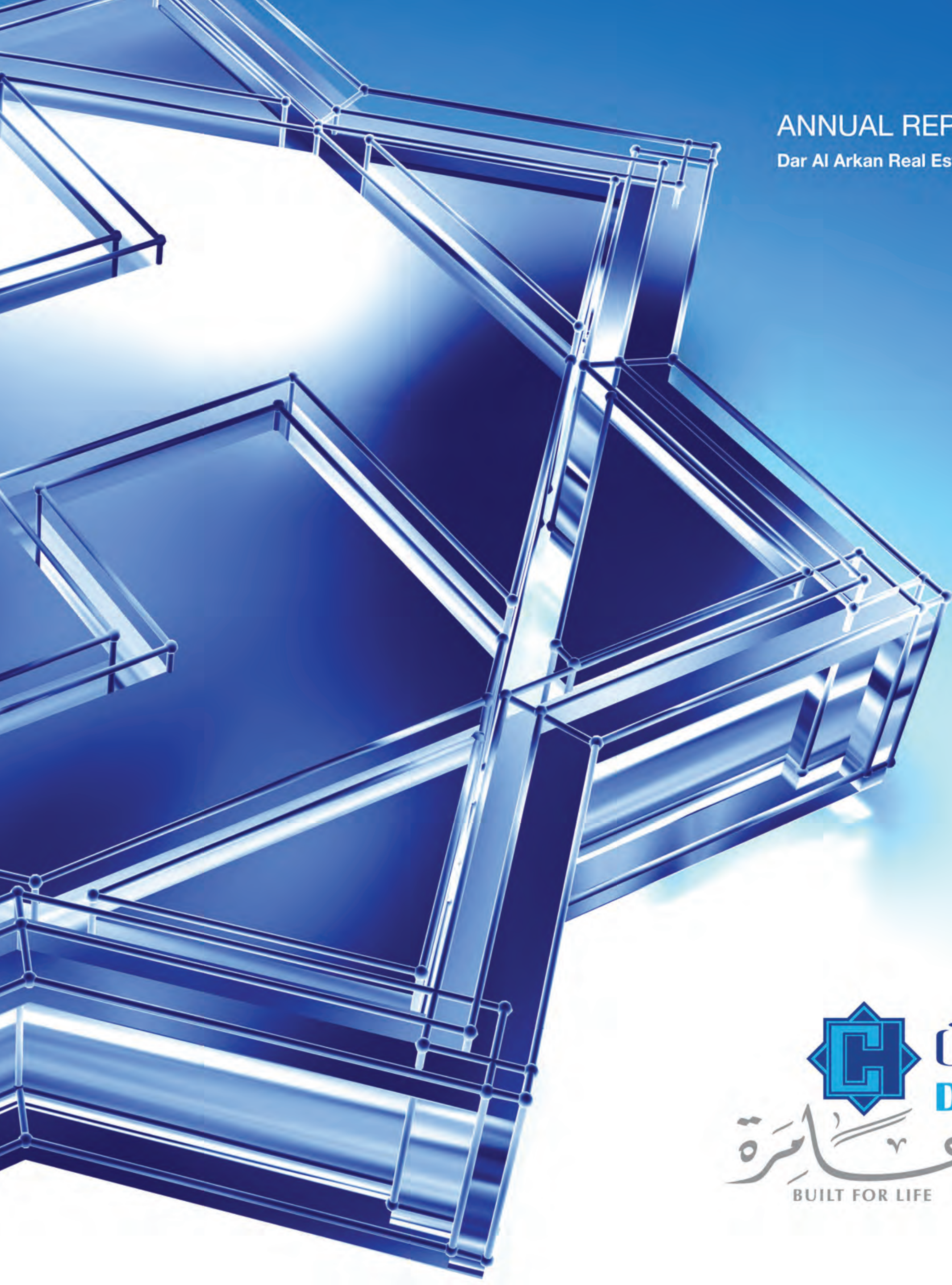

ANNUAL REPORT 2011

Dar Al Arkan Real Estate Development Company

دار الأركان
DAR AL-ARKAN

عامرة
BUILT FOR LIFE

Head Office: Riyadh-Al-Ma'ather

Kingdom of Saudi Arabia

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ir@alarkan.com

بسم الله الرحمن الرحيم

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King Abdullah
bin Abdulaziz Al Saud

The Custodian
of the Two Holy Mosques

Crown Prince
Naif bin Abdulaziz Al Saud

Deputy Premier
and Minister of Interior

Members of the Board

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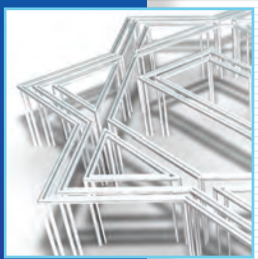

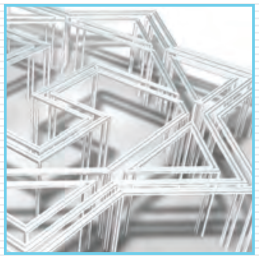

Yousef A. Al-Shalash

Chairman

Majed S. Al-Roumi

Member of the Board

Tariq M. Ali Al-Jarallah

Member of the Board

Khalid A. Al-Shalash

Member of the Board

Abdullatif A. Al-Shalash

Managing Director

Hathloul S. Al-Hathloul

Member of the Board

Abdul Alrahman A. Al-Husain

Member of the Board

Abdulaziz A. Al-Shalash

Member of the Board

Abdul Karim H. Al-Babtain

Member of the Board

Majed A. Al-Kasem

Member of the Board

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BUILT FOR LIFE

Al Qasr Mall Project

Adjacent to Al Qasr residential and commercial project, not far from King Fahd road, is one of the liveliest roads in Riyadh city on a land area of 65,000 square meters and a lease space of 78,000 square meters. The Mall is strategically located mid south of Riyadh in an area suffering shortage of this type of trading centers despite the high purchasing power of its inhabitants of more than one million. The mall design is on par with the world's best modern architecture. It has a built-up area of 235,000 square meters accommodating more than 300 retail stores, and has parking for more than 2,000 cars. In addition, the mall includes a children's amusement zone and a food court. Furthermore, the mall has the largest exterior lighting façade in the Middle East extending along 800 meters and which can be used for advertising purposes.


القصر
ASR MALL
alQASR MALL

General Information

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Commercial Name : Dar Al-Arkan Real Estate Development Company

Legal Status: Saudi Public Joint Stock Company

Current Capital: SAR 10,800,000,000

Number of Shares: 1.080,000,000 Share

Value of Share: SAR 10

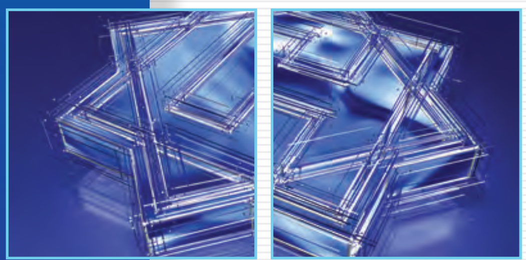
Head Office: Riyadh

Total number of projects : 21

The Company's activities

Dar Al Arkan Real Estate Development Company (DAAR), is a Saudi public Joint Stock Company founded in 1994. The Company operates in Saudi Arabia and its main activity is Real Estate development. The Company will seek to maximize returns and diversify its sources of income through property management and Real Estate investment activities as well as the sale of residential units and land.

Vision and Mission



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OUR VISION

To become the largest, highly regarded Saudi Arabia-based developer of integrated communities in Saudi Arabia.

To provide construction productivity and services excellence on par with the world best; to maintain a balanced portfolio of leased income and for sale residential, commercial and recreational properties that continually produce returns equal to the yields of leading global companies.

OUR MISSION

To develop integrated urban communities with all necessary social, commercial, recreational and cultural amenities to create a great Saudi living experience. We strive to achieve this through a highly productive and cost-effective construction and operation, while diversifying risk through a strong synergetic portfolio of commercial leased income properties.

BUILT FOR LIFE

Chairman Message

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Yousef Abdullah Al Shalash

It is a pleasure to present to you the annual report for the year ending 31/12/2011. The main point to share with you is that the Company's investment performance was balanced and flexible to absorb various risks despite the negative economic impact of the "Arab spring revolutions" in the region, gloomy economic global forecasts and the impact of the international financial crisis, which has resulted in scarcity of internal and external funding sources. This was possible due to DAAR's risk management policies that ensured that such conditions and negative impact were mitigated at the highest possible level. DAAR was able to achieve reasonable profit margins and successfully implemented its strategy towards enhancing the performance of its medium and long-term investments.

The accomplishments of the year ending 31/12/2011 in terms of productive activities were achieved by enhancing growth opportunities through diversifying the investment base to include property management, residential units and land sales whereby the Company started to generate fixed and renewable income from property leasing. As for the investments during the year 2011, the Company has invested 845 million Riyals in Real Estate with rewarding returns and invested 1,300 million Riyals in different Company projects.

It is important to mention that the 2011 fiscal year was affected by a decline in revenue as well as net profit; however, profit margins remained at economically acceptable rates. Moreover, the same fiscal year witnessed growth in shareholders' equity ratio of 7.2% as well as growth in the asset base of 3.2%.

Total revenues amounted to 3,313 million Saudi riyals versus 4,142 million Saudi riyals in 2010 (an average decline of 20%). These revenues were generated from the activity of Real Estate development, which included sales of land and housing units. The net income amounted to 1,088 million Saudi riyals in 2011 versus 1,456 million Saudi riyals in 2010 (an average decline of 25%).

Our commitment to meet due financial commitments and sustain excellence of our credit record in domestic and international financial markets obliged us to focus, during 2011, on the collection and accumulation of cash liquidity simultaneously with continued allocation of resources to the Company's production operations. Cash liquidity by the end of the year 2011 was about 2.5 billion Saudi riyals (an increase of 111% of cash accumulated by the year ending 2010). During the same year the Company succeeded in meeting all funding obligations, whether obligations of the periodical return on funding, which amounted to 374 million Saudi riyals, or reimbursement of principal funding, which was totaling 549 million riyals.

We have to realize that due to DAAR'S strong financial model, solid & diversified assets base and its leading position as the largest company in the Saudi Real Estate sector, the Company succeeded in managing all funding scarcity related risks during the recent period. The Company proved capable of allocating sufficient funds to complete the implementation of its plans and meeting its commitments to its investors and partners of contractors and suppliers, specifically in such difficult period that suffers numerous risks and challenges, which have driven numerous major institutions and economic relations into disintegration and disarray.

We are hoping for the best in 2012 and we are optimistic that funding opportunities and solutions will be available in the foreseeable future, particularly the housing sector as it has become the focus of the Royal Decrees issued in March 2011. The Real Estate sector has been subsidized by about 300 billion Riyals, which will positively be reflected on demand for land and residential units in both short & mid-terms. Moreover, a Ministry of Housing has been established, the government procedures have started to develop and the mechanisms of Real Estate Development Fund (REDF) have been improved to pave the way for possible cooperation between the REDF and developers. It should also be noted that local banks and major government financial institutions have become more interested in financing Real Estate projects, such as the funding facility provided for Qasr Khozam project. These indications enhance our vision of the numerous feasible opportunities in the Saudi Real Estate sector, which will positively be reflected on growth in the near future.

Finally, I have the pleasure to extend my sincere thanks to my colleagues, our respectful Board members for exerting appreciated efforts and offering constructive ideas. I would also want to thank our executive management as well as our dedicated staff who served the Company to the best of their abilities. I would also like to extend my sincere gratitude to our customers and shareholders for their great confidence vested in us.

