)
Increase/(decrease)in cash and cash equivalents	483,261	(440,299)
Cash and cash equivalents, beginning of the period	1,001,061	1,135,196
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	1,484,322	694,897


Managing Director




Chief Financial Officer

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016

	Share Capital	Statutory Reserve	Retained Earnings	Total Shareholders' Equity
	SR 000	SR 000	SR 000	SR 000
2015				
Balance as at 1 January 2015	10,800,000	942,384	5,825,132	17,567,516
Net income for the period	-	-	147,291	147,291
Balance as at 31 March 2015	<u>10,800,000</u>	<u>942,384</u>	<u>5,972,423</u>	<u>17,714,807</u>
2016				
Balance as at 1 January 2016	10,800,000	978,300	6,148,373	17,926,673
Net income for the period	-	-	57,853	57,853
Balance as at 31 March 2016	<u>10,800,000</u>	<u>978,300</u>	<u>6,206,226</u>	<u>17,984,526</u>



Managing Director

Chief Financial Officer

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016**

1. GENERAL INFORMATION:

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

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

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

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

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

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

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

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

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

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

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

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

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016 (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

2.2 ACCOUNTING CONVENTION

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

2.3 BASIS OF CONSOLIDATION

The interim consolidated financial statements of the Group incorporate the financial statements of the companies and enterprises controlled by the Group (its subsidiaries) made up to 31 March 2016.

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

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

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

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

Investments in associates

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

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016 (CONTINUED)

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

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

2.4 PROPERTY AND EQUIPMENT

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

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

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

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

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

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

2.5 REAL ESTATE ASSETS

Real estate assets principally comprise of projects in progress and developed land short term held for sale and long term projects in progress, long term developed land and investment in land under development, including property projects under construction, land projects under development and land waiting for development.

All real estate assets 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016 (CONTINUED)**

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

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 interim consolidated statement of income for the period of the retirement/disposal except those that relate to sale and leaseback arrangements.

2.7 FINANCE CHARGES

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

2.8 FINANCIAL INSTRUMENTS

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

Accounts receivable

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

Cash and cash equivalents

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

Held for trading investments

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

Financial liabilities

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016 (CONTINUED)**

Accounts payables

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

Commission rate swaps

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

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

2.9 IMPAIRMENT OF TANGIBLE ASSETS

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

2.10 REVENUE RECOGNITION

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

2.11 ZAKAT

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

2.12 FOREIGN CURRENCIES

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

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016 (CONTINUED)**

2.13 STATUTORY RESERVE

According to the article (125) of the Companies' Regulation, the Group retains 10% of net income against the statutory reserve. The Group may stop the deductions when this reserve reaches 50% of the share capital. This reserve is not available for dividend distribution.

2.14 END-OF-SERVICE INDEMNITIES

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

2.15 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.

2.16 LEASING

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

2.17 OPERATING EXPENSES

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

3. USE OF ESTIMATES

The preparation of interim consolidated financial statements in conformity with generally accepted accounting standards requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and activities actual result ultimately may differ from those estimate.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016 (CONTINUED)

Geographical regions

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

Products and services

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

Information in respect of these products is presented below:

	For the three-month period ended 31 March	
	2016 SR 000	2015 SR 000
REVENUES FROM OPERATIONS		
Sale of land	397,915	689,506
Leasing of properties	36,692	32,851
Total	434,607	722,357
COST OF OPERATIONS		
Land	224,770	375,132
Leasing of properties	18,241	16,302
Total	243,011	391,434
GROSS PROFIT		
Land	173,145	314,374
Leasing of properties	18,451	16,549
Total	191,596	330,923
5. ACCOUNTS RECEIVABLE, NET		
	2016 SR 000	2015 SR 000
Customers	1,592,419	1,989,542
Provision for doubtful debts	(19,019)	(18,019)
Total	1,573,400	1,971,523

Accounts receivable includes about 96%(31 March2015: 96%) receivables against land sales which are fully secured against such land parcels.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016 (CONTINUED)