Best regards

Shams ArRiyadh Project

Located Northwest of Riyadh city, the Company is developing an integrated luxurious residential high-class community that will be an enchanting place blending nature's beauty with modern technology. The project leverages its location overlooking the charming Wadi Haneefa - it is to be developed as the project's own natural valley with suitable landscaping. Furthermore, the project master plan incorporates landscaped gardens and terraces, as well as designated spaces for different sports, social and cultural activities, public amenities and other urban community facilities. The project model will see the establishment of a smart residential quarter with a multi-service digital structure that will enable inhabitants to use a range of visual and audio media applications and information platforms. Besides, the linking of buildings and property management systems to a unified network will allow residents to enjoy high-speed internet access, incorporating telecommunications, wireless solutions, network protection systems, and building surveillance, security and safety, air-conditioning, lightening, and fire fighting systems. The system enables the residents to program systems and control remotely air-conditioning and lightening systems to work upon request or as scheduled to raise the efficiency of the installed equipment and save on the electrical power consumption in buildings.

Board of Directors Report

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To Shareholders of Dar Al Arkan Real Estate Development Company

The Board of Directors at Dar Al-Arkan Real Estate Development Company is pleased to submit its report on Company's performance and the results of its activities for the fiscal year 2011.

BUILT FOR LIFE

The Company's Activities

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1 The Company's Activities

Dar Al Arkan Real Estate Development Company, is a Saudi Public Joint Stock Company started its business in 1994 under Commercial Registration No. 1010160195 and converted to a joint stock company in 2005 under Ministerial decree number 1021 dated 10/06/1426H, corresponding to 17/07/2005 G.

The Company operates solely in the Kingdom of Saudi Arabia and its main activity is Real Estate development. The Company established a number of companies with limited liability in order to facilitate the achievement of its strategic objectives by diversification of investment portfolio and sources of income instead of relying on limited market sources.

1.1 The Company's Subsidiaries

1.1.1 Dar Al-Arkan Projects Company

Dar Al-Arkan Projects Company is a limited liability company, a wholly owned subsidiary, the 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).

1.1.2 Dar Al-Arkan Properties Company

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.

1.1.3 Dar Al-Arkan Investment Company

Dar Al-Arkan 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, acquisition of, and investment in Real Estate.

1.1.4 Dar Al-Arkan Sukuk Company

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.

1.1.5 Al-Arkan Sukuk Company

Al-Arkan Sukuk 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 Estate, purchase of land and general contracting.

1.1.6 Investments Defined by the Rules of CMA as Subsidiary Companies

1.1.6.1 Khozam Development Real Estate Company

The company was established exclusively for the development of Qasr Khozam project, which is a joint venture between Jeddah Development and Urban Regeneration Company (49%), a company wholly owned by Jeddah Municipality, and Dar Al-Arkan (51%). This company is registered in Jeddah under Commercial Registration No. 4030193909 dated 25/10/1430H, (corresponding to 14/10/2009G), established as a limited liability company with headquarters based in Jeddah.

1.1.6.2 Alkhair Capital Saudi Arabia

The Company owns a stake of 34% of Alkhair Capital Saudi Arabia. Alkhair is licensed by the Saudi Arabia's Capital Markets Authority to deal as principal and agent (except for the implementation of marginal deals), underwriting, management, arrangement and financial advisory services. Alkhair Capital Saudi Arabia is a closed Joint Stock Company, registered in Riyadh under commercial registration No. 1010264915 dated 27/3/1430 AH (corresponding to 3/24/2009), with its headquarters in Riyadh city. It is worth noting that the company's name was changed from Unicorn Capital Saudi Arabia (UCSA) to Alkhair Capital Saudi Arabia during 2011.

2 The Company's Activities and its contribution to Revenue

The following is a description of the Company activities and its contribution to the Company's revenue during the year. Although all of the Company and its subsidiaries operations are within the kingdom of Saudi Arabia, Management looks at its operations as three distinct segments.

2.1 Real Estate Development:

This segment concentrates on the sale of residential and commercial properties as well as the sale of land to investors and developers. During the fiscal year 2011, the sale of residential and commercial units accounted for SAR 77 million. This is 2.3% of the Company's total revenues compared to SAR 377 million, or 9.1% of revenues in 2010. The earnings from the sale of land, on the other hand, added SAR 3,220 million accounting for 97.2% of the Company's total revenues in 2011 compared to a value of SAR 3,765 million which constituted 90.5% of 2010 revenues.

2.2 Property Management:

Revenues are derived from rental income generated by investment properties, as well as income earned from the management, operation and maintenance of residential and commercial buildings and public facilities. By the end of 2011 revenues generated by property management accounted for SAR 15 million representing 0.45% of the Company's total revenues. During 2010 there was no significant revenue generated from property management

2.3 Investment Activities:

This segment focuses on making strategic investments in companies, which management believes, is complementary to Dar Al-Arkan's Real Estate development operations. During 2011, such investments had no significant impact on the Company's net profits where the contribution of these investment activities accounted for less than 1% of net profit.

The Company will seek to maximize returns and diversify its sources of income through property management and investment activities as well as the sale of residential units and land. The Board of Directors admits that the Company undoubtedly has the ability to continue and sustain its activities.

3 Saudi Real Estate Sector Overview

3.1 Current Position of the Saudi Real Estate Market

Since the last quarter of 2008, the world has gone through a financial crisis triggered by the mortgage crunch in the US, where low underwriting standards were used to grant mortgage loans for residential purchases to borrowers who ultimately defaulted on these loans. Later the effects of this crisis spread across Europe, Asia, Gulf States and developing countries with differing impacts. The crisis imposed a huge burden on the international financial system, and all industries, more deeply influencing the Real Estate sector. The market value of Real Estate assets all over the world dropped precipitously, including the Gulf States and North Africa. Further, Real Estate volumes also declined sharply according to market research reports of leading analysts from around the world.

Since the outbreak of the crisis, the key factors indicating impact on different markets appeared to depend on economic and legislative structuring of the Real Estate sector in different economies. For example, the extent of market openness to foreign investments, the extent of sector reliance on bank financing and extent to which the market is undergoing internal demographic catalysts like rates of supply and demand, demographic structure, etc. In view of the Saudi economy and the Real Estate sector, we notice that the Saudi economy is the largest in the area with great potential for growth, therefore, capable of absorbing the aftermath of the global economic crisis. This is evident in the historical state budgets announced by the Saudi government during the previous years following the crisis, particularly in 2011 where the budget reported revenues of SR 1.1 trillion and an unprecedented surplus of SR 306 billion. Furthermore, the Saudi economy incurs the least debts in the public and private sectors. In addition, the Kingdom has the largest oil reserve in the world. This strong economy is enhanced by positive internal demographic factors. The kingdom has one of the fastest population growths, which counts, according to last census, more than 27 million people. Moreover, the Saudi population structure is mostly youth; approximately 50% of the population is below 20 years of age. Also, the Kingdom has one of the fastest urbanization rates. While considering in light of the local demand, economic protection, and economic and legislative structuring, we find that the Saudi Real Estate sector had little exposure to the global financial crisis. This was evident as the Real Estate assets maintained their price position and growth rates around the Kingdom. Also, good investment opportunities were available despite the credit crunch. The only impact felt on the Saudi Real Estate sector was shortage in finance for Real Estate developers as compared to pre-crisis period due to banks' and other financial institutions' strict and conservative policy towards lending and financing of Real Estate investments that limited development expansion and production output.

Looking forward, given the current structural and legislative reforms in the sector, we are optimistic about the investment opportunities that would be available. The Kingdom Real Estate sector will, therefore, be a center of direct investment, not to mention the self-sufficiency and large local market, which is less reliant on international capital resources. The available opportunities prevail in all sector constituents: development of land, residential units, management of residential and commercial properties and other utilities.

The Capital Market Authority (CMA) selected a large sample of company's Real Estate portfolio with book value of SAR 9.7 billion, accounting for 52% of the Company's total investments in Real Estate of SAR 18.6 billion and asked the Company to have it valued by independent local and international Real Estate valuators selected by CMA. Each property was evaluated by at least two valuators. The sum of the average valuations amounting to SAR 14.8 billion for the selected sample implies an inherent surplus of SAR 5.1 billion above the value recorded in Company's books. Based on the valuation methodology employed and the sampling done, the Company's management believes that the 153% market value (versus book value) of these assets is reasonably indicative of the general value improvement across the Company's total Real Estate portfolio of SAR 18.6 billion. If this value improvement were to be captured in the Company's books it would have a very significant positive impact on its financial statements. However, in accordance with SOCPA, the accounting standards applicable in the Kingdom, all Real Estate investments are recorded in the Company's books at the lower of cost or market value and cannot be recorded at market value.

3.2 Historical Overview of the Saudi Real Estate Sector

Before the 1960s, a majority of the Kingdom's population lived in rural areas, with only a small proportion living in urban areas. At the time, population of current major cities was merely in the thousands.

During the 1960s, the Kingdom began producing oil on a large-scale basis, which led to the country formulating and implementing formal development plans marked by the launch of the first five-year development plan by King Faisal. As health, education and infrastructure services were made available thanks to the development plans, more rural inhabitants started to migrate towards urban centers, causing the start of the urbanization era.

The 1970s witnessed continued migration of rural and tribal population towards the urban centers leading to dramatic growth of the big cities. During this decade, a baby boom was experienced with average family size reaching 6.5 members. This decade also experienced an oil boom that allowed the government to expand its development plans to meet the needs of the growing population and lead to increase in family incomes. To improve living conditions in cities and villages, such development plans included introduction of urban and regional planning frameworks, granting of lands and establishment of Real Estate Development Fund (REDF) to provide interest-free loans for construction of houses.

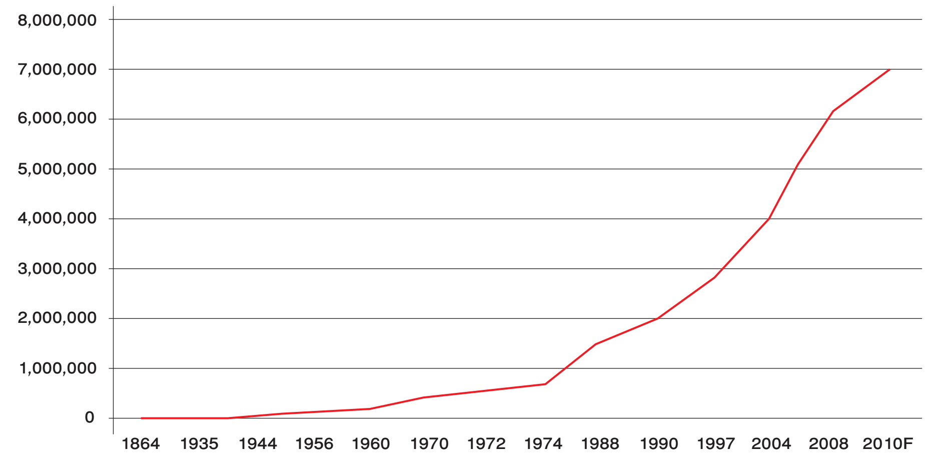
During the 1980s, while rising population pushed up demand for houses, the decline in international oil prices limited the funds that were made available to REDF; as a result, REDF was not able to meet all loan applications. By the end of 2009, more than 650,000 loan applications were pending at REDF. This lack of funding constrained growth of the Real Estate markets, especially the low and middle-income segments.

During the 1990s, the government began to encourage the private sector to engage in the Real Estate sector, and changed its own role from being a provider of housing to being the industry regulator and facilitator for private sector developers. Further, it began limiting its grants only to the low-income category of loan applicants. As a result, this period saw the emergence of small-scale Real Estate developers focused on the business of developing land and residential projects.

During the first decade of the 21st century, the housing shortage continued to worsen with new housing supply by the Real Estate industry, both public and private, not even fulfilling the incremental demand. Faced with this situation, the Ministry of Economy and Planning, along with other government agencies appointed leading consultancy firms to establish the current and future housing demand and develop appropriate mechanisms to address this demand, particularly for the targeted categories. In addition, the government started preparing for introduction of mortgage legislation. Additionally, during this period, the Kingdom saw the emergence of comprehensive urban development and master plans.