6. PREPAID EXPENSES AND OTHERS

	2016	2015
	SR 000	SR 000
Advance payments to purchase land	944,627	879,727
Prepaid expenses and other assets	12,108	29,468
Advance payments to contractors	9,423	9,649
Employees' advances and receivables	6,296	5,708
Advance payments to suppliers	3,935	2,447
Short term investment- trading (note 6a)	900	3,181
Others	36	36
Total	977,325	930,216

a) Short term investment – Trading

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

	For the three-month period ended	
	31 March	
	2016	2015
	SR 000	SR 000
Balance, beginning of the period	804	3,181
Additions (purchase/sold)	-	-
	804	3,181
Realised gains	96	-
	900	3,181
Transfer/withdrawals	-	-
Balance, end of the period	900	3,181

Investment includes SR900 thousand as at 31 March 2016 (31 March 2015 SR 3.2 million) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

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7. RELATED PARTY TRANSACTIONS

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

a) Due from a related party

The details of the transactions with Saudi Home Loans are as follows:

	For the three-month period ended 31 March	
	2016 SR 000	2015 SR 000
Balance, beginning of the period	-	143
Collections/adjustments	-	(143)
Balance, end of the period	-	-

b) Due to a related party

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

	For the three-month period ended 31 March	
	2016 SR 000	2015 SR 000
Balance, beginning of the period	194,253	195,612
Repayment of advances	(281)	(257)
Profit charged	240	240
Balance, end of the period	194,212	195,595

c) Other related party transactions

(i) Bank Alkhair B.S.C

The Group engaged Bank Alkhair B.S.C, a non-associate entity, to provide general financial advisory, Shariah' compliance advises and management support for the recent international Sukuk. The details of the transactions, included in accounts payable (refer to note: 15), are as follows:

	For the three-month period ended 31 March	
	2016 SR 000	2015 SR 000
Balance, beginning of the period	115	115
Amount paid during the period	-	-
Balance, end of the period	115	115

For the three-month period ended 31 March 2016 and 2015, no other transactions were entered with entities that have common Board Members or Shareholders to the Group.

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8. PROJECTS IN PROGRESS

Projects in progress- long-term:

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Projects in progress	8,723,930	9,194,942
Total	<u>8,723,930</u>	<u>9,194,942</u>

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

During the period, the Group's management capitalised Islamic Sukuk charges in the amount of SR nil (31 March 2015: nil) under projects in progress.

9. INVESTMENTS IN LAND UNDER DEVELOPMENT

This represents the Group's co-ownership in land with third parties according to contracts for land development. The amount includes SR 364.5 million (31 March 2015: SR 364.5 million) as advance paid against new project.

10. INVESTMENT PROPERTIES, NET

	For the three-month period ended 31 March	
	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
COST		
At beginning of the period	3,717,560	3,714,149
Additions	93	-
At end of the period	<u>3,717,653</u>	<u>3,714,149</u>
ACCUMULATED DEPRECIATION		
At beginning of the period	215,923	146,698
Charged during the period	18,241	16,302
At end of the period	<u>234,164</u>	<u>163,000</u>
CARRYING AMOUNT AT THE END OF THE PERIOD	<u>3,483,489</u>	<u>3,551,149</u>

Included within investment properties is land with an original cost of SR 578.1 million (31 March 2015: SR 578.1 million).

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11. INVESTMENT IN ASSOCIATES

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

	For the three-month period ended 31 March	
	2016	2015
	SR 000	SR 000
Balance, beginning of the period	776,207	763,407
Additions	1,500	-
Share of income	3,300	3,500
Balance, end of the period	<u>781,007</u>	<u>766,907</u>

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

Name of the entity	Amount invested SR 000	% of Holding
Saudi Home Loans	120,000	15%
Alkhair Capital Saudi Arabia	102,000	34%
Khozam Real Estate Development Company (i)	525,547	51%
Juman Company	1,500	18%
Accumulated share of profit, net	<u>31,960</u>	
Balance, end of the period	<u>781,007</u>	