In March 2011, the housing sector benefitted from the issuance of Royal Decrees whereby approximately SAR 300 billion is to be injected into the housing sector; this will provide a significant boost to the housing sector in the short and medium run. In addition, the government has also undertaken other measures to support the housing industry - it created a new Ministry of Housing, improving of government procedures, and modernization of Real Estate Development Fund (REDF) working mechanism. Simultaneously, banks have begun to ease lending for Real Estate projects and major government financial institutions have also started supporting mega Real Estate projects.

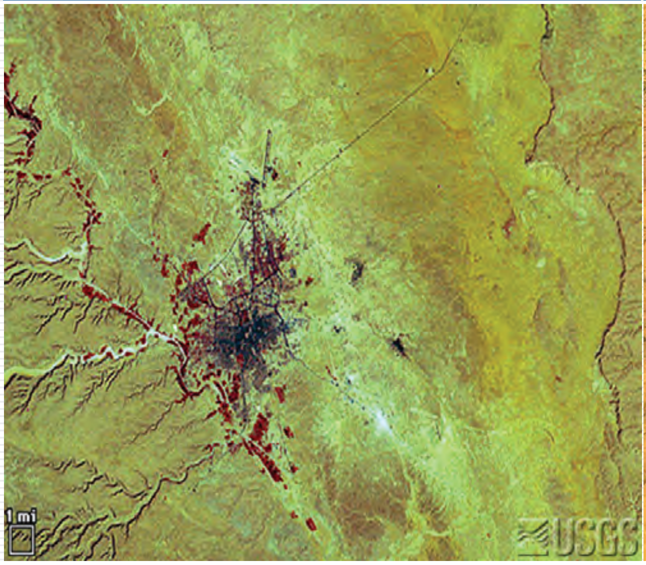
Riyadh Population



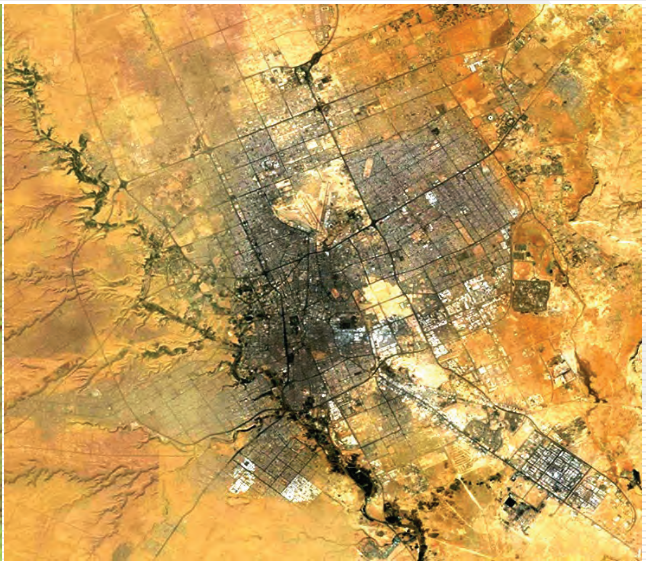
Source Al Riyadh news paper

3.4 Riyadh City – An Example of a Fast Urban Development

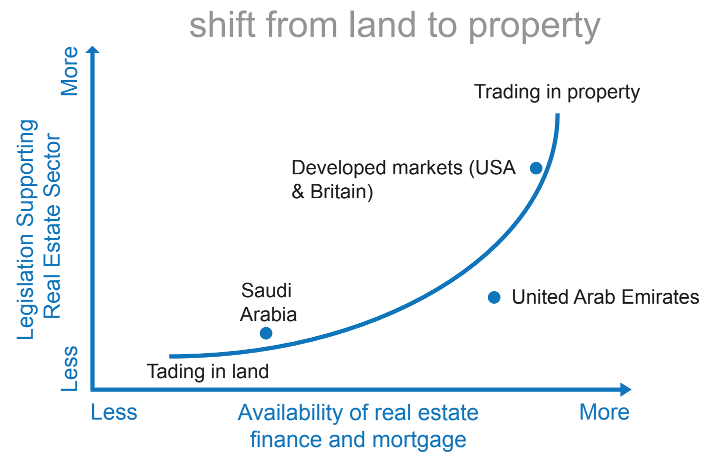
Riyadh in 1972 Source: United States Geographical Survey



Riyadh in 2011 Source: Google Earth



Saudi Real Estate Market Compared to Advanced Markets in Terms of the Relationship between the Availability of Mortgage Finance and Legislation



The above illustration shows how the improved availability of Real Estate finance and mortgages along with improved legislations supporting the Real Estate industry lead to a shift in Real Estate markets from a “land model” to a “property model”.

3.6 Comparison between local and international Real Estate sector :

Market Feature	Developed Real Estate Markets	Saudi Real Estate Market	DAAR’s Current Business Model
Depth of secondary markets in land versus properties	Buyers prefer to buy finished properties; limited land available	High volumes of land transactions and fewer property transactions	Continue to rely predominantly on land sales; limited property sales
Availability of bank funding for development	Banks willing to finance large-scale development projects	Limited availabilty of finance from FIs for Real Estate projects.	Project finance mix depends mostly on self finance from land sales transactions. A smaller part is genrated from external sources of finance in accords to the ral estate business cycle (e.g. Sukuk).
Sufficent financing for ready made units and off-plan units	Diversified providers compete to provide mortgages for ready made ans off-plan units.	Limited availability of mortgages; availabilty only for ready made units.	Develop limited number of units to increase visibility of the development e.g. Shams ArRiyadh

3.7 Saudi Real Estate Market – Fundamental Variations

The Saudi Real Estate market has some fundamental variations compared to other Real Estate markets in the Middle East and North Africa and developed markets elsewhere, as shown below:

3.7.1 Variations Attributed to Historical Investment Patterns in the Sector

Real Estate, a storehouse of wealth	The steady increase and stable nature of Real Estate prices in the Kingdom over the last forty years, has reinforced the image of land as a "storehouse of wealth" among Saudi investors. The limited availability as well as limited awareness of other investment options, has also led to marked preference for Real Estate assets as compared to other asset categories such as shares and securities (considering the historical limitation of local capital market).
Investment in Real Estate is Shariah-compliant	Saudi investors preference for Shariah-compliant investment products as evidenced by the 66% interest-free bank deposits held by Saudi banks(1), has also benefitted the Real Estate sector as investment in land provides Shariah-compliant returns.
Saudi Real Estate sector has limited reliance on bank funding	Historically, only limited bank funding has been available to the Real Estate sector due to the policies and regulations of Saudi Arabian Monetary Agency (SAMA). Real Estate owners are less exposed to credit market pressures, which otherwise might force many of them to liquidate their land holdings at the same time. As a result, the sector is largely protected from the systemic volatility that can be induced by financial and credit market upheavals.

(1) SAMA Report

3.7.2 Variations Attributed to the Sector's Structure

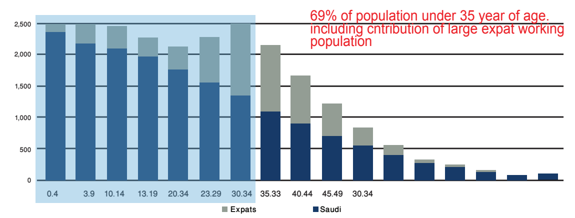
Fragmented market populated by many small developers	Limited availability of bank funding has constrained the emergence of large developers and the Real Estate market continues to be characterized by large numbers of small-scale developers and contractors who rely on their own equity. Shortage of Real Estate supply: Unlike mature economies where market forces ensure that supply of new houses overcomes any shortfall within a reasonable period, the Saudi market is very different. Not only has there been a lengthy period during which demand has not been fulfilled, but this shortfall is rapidly growing due to steadily rising Saudi population.
Real Estate Development requires high equity contribution by developers	Real Estate development in Saudi Arabia requires huge equity capital as banks exposure to Real Estate sector has been low due to the policies and regulations of SAMA. Furthermore, as compared to developed countries, lack of legislation supporting mortgage finance and off-plan sales has also limited the funds available to the sector.
Foreigners ownership is restricted	Unlike other GCC countries viz. UAE, Bahrain and Qatar, Saudi Arabia does not allow foreignersí to own properties for investment purposes. While this has limited availability of hot money, it has also insulated the Real Estate market in the Kingdom from excessive speculation, which could have led to high volatility in prices. As a result, Real Estate developers make investment decisions based on the prevailing appetite of local investors and demand for housing by Saudi families.

3.8 Saudi Real Estate Market is Characterized by a Very Favorable Demographic Make-Up

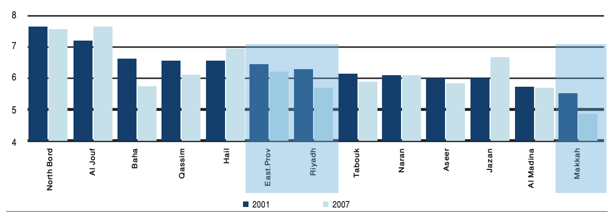
A Favourable Demographic Make-up

Increasing population and decreasing average household size likely to have positive effect on absolute housing demand

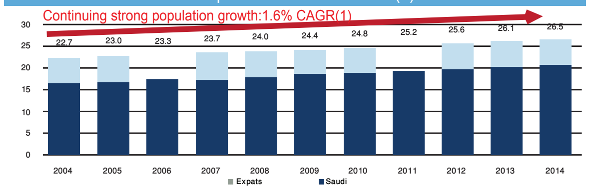
Population Distribution by Age Group(1)



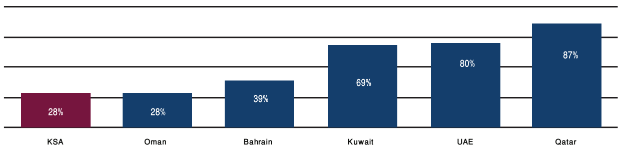
Declining Household Size (3) Supporting Increased Demand



Population Growth Forecast(2)



Expats as % of Total Population (2009)

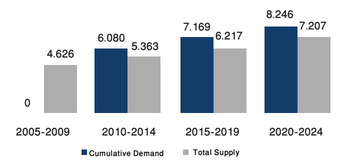


Leading to Singnificant Demand - Supply Forecast

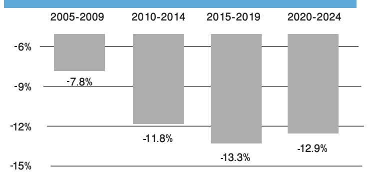
Ongoing supply shortfall forecast in residential units

Total Residential Units

1000 Units



Cumulative Shortfall



Commentary

- Growing population, declining household size and increasing number of marriages (130,000 p.a in the last 5 years, increasing from an average of less than 100,000 p.a.) supports strong demand especially at the lower end of the market
- Estimated demand of c.1mn housing units for every 5 years period
- Residential demand is concentrated in the metropolitan areas where DAAR is active: Riyadh, Makkah and Eastern province are all expected to suffer from undersupply
- Ministry of Economy & Planning estimates that these 3 regions account for 71% of total new housing demand and 63% of total replacement demand

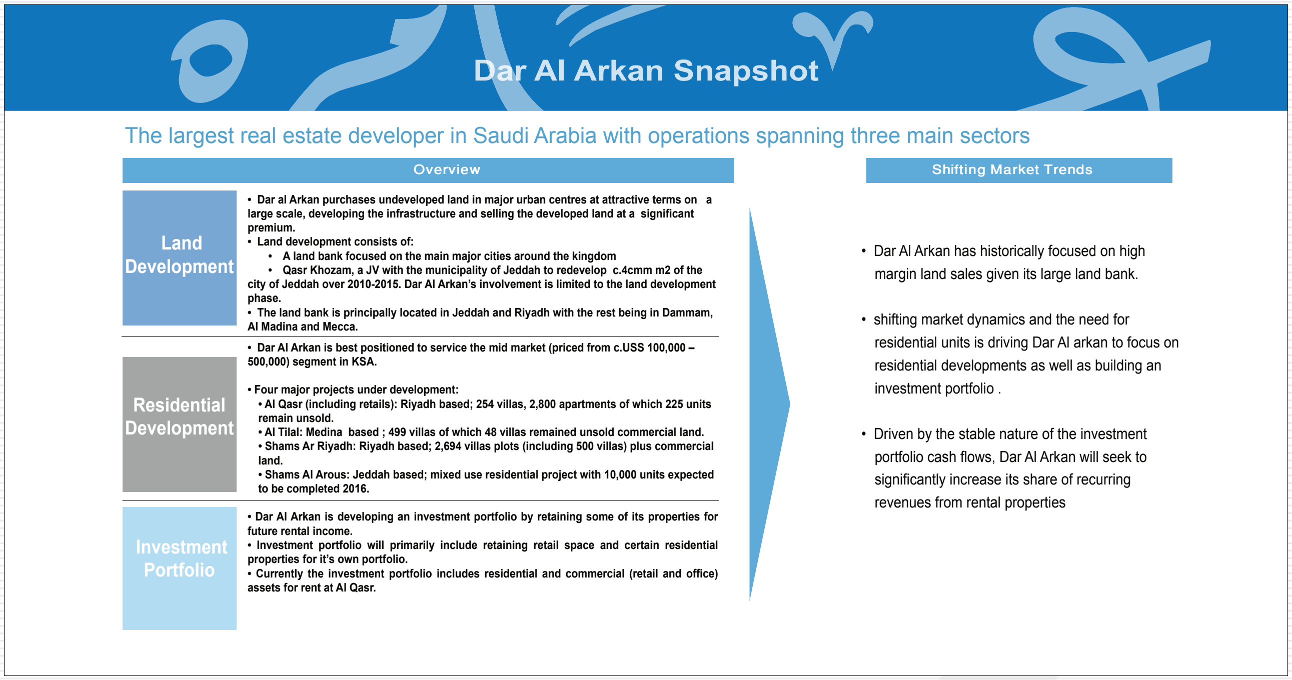
4 The Company's Business Model

The Company is pursuing a flexible and unique investment model based on a simple notion of "creating and capturing value". The Company only invests in projects, which meet its value creating criteria. The Company's has a multi-tier strategy to add value to raw land including, development of the land by provision of services, completion of infrastructure, construction of buildings and the comprehensive development of a unique urban community. This development model is the hallmark of all the Company's projects; to justify the significant investment required by this approach, the Company has historically chosen to locate all its projects in big cities, which have the purchasing power to absorb such projects.

The Company's current business model is to gradually diversify its business away from the near exclusive reliance on Real Estate development, towards creating assets that will generate steady rental streams. These assets are being financed through reinvestment of cash generated from operations as well as external financing. These rental streams will boost profitability, enhance the Company's asset base and improve return on shareholder equity. In fact, the Company has successfully used external financing to generate good returns from its investment model. The Company has evolved from its roots of trading in raw land, to developing land by putting in infrastructure, to then developing medium-size urban developments, until it reached the current stage where it is capable of developing master-planned communities.

To achieve its strategic objective of diversifying its income, in 2007, Dar Al Arkan initiated a five-year strategy to invest in the horizontal and vertical expansion of its Real Estate projects. To achieve this, the Company raised funds in various financial markets and invested these in different asset categories. It has made a successful start and today the Company's activities include sale of developed lands and residential units (simplexes, duplexes, and apartments), property management (residential compounds, office buildings, trading facilities, shopping centers).

However, the global financial crisis precipitated tight restrictions on financing causing an economic depression all over the globe. This crisis forced the Company to be more flexible in executing its strategy. As mitigation of the adverse impact of the financial crisis became a corporate priority, we recognized that more time would be needed to achieve our corporate goals. We went ahead with our plans of diversifying sources of income, but at a slower pace. Currently, the Company has both fixed and variable sources of income; these will continue to be developed to achieve the Company's diversification targets by 2017.



5 Project Accomplishments at End 2011

5.1 Al Qasr Project

Al Qasr project is located in one of most lively areas of Riyadh city. The project stands as the Company's first Master Planned Community, with a built up area of approximately 1.2 million square meters, accommodating 2,797 apartments and 254 villas. It also includes an office building with approximately 19,000 square meters of office space, and 63,000 square meters of commercial space overlooking the project's main streets. The project includes 6 mosques, a large public park and designated areas for schools and government facilities.

The Company has retained 1,375 residential units as rental properties (1,318 apartments and 57 villas). Currently, 652 apartments and 57 villas in the project have been leased. Likewise, the Company has retained the office building and all retail facilities on first floor overlooking project's main streets as rental properties. During 2011, a limited number of stores were leased and the rest will continue to be leased in 2012.

The majority of lease contracts of these units are long-term, ranging between 3 and 5 years signed with government agencies and private entities. This is in line with the Company's goal of focusing on long-term contracts with good profit margins compared to lease contracts with individuals. Furthermore, the regular cash flow of these long-term contracts will allow the Company to ease the process of obtaining financing backed by the income-generating leased assets.

5.2 Al Qasr Mall Project

Adjacent to Al Qasr residential and commercial project, not far from King Fahd road, is one of the liveliest roads in Riyadh city on a land area of 65,000 square meters and a lease space of 78,000 square meters. The Mall is strategically located mid south of Riyadh in an area suffering shortage of this type of trading centers despite the high purchasing power of its inhabitants of more than one million. The mall design is on par with the world's best modern architecture. It has a built-up area of 235,000 square meters accommodating more than 300 retail stores, and has parking for more than 2,000 cars. In addition, the mall includes a children's amusement zone and a food court. Furthermore, the mall has the largest exterior lighting façade in the Middle East extending along 800 meters and which can be used for advertising purposes.

The Company has retained Al Qasr mall as a leasable investment property. By the end of 2011, 98% of the mall had been completed and all construction works including supply and installation of advertising lighting system on the external mall façade had been completed and the inspection and commissioning of electro-mechanical works had commenced. DAAR's Property Management Department began delivery of leased stores and showrooms to lessees and coordinated with them to start fit-out works of their shops.

Seventy five percent (75%) of the mall's leasable space has been rented and it is projected to reach 85% by the time of the mall's inauguration. The mall has attracted so many tenants, because of its strategic location. The Company has signed lease agreements with large renown companies such as, "Carrefour", "Alothaim", "Al Shaya", which has franchises for famous international brands including Next, H&M, Va Va Voom, Boots Coast, Pink Berry, Mother Care, Peacocks, "SACO", "Dar Al Bandar International Trading Company" which is the agent for many international brands including Center Point, Iconic, City Max, Shoe Express, Bossini, and Carpisa and "Dana Trading Group" and its brands of Mango, Blanko, Fridays project, ADK.

Al Qasr mall is scheduled for inauguration during the second quarter of 2012. As the biggest shopping and amusement center in mid-south Riyadh, the mall will add new economic momentum to the area. This in turn will positively reflect in the market and lease values of the Company's investment properties inside and contiguous to the mall.

5.3 Shams ArRiyadh Project

Located Northwest of Riyadh city, the Company is developing an integrated luxurious residential high-class community that will be an enchanting place blending nature's beauty with modern technology. The project leverages its location overlooking the charming Wadi Haneefa - it is to be developed as the project's own natural valley with suitable landscaping. Furthermore, the project master plan incorporates landscaped gardens and terraces, as well as designated spaces for different sports, social and cultural activities, public amenities and other urban community facilities. The project model will see the establishment of a smart residential quarter with a multi-service digital structure that will enable inhabitants to use a range of visual and audio media applications and information platforms. Besides, the linking of buildings and property management systems to a unified network will allow residents to enjoy high-speed internet access, incorporating telecommunications, wireless solutions, network protection systems, and building surveillance, security and safety, air-conditioning, lightening, and fire fighting systems. The system enables the residents to program systems and control remotely air-conditioning and lightening systems to work upon request or as scheduled to raise the efficiency of the installed equipment and save on the electrical power consumption in buildings.

The project occupies a land area of 5 million square meters accommodating a blend of 2,694 plots of land licensed for building of villas, seven (7) commercial parcels with an area of 482,000 square meters with approval for 3 million square meters of built-up area, spread across 4, 10, 14, and 25 floors high buildings.

The first phase of the project with estimated cost of SAR 3.2 billion covers completion of infrastructure including drainage, water, electricity, pavement, landscaping and fiber optic cables for the entire project area including the commercial parcels. It also includes the construction of 500 villas with modern design themes, smart-home technology and 8,575 square meters of retail stores to meet the daily needs of the residents.

Development at Shams ArRiyadh began at the end of 2008 and infrastructure works have continued during 2009, 2010 and 2011 including, completion of grading works, development of project's frontage, construction of a bridge passing over the natural valley linking commercial and residential areas and the construction of two electrical power substations. Saudi Electricity Company is currently performing tests and inspections to prepare for the commissioning of these substations. Moreover, bidding contractual packages for different project phases have been processed so that we can commence construction works during 2012. By the end of 2011, 56% of the first phase works had been completed.

The National Water Company (NWC) was provided with all pertinent information concerning project water requirements. NWC commenced works in 2011 for the water supply and the construction of the main storage cistern to serve the entire project.

Furthermore, this year a design consultant was awarded the work to design and prepare technical and contractual documents for a western-type rental compound accommodating 600 to 700 housing units in addition to all recreational buildings and landscaping needed for an integrated compound.

5.4 Shams Al Arous Project

The project is located east of Jeddah extending eastwards along Palestine Street over an area of 3 million square meters of land assigned for a master-planned community. It will include more than 10,000 residential units furnished with all public facilities providing for a unique living experience. It is planned to be a delightful place with resorts and leisure areas, public and amusement parks. In addition to that, there will be shopping and office centers, restaurants, schools and mosques.

Some improvements were added to the project's master plan, which the Company's management believes will add value to the investment as such, and particularly in project area. In this regard, the Company has linked the project with Palestine Street (a famous commercial street in Jeddah) with a fifty-two-meter wide and 4-km long road with five lanes in each direction, three main lanes and two bypass lanes. This new link is an extension of Palestine Street east of Haramain road opening a new access to the city from the east and allows it to accommodate to future developments. The road was launched in August 2011 by the Deputy Mayor of Jeddah City in the attendance of the Company's Chairman. Also, the floor area ratio was raised increasing the built-up area by 100%, thus increasing the licensed building construction levels to 7 stories high. Additionally, works were carried out to rehabilitate and repair ground cables network to lighten the main road in the project. Temporary electric power was connected. All required documents were submitted to the Municipality regarding Palestine Street extension to deliver the street to the Municipality, which is requested to issue the required permissions for making permanent electricity connections to the grid for permanent lightening of the street. The traffic circle (roundabout) in the middle of Palestine Street was landscaped, in addition to other landscaping complaint with the Municipality standards.

The project is scheduled to be completed within a time span of 5 years. Construction works for the first phase are expected to start during 2012 for the building of 200 residential units. The total investment value in the project is estimated at SAR 7.5 billion. The Company has not yet decided upon the commercial and residential units to be retained for lease, since the matter is still under study.

5.5 Al Tilal Project

The project is located Southwest of Medina, falling within Alharam zone boundaries, 9 km from the Prophet Holy Mosque and 8 km from Qiba mosque. The project lies on Prince Sultan road, one of the main pivotal roads in Medina. The master planed project extends over an area of 2.2 million square meters, consisting of 499 villas built on an area of 170,000 square meters. The rest of the project area constitutes a developed land. The construction of villas was 100% completed by the end of 2009. Until the end of 2011, 491 villas were sold and the remaining eight units are planned to be sold during 2012. During 2011 retail sale of developed land parcels ware started.

Al Tilal project was developed by the Company based on a comprehensive urban development approach, characterized by an integrated infrastructure and superstructure including grid, light poles, water, irrigation and telephone networks, in addition to flood drainage channels, paved roads of 32 and 64 meter width, and landscaping. The project is also furnished with fiber optic cables. The project plan allocates spaces for building public utilities including schools, mosques, parks, municipal services, trading centers and parking lots.