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

- (i) The Group had invested 51% in Khozam Real Estate Development Company (KDC), with Jeddah Development and Urban Regeneration Company (JDURC). As per the arrangements the power to govern the financial and operating activities which affect the returns of KDC is jointly bestowed with the shareholders, accordingly the Group does not have any right to variable returns or absolute power to control with the ability to affect the returns of the investee company, consequently the Group's investment in KDC is accounted for as investment in associates under equity method of accounting.
- (i) The KDC investment include SR 250 million as an exclusive right to participate in Khozam project development and SR 276 million as capital contribution fully paid in cash. The other shareholder (JDURC) contributed SR 265 million worth of land as capital contribution. The management believes that there is no diminishing in the value of the total investment.

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12. PROPERTY AND EQUIPMENT, NET

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

	Land and Buildings SR 000	Leasehold improvements SR 000	Vehicles SR 000	Machinery and tools SR 000	Office Equipment SR 000	Total SR 000
Cost						
Balance at 1 January 2016	109,145	19,037	8,447	13,509	41,446	191,584
Additions for the period	-	-	-	-	197	197
Balance at 31 March 2016	<u>109,145</u>	<u>19,037</u>	<u>8,447</u>	<u>13,509</u>	<u>41,643</u>	<u>191,781</u>
Accumulated Depreciation						
Balance at 1 January 2016	42,123	19,037	8,445	13,480	40,083	123,168
Depreciation for the Period	754	-	-	8	149	911
Balance at 31 March 2016	<u>42,877</u>	<u>19,037</u>	<u>8,445</u>	<u>13,488</u>	<u>40,232</u>	<u>124,079</u>
Net book value 31 March 2016	<u>66,268</u>	<u>-</u>	<u>2</u>	<u>21</u>	<u>1,411</u>	<u>67,702</u>
Net book value 31 March 2015	<u>69,284</u>	<u>-</u>	<u>2</u>	<u>50</u>	<u>1,237</u>	<u>70,573</u>

Included within land and buildings are land with an original cost of SR 9.50 million (31 March 2015: SR 9.50 million).

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13. DEFERRED CHARGES, NET

The movement during the period is as below:

	For the three-month period ended 31 March	
	2016 (Unaudited) SR 000	2015 (Unaudited) SR 000
Balance, beginning of the period	-	-
Additions during the period	828	-
Amortisation charge for the period	-	-
Balance, end of the period	828	-

14. ISLAMIC BORROWINGS

	2016 SR 000	2015 SR 000
Islamic Sukuk	4,312,500	4,312,500
Islamic Murabaha	2,016,302	2,136,072
	6,328,802	6,448,572
Less: Un-amortised transaction costs	(89,248)	(98,859)
Islamic borrowings – end of the period	6,239,554	6,349,713
Less: Islamic borrowings – current portion	(1,495,189)	(759,984)
Islamic borrowings - long-term	4,744,365	5,589,729

(a) *Islamic borrowings transaction costs:*

	For the three-month period ended 31 March	
	2016 SR 000	2015 SR 000
Balance, beginning of the period	97,373	107,790
Additions during the period	230	1,687
Amortisation charge for the period	(8,355)	(10,618)
Balance, end of the period	89,248	98,859

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Analysis of borrowings:

Islamic Sukuk

This represents SR 4.3 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 Al-Arkan Sukuk Company Ltd. at 5.75% and maturing in 2018.
- 2) 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.
- 3) SR 1.50 billion (USD 400 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.5% and maturing in 2019.

Islamic Sukuk listed above are denoted in US dollars. Since the Saudi Arabian Riyal is limited to fluctuations in the US Dollar there is no exposure to foreign exchange risk. The investment profit is payable to the Saudi SPV, through which the Sukuk was issued, by the sale of properties owned by the Group. The beneficiary rights of these properties are with Dar Al Arkan Real Estate Development Company and its subsidiaries with the rights to buy back the ownership of these properties upon the full repayment of the Sukuk. The Group has issued a corporate guarantee to the Sukuk holders.