5.6 Qasr Khozam Area Development Project

Qasr Khozam project is the largest regeneration project for scattered developments in the city of Jeddah and the first Public and Private Partnership Project (PPP) of its kind. The project will enable the Company to contribute to the attainment of Jeddah's development objectives. Qasr Khozam will offer a stable, healthy and safe living environment, while blending tradition and culture. This vast undertaking is destined to strengthen social bonds and raise the standards of living in Jeddah and its surrounding vicinities. The project accommodates several strategic landmarks including the old Qasr Khozam and the headquarters of the Islamic Development Bank as a financial center in the heart of the project. In addition, a government-owned land assigned for the construction of a permanent headquarters for the Organization of the Islamic Conference, which stands as the largest organization in the world after UNESCO.

The project is strategically located in the Southeast zone of Jeddah central downtown district, within easy reach of the port of Jeddah and the Al Balad district accommodating neighborhoods of: Al Balad, Al Sabeel, Al Nuzlah Al Yamaniyah, Al Nuzlah Al Sharqiyah and Al Qirayat. And it is near city landmarks including the historical area, sea front, industrial area, King Abdulaziz University, and the proposed train station to be built on the old airport land.

The project covers an area of 4 million square meters of land. The existing scattered properties in this area will need to be demolished and the project objective is to re-develop the basic infrastructure according to high world-class quality standards. The estimated cost of the project is SAR 12 billion. For the implementation of the project "Khozam Estate Development Company", a limited liability company, was established as a joint venture between Dar Al Arkan (51%) and Jeddah Municipality (49%) represented by Jeddah Development and Urban Regeneration Company. Due to the strengths of this partnership, many preparatory phases of the project have already been processed including technical and legal formalities for the preparation of property evaluation sheets and screening lists, detailed and topographical survey of the estates (100% completion), full updating of geographical data, collection and receiving of deeds for 65% of properties in the area. Khozam Company, has already prepared and submitted the property sheets and screening lists for the properties to be developed, and is currently awaiting receipt of evaluation lists approved by the competent government authorities.

At the level of the master plan and the technical studies for the infrastructure works, a first-tier consultant firm has been contracted to undertake the designing of the project's infrastructure. Furthermore, preliminary meetings were held with all concerned parties (Jeddah Municipality, Saudi Electricity Company, and National Water Company) to determine the technical requirements that match the criteria of those concerned parties, so that appropriate design standards could be developed. Initial approval was obtained from the Ministry of Municipal and Rural Affairs whereby the project master plan was initially approved under resolution No 15/N/H by the Ministry of Municipal and Rural Affairs on 09/03/1431H.

Upon receiving the approved master plan from the Jeddah Municipality, copies were distributed to competent authorities so that the consultancy firm may coordinate technical matters concerning the infrastructure works with them and obtain their final approval. Meanwhile, the initial design concepts and standards were finalized according to the anticipated requirements regarding the electric loads, grids, communication networks, water and irrigation works, drainage system and roads network. In this regard, all technical documents, including design master plans for all infrastructure services have been submitted to the concerned parties: Jeddah Municipality, Saudi Electricity Company, and National Water Company. Moreover, the submitted infrastructure designs were discussed with the competent authorities to obtain their approval. While some approvals have already been obtained, currently the Company is working on obtaining the final approval for the drawings of infrastructure works.

During 2011, a surveying consultant was contracted to conduct the required surveys for land demarcation according to the master plan approved by the Ministry and Municipality and Rural Affairs. Permissions required for processing land title deeds were obtained for the first phase (the land delivered to Khozam Dev. Co. by Jeddah Development and Urban Regeneration Company, with an area of 250,000 square meters); demolition work has already been completed in this phase and preparation for the next stage of work is underway.

Moreover, a meeting was convened with the competent authority assigned by Mecca Municipality (AECOM) and all documents, plans and designs of project's infrastructure were delivered to it. His Royal Highness Crown Prince issued his kind instructions that the government shall bear all costs for laying down the infrastructure in Qasr Khozam project.

6 Major Strategic Decisions during the Year

6.1 Building Cash Reserves

With a series of local and international Islamic Sukuk issuances, the Company was operating under the following constraints during 2011:

1. The continued aftermath of the global financial crisis and the lack of credit availability from local banks
2. The preparation needed to meet the upcoming debt repayment obligations in 2012 including the US$ 1 billion (SAR 3.75 billion) Sukuk issued in 2007, and honor its commitment to investors, and
3. The retention of a strong credit rating that inspires confidence in local as well as international capital markets

During 2011, Dar Al Arkan accorded priority to building of cash reserves relying on internal resources but without affecting its operations. This cash buildup helped address perceived concerns that the Company may not have sufficient funds to meet its commitments when they come due.

The Company closed the year with SAR 2.5 billion in cash, an increase of 111% compared to the balance at end of 2010. Alongside this buildup, the Company successfully met all its obligations towards its creditors during the year including payment of financing costs (SAR 374 million) and timely repayment of all debts when due (SAR 549 million).

6.2 Financing Qasr Khozam Project

The Company entered a Public and Private Partnership Project in Qasr Khozam Project. According to the project financing study, the company has strategically targeted government financial institutions to participate in funding the project. Upon the preparation and discussion of project’s feasibility study, an initial approval was issued by Public Investment Fund (PIF) to finance the project. This initiative by PIF is a key strategic step supporting company’s efforts to appeal to other government agencies and commercial banks to secure more finance required for the project.

As per project plan, the initial fund required by the project is SAR 6 billion. According to the project’s financing study presented by Khozam Real Estate Development Company to PIF. PIF issued its initial approval to participate by SAR 4 billion in financing the project. The remaining amounts shall be sought at commercial banks and other financial institutions.

7 Strategy

The strategy of the Company aims at diversifying the productive and investment activities, hence diversifying the sources of income, which in turn helps reducing investment related risks. Diversification of income aims at finding fixed as well as variable sources of income to sustain the company’s productive activities. Fixed income is an ongoing and regular income, while variable income comes from sale of products over different periods on an irregular basis. The idea behind securing a steady-stream income in addition to a variable one is to bridge the gaps between sale transactions in order to reduce the cost of lost opportunity. Simultaneously, fixed income contributes in financing the company’s monetary activities from an economically acceptable source. The strategy of the company, therefore, is based on building a tripartite investment base.

Real Estate development: targets variable income that comes from Real Estate sale including land sale (developed /semi-developed /non-developed), townhouses, villas and apartments.

Property Management: includes two major functions (and secures two sources of fixed income), management of our own properties (Real Estate portfolio for a book value SAR 2.8 billion as at the end of 2011, compared to SAR 1.5 billion and SAR 1.9 billion as at the end of 2009 and 2010 respectively) and property management for third parties. Additionally, property management strategy aims at taking into account the geographical and utilization diversity of the properties assigned for lease; leased properties include villa, townhouses, apartments, offices, shopping malls, supermarkets and retail facilities. It is worth noting that the growth of the company's income-generating property portfolio is in alignment with company's fundraising strategy. The Company intends to use the leased properties to secure mortgage finance for the Company's other future investments by using them as collateral to secure financing from financial institutions (such as financing against income-generating assets). This type of financing is not only preferred by financial institutions, but is considered the most cost-effective financing for the borrowers.

In addition to the above investments, the Company makes other strategic investments that the management believes are complementary to its existing investments or its Real Estate development business. Management continues to take into account any future strategic investment opportunities.

We anticipate the above activities to contribute significantly to the diversity of net income inherent in our strategic plan over the next five years at the following rates: 40% from land sale , 40% as rental income, and 20% from sale of residential units.

Alongside, the Company will push ahead to implement a strategic plan to save financial resources, boost investment returns, improve material and human.

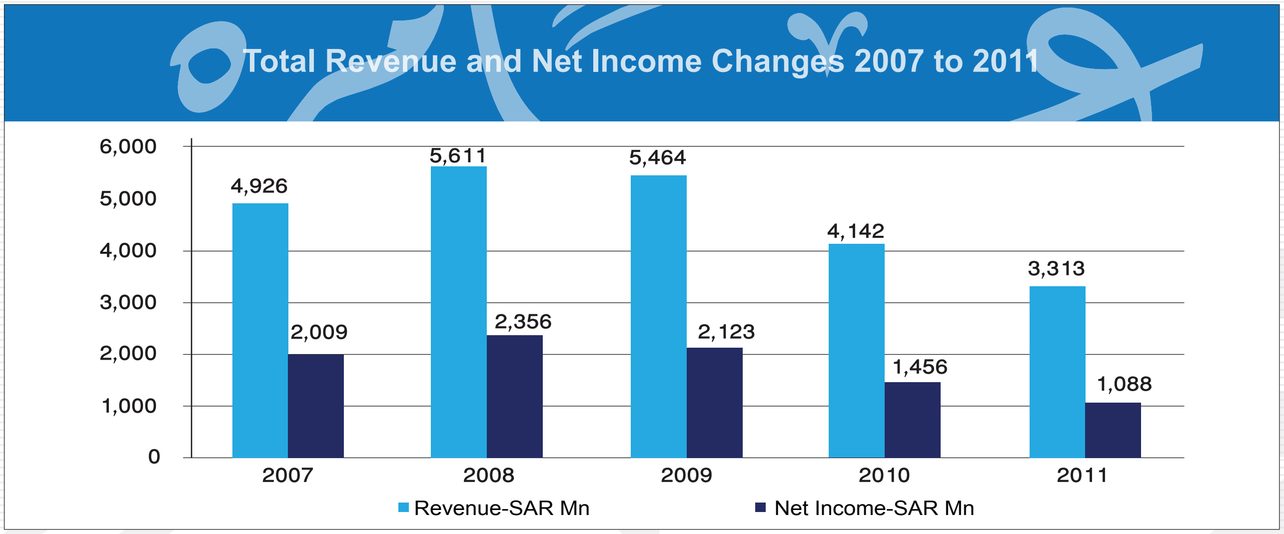
8 Financial Statements

Included in this report, in Appendix I, are the consolidated financial statements for the year ending 31/12/2011 and the external auditor's report on the accounts issued by Bakr Abulkhair and their associates Deloitte & Touche, and Talal Abu-Ghazaleh and their associates. The Board of Directors undertakes that the books of accounts have been maintained properly and there is no departure from the accounting standards issued by the Saudi Organization for Certified Public Accountants – SOCPA.

8.1 The Income Statement Comparison for the Years 2007 to 2011

The following table illustrates the main income statement items for the last five years. This item should be read in conjunction with the audited consolidated financial statements and accompanying notes included elsewhere in this report.

Stated (in Thousands of SAR)	2011	2010	2009	2008	2007
Operations' Revenues	**3,312,510**	4,141,981	5,464,053	5,610,768	4,925,933
Cost of revenues	**-1,943,497**	-2,377,724	-2,956,916	-2,765,587	-2,517,925
Gross Profit	**1,369,013**	1,764,257	2,507,137	2,845,181	2,408,008
Principal activities expenses	**-118,594**	-146,599	-186,292	-199,555	-137,913
Net income from principal activities	**1,250,419**	1,617,658	2,320,845	2,645,626	2,270,095
Financing expense	**-212,809**	-214,311	-146,230	-245,850	-278,079
Net Other Income	**99,699**	79,364	-1,936	16,894	45,149
Net Income before Zakat provisions	**1,137,309**	1,482,711	2,172,679	2,416,670	2,037,165
Zakat provisions	**-49,374**	-27,000	-50,000	- 60,423	-28,591
Net Income	**1,087,935**	1,455,711	2,122,679	2,356,247	2,008,574
Earnings Per Share	**1.01**	1.35	1.97	2.18	1.86



8.2 The Balance Sheet Comparison for the Years 2007 to 2011

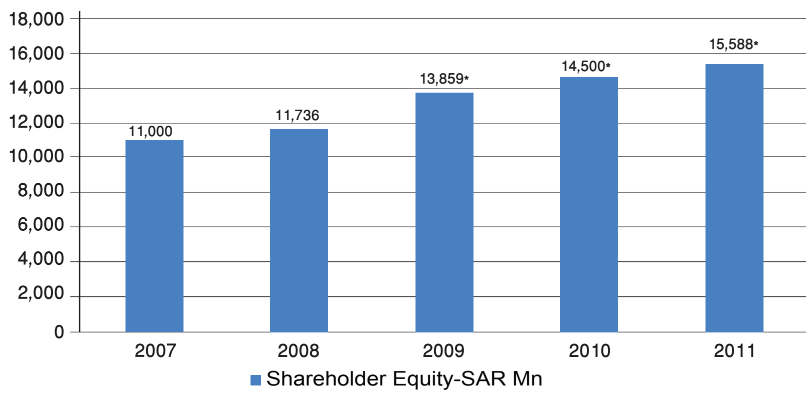
The following table illustrates the main balance sheet items for the last five years. This item should be read in conjunction with the audited consolidated financial statements and accompanying notes included elsewhere in this report.

Stated (in Thousands of SAR)	2011	2010	2009	2008	2007
Assets					
Current Asset	**6,411,458**	3,868,815	4,268,981	4,727,599	7,238,189
Non-current Asset	**17,606,697**	19,389,020	19,232,496	15,316,591	10,975,542
Fixed Asset	**82,604**	91,026	102,933	119,790	160,596
Total Asset	**24,100,759**	23,348,861	23,501,477	20,163,980	18,374,327
Liabilities					
Current Liabilities	**5,741,282**	2,157,558	3,793,853	2,419,594	1,369,602
Non-Current Liabilities	**2,771,914**	6,691,675	5,583,707	6,007,889	6,004,475
Total Liabilities	**8,513,196**	8,849,233	9,377,560	8,427,483	7,374,077
Shareholders' Equity					
Capital	**10,800,000**	10,800,000	10,800,000	7,200,000	5,400,000
Statutory reserve	**716,768**	607,768	462,268	3.600,000	3,242,254
Retained earnings	**3,806,054**	2,827,119	2,596,908	936,497	2,357,996
Total shareholders' Equity	**15,587,563**	14,499,628	13,859,176	11,736,497	11,000,250
Total Liabilities and shareholders' Equity	**24,100,759**	23,348,861	23,501,477	20,163,980	18,374,327
Book value per share*	**14.43**	13.43	12.83	16.30	20.37

Book value per share is calculated by dividing the total shareholders' Equity by the total number of outstanding shares at the end of each financial year and it is stated in Saudi Riyals.

The Company hereby discloses that, for commercial and practical reasons, it registers some of its Real Estate assets under the name of representatives or agents, in return for official documents against them evidencing Company's ownership of these assets. The Company only undertook this course of action following acquiring legal consultation that assures the soundness of such practice, which preserves the Company's shareholders' rights. This procedure is applied in some local Saudi banks and companies, which might face some difficulties with Notary Public or for commercial reasons.

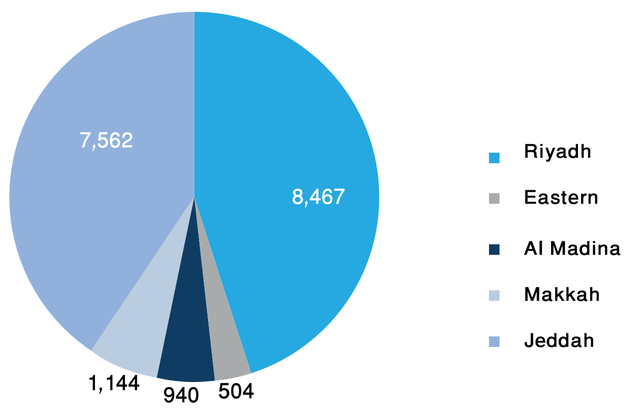
Shareholders Equity Changes from 2007 to 2011

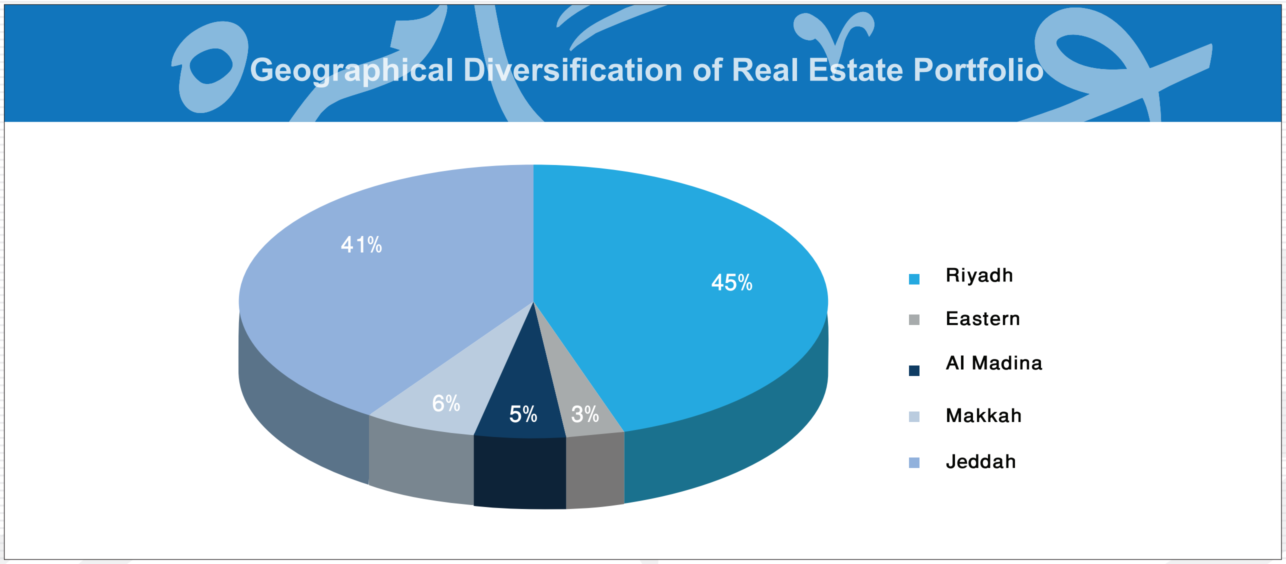


* The shareholder equity from 2009-2011 inculdes minority interset of SAR 265Mn.

8.3 Geographical Diversification of Real Estate Portfolio

Geographical Diversification of Real Estate Portfolio (in millions of SAR)





8.4 Results of Operations

The following table compares the results of operations for 2010 and 2011.

Stated (in Thousands of SAR)	2011	2010	Change (- or +)	Change%
Revenues	**3,312,510**	4,141,981	-829,471	-20.03%
Cost of revenues	**-1,943,497**	-2,377,724	-434,227	-18.26%
Gross Profit	**1,369,013**	1,764,257	-395,244	-22.40%
Principal activities expenses	**-118,594**	-146,599	-28,005	-19.10%
Net income from principle activities	**1,250,419**	1,617,658	-367,239	-22.70%
Financing charges	**-212,809**	-214,311	-1,502	-0.70%
Net Income before Zakat provisions	**1,137,309**	1,482,711	-345,402	-23.30%
Zakat provisions	**-49,374**	-27,000	22,374	82.87%
Net Income	**1,087,935**	1,455,711	-367,776	-25.26%
Earnings Per Share in Riyals	**1.01**	1.35	-0.34	-25.19%

8.4.1 Revenues

Total revenues were SAR 3,313 million in 2011, compared to SAR 4,142 million in 2010, representing a decrease of 20%. The decrease is mainly due to 14.5% decrease in land sale revenues compared to 2010 and because of the Company's attempts to boost profit margin of its land portfolio, as well as a 79.5% decrease in residential properties sales compared to 2010, which is mainly attributable to decrease in finished units ready for sale.

Revenues from the sale of residential properties in 2011 were SAR 77 million compared to SAR 377 million in 2010, a 79.5% decrease. The revenue decrease is mainly due to the lower number of units sold in 2011, which stood at 99 units compared to the 450 units sold in 2010 as we had fewer units available in 2011. The average selling price per unit during 2011 reached SAR 781,272 compared with SAR 837,069 during 2010; a decrease of 7% related to the types of units sold during 2010 where most of the units available were villas, whereas in 2011 a significant amount of apartments were sold.

Revenues from sale of lands were SAR 3,220 million in 2011 compared to SAR 3,765 million in 2010, representing a 14.5% decrease. This decrease is mainly due to the number of square meters sold in 2011 as the Company is pushing ahead to boost its profit margin from land portfolio, where land area sold in 2011 was only 6.2 million square meters compared to 6.6 million of square meters sold in 2010.

Company recognizes revenues from land sales upon signing of sale contract and receiving of at least 20% of the transaction value as non-refundable advance payment, whereas the remaining due amount shall be recorded in accounts receivable. Transfer of ownership and registration of property in the name of buyer shall only be completed upon the full payment of the transaction value.

The sale of land to developers and investors is influenced by a series of factors, including the overall economy of the Kingdom. These factors can delay the timing of sales of land as we assess these sales on a return on investment. It is difficult to determine whether or not these factors will have an impact on the sale of land.

The Kingdom of Saudi Arabia is currently experiencing a shortage of residential units; therefore, we do not expect a significant reduction in selling prices. However, pressure on housing affordability and the absence of a mortgage law could affect selling prices.

8.4.2 Cost of Revenue

Cost of revenue reached SAR 1,943 million in 2011, 58.7% of total revenues compared to SAR 2,378 million in 2010, or 57.4% of total revenues. This minor increase in cost of revenue is mainly due to the lower profit margin generated by the sale of land and residential units in 2011 compared to 2010, which is attributable to the geographical locations of properties sold during 2011.

8.4.3 Selling, General, and Administrative Expenses

Selling, general, and administrative expenses were SAR 91 million in 2011 compared to SAR 106 million in 2010, a decrease of 14.15%. The SAR 15 million decrease is attributed to lower marketing and advertising costs, in addition to lower payroll-related costs.

8.4.4 Financing Charges

Net financing charges were SAR 213 million compared to SAR 214 million in 2010, a minor decrease despite the decrease in total debt by SAR 329 million. This was caused by an increase in the weighted average effective commission rate on Local Murabaha facilities to 4.9% compared to 4.6% during 2010.

8.4.5 Net Income

Net income in 2011 reached SAR 1,088 million compared to SAR 1,456 million for 2010. Earnings per Share (EPS) were SAR 1.01 in 2011 compared to SAR 1.35 in 2010, a decrease of 25.19%.

8.5 Liquidity and Capital Resources

As of December 31, 2010, we had cash and cash equivalents of SAR 2,505 million.

8.5.1 Cash Flows

The following table sets out the Company's cash flows for the financial periods 2010 and 2011:

Stated (in millions of Saudi Riyals)	2011	2010
Funds from Operating Activities	**2,015**	2,410
Funds from (used in) Investing Activities	**(350)**	(1,802)
Funds from (used in) Financing Activities	**(348)**	(1,643)

Net cash flow from operations stood at SAR 2,015 million in 2011 compared to SAR 2,410 million in 2010. The negative variance is mostly related to lower revenues generated during 2011.

The Company's investments in both Project in Progress and Other Investments have led to an overall use of cash in investing activities of SAR 350 million in 2011. The negative cash flow from financing activities resulted from repayment of debts exceeding new debt raised during the year, with a net decrease in overall debt of SAR 348 million during the year.

8.5.2 Projects and investment Expenditures

Our projects expenditure priorities include continuing to develop integrated residential environments, invest in purchasing and developing land, and purchase of income-generating properties. During 2011, we spent SAR 1,848 million on these projects. The amount and timing of projects expenditures may be affected by a number of risks. We believe that our projects expenditure requirements can be met through a combination of cash generated from a variety of sources, operations, project financing, and bank loans.

9 Dividend Policy

Dividends are paid to shareholders subject to the previous year's fiscal performance and as approved by the Company's General Assembly. Any decision to pay dividend is made in consideration of the Company's financial status, the market and economic situation in general, and other factors like the availability of investment opportunities, reinvestment needs, and other organizational factors.