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 March 2016.

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 11 years with various repayment schedules like annual roll revolvers, bullet payments and installment repayments ranging from quarterly and half yearly as detailed below.

Summary of the Murabahas:

Maturity date	Outstanding	Short-term	Long-term
	Balance		
	SR 000	SR 000	SR 000
2016	115,002	115,002	-
2017	130,000	65,000	65,000
2020	1,312,500	170,625	1,141,875
2023	158,800	16,200	142,600
2027	300,000	14,000	286,000
TOTAL	2,016,302	380,827	1,635,475

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 March 2016.

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15. ACCOUNTS PAYABLE

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Contractors	150,345	161,917
Suppliers (a)	13,859	10,012
Advances from customers	5,436	7,072
Others	5,151	302
Total	<u>174,791</u>	<u>179,303</u>

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

16. ACCRUED EXPENSES AND OTHERS

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Zakat provision (a)	543,582	588,131
Islamic Sukuk charges	88,834	89,639
Dividend payable	35,356	35,393
Islamic Murabaha charges	25,414	18,135
Accrued expenses	19,167	18,324
Unearned revenue	16,605	42,239
Total	<u>728,958</u>	<u>791,861</u>

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

	For the three-month period ended	
	31 March	
	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Balance beginning of the period	555,757	604,335
Estimated Zakat for the period	1,500	3,796
Paid during the period	<u>(13,675)</u>	<u>(20,000)</u>
Estimated Zakat provision, end of the period	<u>543,582</u>	<u>588,131</u>

b) The Company has received the assessments from DZIT for the years 2003 to 2009. The Company has not received DZIT assessment for year 2010 and 2011. The company had filed the consolidated zakat return for years 2012, 2013 and 2014 and the filing of 2015 is currently under process.

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17. PROVISION FOR END-OF-SERVICE INDEMNITIES

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

	For the three-month period ended 31 March	
	2016 SR 000	2015 SR 000
Balance, beginning of the period	20,973	18,544
Charged to expenses during the period	934	735
Paid during the period	(364)	(202)
Balance, end of the period	21,543	19,077

18. SHARE CAPITAL

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

19. EARNINGS PER SHARE

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

	For the three-month period ended 31 March	
	2016 SR 000	2015 SR 000
<i>Earnings</i>		
For the purpose of basic earnings per share:		
Income for the period from operating activities	144,935	258,043
Net income for the period	57,853	147,291
<i>Number of shares</i>		
Weighted average number of ordinary shares	<u>Number</u>	<u>Number</u>
For the purpose of basic earnings per share	1,080,000,000	1,080,000,000

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

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of bank balances and cash, due from related parties and trade and other receivables. Financial liabilities consist of trade accounts payable, accruals, due to a related party and Islamic borrowings.

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Credit Risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's bank balances, due from related parties and trade and other receivables.

Cash balances are deposited with a number of major high-credit rated financial institutions and has a policy of limiting its balances deposited with each institution.

Trade and other receivables are subject to "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 appropriate allowances for uncollectible amounts, whenever it's needed.

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 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 policy to hedge and manage its variable commission rate risk exposures, if any, with shariah' complaint commission rate swap whenever applicable. 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 and SAIBOR.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in realizing assets or otherwise raising funds to meet commitments associated with financial instruments.

The liquidity risk is closely monitored through regular review of available funds and the cash flows from asset realizations against present and future commitments.

Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange values. Management monitors fluctuations in foreign currency exchange rates, and believes that the Group is not exposed to significant currency risk since the Group's functional currency is the Saudi Riyal, in which the Group transacts, which is currently fixed, within a narrow margin, against the U.S. dollar.

Fair value of financial instruments

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. As the interim consolidated financial statements are prepared under the historical-cost convention, differences can arise between the book values and fair-value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

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21. COMMITMENTS

As at 31 March 2016, the Group has commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 49 million (31 March 2015: SR 49 million), and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 March 2015: SR 74 million).

22. INTERIM RESULTS

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