Article (43) of the Company's Article of Association states that, in the event of declaring dividend payments, the Company takes into account, after deducting the general expenses and other costs, the following:

- Allocating the imposed ZAKAT amount
- Setting aside 10% of the total net income as statutory reserve
- Dividends paid are at minimum 5% of the total paid in capital

10 The Company's financing Program

10.1 Financing Strategy

The Company's financing strategy, initiated in 2007, is oriented towards medium and long-term financing that matches the Company's project investment cycle of 3 to 5 years. This strategy was evident in the issuance of a series of local and international Shariah-compliant Sukuks with three international and one local issuance of these Sukuks in the last five years. The funds raised from these Sukuks came to SAR 8.4 billion. The first issuance of SAR 2.25 billion was repaid on maturity in March 2010, and the balance amount of SAR 6.15 billion is still held for financing the Company's projects.

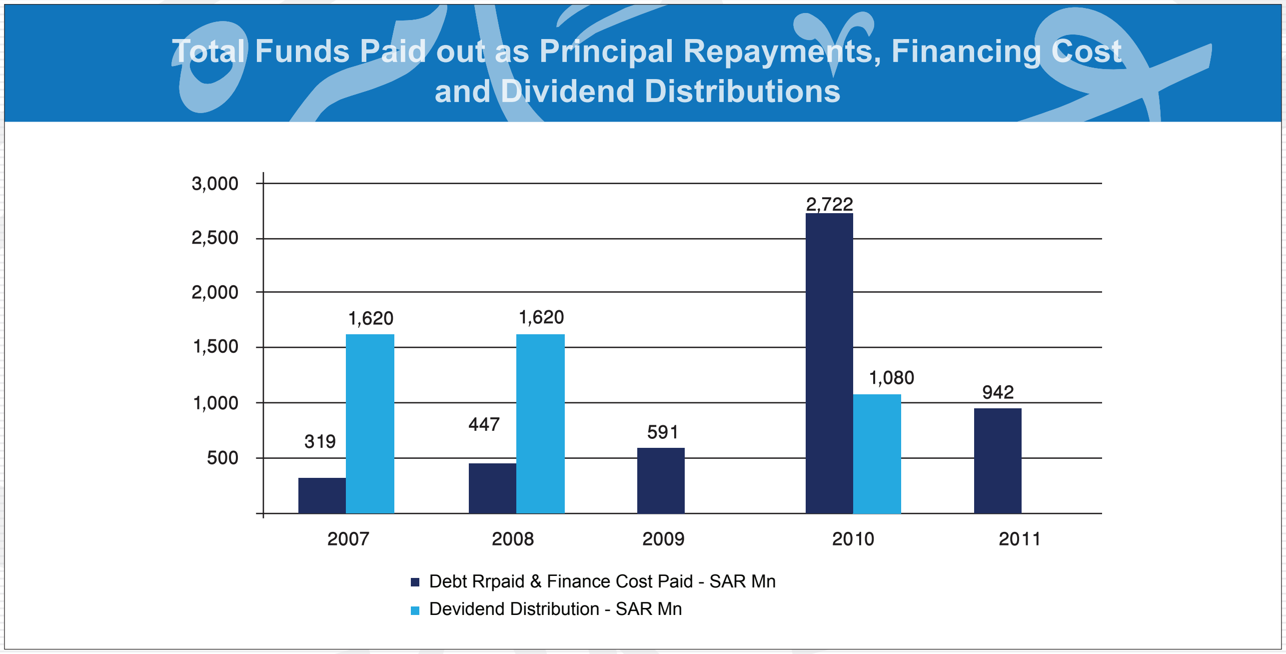
For working capital purposes, the Company took short and medium term financing by way of renewable Islamic Murabaha loans from some local banks for a total amount of SAR 2,059 million from 2007 to 2011, with SAR 799 million being repaid during the same period. The total outstanding amount at the end of 2010 was SAR 1,260 million.

Therefore, the ratio of long-term financing (Sukuks) to total finance raised by the Company is approximately 80%, whereas short and medium-term financing accounts for the balance 20%. These funds have been used in the Company's projects and investments over the course of the last five years.

In the future, the Company's financing strategy will focus on a diversity of finance sources including "project financing" from local banks and financial institutions. Currently, the Company is building a portfolio of rental properties that can be pledged as income-generating assets to secure loans from financial institutions. In addition, Dar Al Arkan's excellent credit record should continue to facilitate access to domestic and international capital markets for issuance of Sukuks.

10.2 Diagrams illustrating the Company's Financing Program

10.2.1 Total funds paid out during 2007 to 2011 as principal repayments, financing costs and dividend distributions

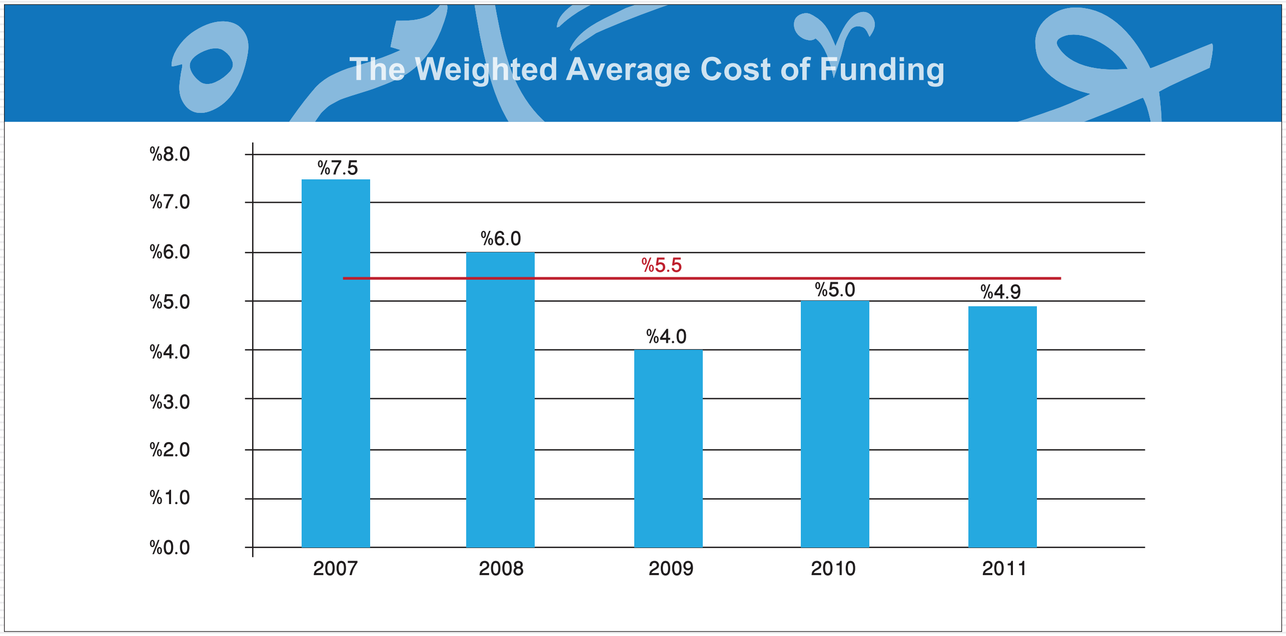


The above diagram shows that during the last five years Company had repaid, principal finance due, finance charges and dividends an amount of SR 9.3 billion, of which SR 4.3 billion was paid as dividends during 2007, 2008 and 2010, and an amount of SR 5 billion repaid as due principal finance installments and finance charges.

Additionally, the Company continued pushing ahead with the development of its announced mega projects. This demonstrates the Company's financial strength, especially, considering that over the past five years the world has witnessed the most severe financial crisis.

10.2.2 Trend of Financing Costs During 2007 to 2011

The average financing cost during the years 2007, 2008, 2009, 2010 and 2011 was 7.5%, 6%, 4%, 5% and 4.9% respectively. This cost decreased from 7.5% in 2007 to an average 4.9% in 2011, a decline of 34.7%.



The decline in the average cost of funding shown above can be attributed to the noticeable fall in interest rates over the last few years due to response to the global financial crisis.

10.3 Indebtedness

The Company emphasizes that all its financial transactions are Shariah-compliant as evident in its financing policy. Therefore, all financing solutions used by the Company inside and outside the Kingdom are Shariah-compliant. The following is a description of the repaid and outstanding borrowing debts at the end of 2011.

During 2011, the Company raised SAR 184 million to finance its projects and investments. The outstanding debts reached SAR 7,392 million as of 31 Dec. 2011 compared to a total debt of SAR 7,679 million on 31 Dec. 2010. The repayment of these debts is secured by mortgages over the Company's lands and properties. The outstanding debt was made up of SAR 5,382 million as an international US dollar denominated Sukuk, SAR 750 million as a local Saudi Riyal Sukuk and SAR 1,260 million as a short and medium term Islamic Murabaha facilities from some local banks.

10.3.1 Financing Debts Partially Repaid During 2011

Descreption	Mode of payment	Paid during 2011	Outstanding at the end of 2011	Annual profit margin
a) Long-term Islamic Murabaha facility of SAR 400 million	Repayable in eight equal half-year installments from 2010	**100**	250	SAIBOR* + 3% annual profit margin
b) Long-term Islamic Murabaha facility of SAR 200 million	Repayable in seven equal half-year installments from 2011	**57**	143	SAIBOR +3% annual profit margin
c) Long-term Islamic Murabaha facility of SAR 500 million	Repayable in nine equal monthly installments from June 2011	**389**	111	SAIBOR +4% annual profit margin

*SAIBOR means the rate charged by Saudi banks for lending to other banks

10.3.2 Financing Debts at End 2011

Descreption	Mode of repayment	Outstanding by end of 2011	Profit margin
a) Renewable short-term Islamic bank loan of SAR 200 million	These financing are renewed annually	200	SAIBOR* + 3% annual profit margin
b) Long-term bank fund of SAR 400 million for construction of an asset	Payable in one installment in 2012	386	SAIBOR + 2.25% annual profit margin
c) Long-term Islamic Murabaha facility of SAR 100 million	Payable in twenty equal quarterly installments from 2012	100	SAIBOR + 3.5% annual profit margin
d) Sukuk II- 2012 (International) of USD 1 billion	Payable in one installment in 2012	3,750	LIBOR** + 2.25%
e) Sukuk III – 2014 (Local) of SAR 750 million	Payable in one installment in 2014	750	SAIBOR + 4% annual profit margin
f) Sukuk IV- 2015 (International) of USD 450 million	Payable in one installment in 2015	1,687	10.75% fixed***

*SAIBOR means the rate charged by Saudi banks for lending to other banks
** LIBOR means the rate charged by leading British banks for lending to other banks
***Profit margin for 50% of this issuance has been reduced to SAIBOR+7.95% through a hedging structure

10.4 Geographical Distribution for International Islamic Sukuk Issuance

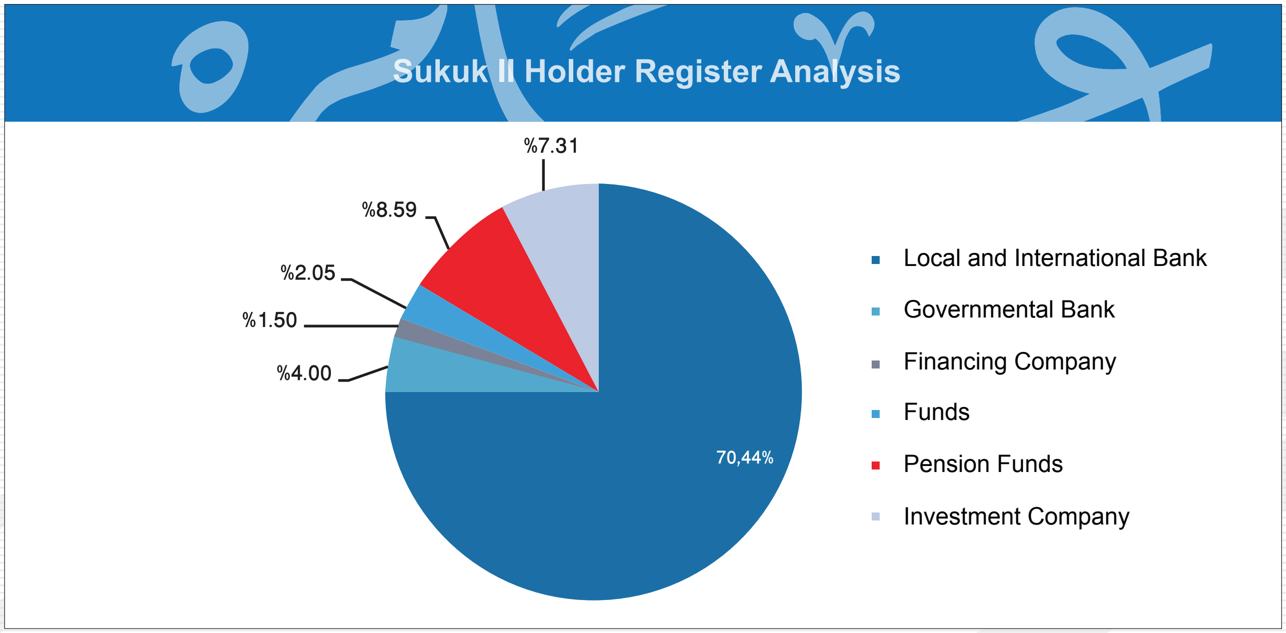
10.4.1 2012 Sukuk Geographical Distribution

Region	Country	2011		Count
		Per%	Amount in $US	
Middle East	UAE	28.21%	282,112,000	18
Middle East	KSA	27.38%	273,822,000	9
Middle East	Bahrain	12.15%	121,548,000	10
Middle East	Kuwait	9.50%	95,000,000	3
Middle East	Qatar	7.20%	72,000,000	5
Asia	Malaysia	4.20%	42,000,000	2
Europe	UK	2.74%	27,409,000	16
Europe	Switzerland	1.97%	19,708,000	7
Asia	Hong Kong	1.22%	12,205,000	1
Asia	Singapore	1.07%	10,700,000	3
Middle East	Turkey	1.00%	10,000,000	1
Europe	Luxembourg	0.83%	8,300,000	3
Europe	Belgium	0.82%	8,196,000	2
Middle East	Lebanon	0.76%	7,550,000	4
North America	USA	0.52%	5,200,000	5
Europe	France	0.22%	2,150,000	2
Middle East	Jordan	0.20%	2,000,000	1
Europe	Jersey	0.00%	100,000	1
Total		**100%**	**1,000,000,000**	**93**

The above table represents the geographical distribution of 2012 Sukuk investors across financial centers around the world. UAE comes in first place as Dubai entertains a financial center embracing regional branches of different international banks and financial institutions serving a broad base of international investors. Saudi Arabia comes second on the list, where some of its local banks invested in the 2012 Sukuk. Bahrain comes third as entertains an outstanding financial center targeted by many international investors aiming to capture the investment opportunities in the region. These are followed by countries known for their distinctive financial and banking services such as Britain, Switzerland, Hong Kong, and Luxemburg, etc.

The 2012 Sukuk is listed in many international markets including NASDAQ Dubai, UAE, Labuan International Financial Exchange Inc., Malaysia and Bahrain Stock Exchange, Bahrain.

10.4.2 2012 Sukuk Holder Register Analysis According to Investor type, as of the IPO Date



Description	Region	Count	Amounts in $US
Bank	Asia	3	50,000,000
	Europe	10	72,065,000
	Middle East	18	582,300,000
Governmental Bank	Europe	1	15,000,000
	Middle East	1	25,000,000
Financing Company	Middle East	1	15,000,000
Funds	Europe	1	3,960,000
	Middle East	2	16,500,000
Pension fund	Asia	5	45,050,000
	Europe	3	40,890,000
Investment Company	Asia	1	55,000,000
	Europe	1	3,125,000
	Middle East	3	15,000,000
N/A		N/A	61,110,000
Total		50	1,000,000,000

10.4.3 2015 Sukuk Geographical Distribution

Region	Country	2011		Count
		Per%	Amount in $US	
Europe	UK	26.07%	117,324,000	21
Middle East	UAE	12.41%	55,836,000	19
Europe	Switzerland	10.42%	46,878,000	20
Middle East	KSA	7.70%	34,669,000	3
Asia	Singapore	7.40%	33,300,000	7
North America	USA	5.32%	23,954,000	11
Middle East	Bahrain	5.31%	23,880,000	7
Asia	Malaysia	4.44%	20,000,000	2
Europe	France	3.89%	17,510,000	7
Europe	Luxembourg	3.82%	17,172,000	9
Asia	Hong Kong	3.31%	14,875,000	9
Middle East	Lebanon	2.52%	11,336,000	11
Europe	Belgium	1.80%	8,086,000	3
Europe	Italy	1.78%	8,000,000	2
Middle East	Jordan	1.26%	5,650,000	1
Europe	Jersey	0.97%	4,385,000	1
Asia	Japan	0.61%	2,745,000	1
Europe	Lichtenstein	0.37%	1,650,000	1
Middle East	Qatar	0.20%	900,000	3
Middle East	Egypt	0.13%	600,000	2
Europe	Germany	0.11%	500,000	1
Europe	Guernsey	0.04%	200,000	1
Asia	Philippines	0.04%	200,000	1
Europe	Monaco	0.03%	150,000	1
Europe	Greece	0.02%	100,000	1
Europe	Uruguay	0.02%	100,000	1
Total		100%	450,000,000	**146**

The 2015 Sukuk is listed in the London Stock Exchange draws the attention of financial centers around the globe, as this issue is considered the first international offering by a Saudi company in the American capital market under the rule 144A in the U.S. Markets. The following table represents the geographical distribution of the 2015 Sukuk investors in international markets. Britain comes on top of the list due of the importance of London as a major financial center in Europe and the world. UAE comes as second as Dubai entertains a financial center embracing regional branches of different international banks and financial institutions serving a broad base of international investors. Switzerland occupies the third position thanks to its advanced banking system rendering private banking services, management of properties and portfolio of international fixed return investors. These are followed by several financial centers around the globe known for their financial and banking services including Malaysia, Hong Kong, Luxemburg, etc.

11 Related Party Transactions

The Company declares that during the year 2011 it had no significant transactions with related companies, and no contracts or material interest for any of its directors, the CEO or CFO or with any other related party. During 2011, it sold residential units to individuals financed by some of these related parties, where these related parties pay the Company on behalf of the buyers. As of 31 Dec. 2011, the total amount that was due for such transactions from these related parties is SAR 143,000.

12 Risks Pertaining to Company's Activities

- Uncertainty of availability of funds needed to undertake large capital investments to attain Company's growth objectives.
- Company reliance on overall growth of trade and economy. Any long-term slowdown will negatively affect the Company's growth.
- Reliance on contractors who to fulfill their contractual obligations, any shortfall in their performance could affect the projects' completion and lower profitability.
- Estimated cost of Company's projects would be adversely affected by any unexpected rise in materials or labor prices.

13 Management and Administration

13.1 Board of Directors

At end of 2011, a ten-member Board of Directors was managing the Company, of whom one is an executive, four are non-executive and five are independent members. The Board holds regular quarterly meetings on the invitation of the Chairman, and in addition meets if there is an urgent need for such meetings. The Board held 4 meetings during 2011, and the members' attendance is as shown below:

Member Name	Capacity	Member Classification	Attendance	Other Joint Stock Companies Membership
Yousuf Abdullah Al Shelash	Chairman	Non-executive	4	Saudi Home Loan Co. (SAHL) Alkhair Investment Bank ñ Bahrain Alkhair Capital Bank Saudi Arabia
Hathloul Bin Saleh Al Hathloul	Member	Non-executive	4	Saudi Home Loan Co. (SAHL) Alkhair Investment Bank-Bahrain Alkhair Capital Bank Saudi Arabia
Khalid Bin Abdullah Al Shelash	Member	Non-executive	4	
Tariq Bin Mohamed Al Jarallah	Member	Independent	4	Saudi Home Loan Co. (SAHL)
Abdul Aziz Bin Abdullah Al Shelash	Member	Independent	2	
Majid Romi Al Romi	Member	Independent	3	
Abdul Kareem Bin Hamad Al Babtain	Member	Independent	4	Al-Babtain Power and Telecommunication Company
Majed Bin Abdul Rahman Al Qasim	Member	Non-executive	4	
Abdul Rahman Bin Abdul Aziz Al Hussain	Member	Independent	4	Jabal Omar Development Company
Abdullatif Bin Abdullah Al Shelash	Managing Director	Executive	4	Saudi Home Loan Co. (SAHL) Alkhair Investment Bank – Bahrain Alkhair Capital Bank Saudi Arabia
Saud Bin Abdul Aziz Al Gusaiyer	Member	Executive	3	

Resignation of Mr. Saud Bin Abdul Aziz Al Gusaiyer from the BoD was accepted and his membership ended as of 14/12/2011.

13.2 Attendance Record of Board of Directors' Meetings During 2011

Member Name	First Meeting 20/02/2011	Second Meeting 21/05/2011	Third Meeting 29/06/2011	Fourth Meeting 01/11/2011
Yousuf Abdullah Al Shelash	Attended	Attended	Attended	Attended
Hathloul Bin Saleh Al Hathloul	Attended	Attended	Attended	Attended
Khalid Bin Abdullah Al Shelash	Attended	Attended	Attended	Attended
Tariq Bin Mohamed Al Jarallah	Attended	Attended	Attended	Attended
Abdul Aziz Bin Abdullah Al Shelash	Excused	Attended	Attended	Excused
Majid Romi Al-Romi	Excused	Attended	Attended	Attended
Abdul Kareem Bin Hamad Al Babtain	Attended	Attended	Attended	Attended
Majed Bin Abdul Rahman Al Qasim	Attended	Attended	Attended	Attended
Abdul Rahman Bin Abdul Aziz Al Hossain	Attended	Attended	Attended	Attended
Abdullatif Bin Abdullah Al Shelash	Attended	Attended	Attended	Attended
Saud Bin Abdul Aziz Al Gusaiyer	Attended	Attended	Attended	Excused

13.3 Board of Directors' Committees

First – the Executive Committee, Consisting of:

1.	Yousuf Abdullah Al Shelash	Chairman of the Committee
2.	Abdullatif Bin Abdullah Al Shelash	Member
3.	Tariq Bin Mohamed Al Jarallah	Member

The Committee Responsibilities and Meetings

- Prepare transparent organizational arrangements to grasp the level of the Company's growth, specify short-term strategic objectives and priorities, review general manager's reports pertaining to performance and commitments, review, evaluate and study investment requests in conjunction with the Investment Committee.
- Ensure sufficient human resources required for the attainment of the Company's short-term strategic objectives and assessment of their performance.
- Take decisions within the Board's policy to ensure achievement of financial and other objectives established by the Board.
- Determine appropriate criteria for remunerating middle and lower management.

- Monitor departments' performance to assure commitment to announced policies.
- Periodically review each department's expectations.
- The Committee held 16 meetings during the year 2011.

Second – Audit Committee, Consists of:

1.	Tariq Bin Mohamed Al Jarallah	Chairman of the Committee
2.	Abdul Kareem Bin Hamad Al Babtain	Member
3.	Majed Bin Abdul Rahman Al Qasim	Member

The Committee Responsibilities and Meetings

- Monitor processes of risk management and functioning of the Company's internal control systems.
- Review and recommend quarterly and annual financial statements of the Company for approval.
- Undertake processes pertaining to disclosure and review internal audit reports to ensure the internal control effectiveness.
- Monitor compliance with quality control processes.
- Ensure economic viability of funding sources and compliance to Shariah.
- Report to the Board of any significant control failures or weaknesses identified.
- The Committee held 6 meetings during the year 2011.

Third – Nominations and Remuneration Committee Consists of:

1.	Abdullatif Bin Abdullah Al Shelash	Chairman of the committee
2.	Yousuf Abdullah Al Shelash	Member
3.	Hathloul Bin Saleh Al Hathloul	Member

The Committee Responsibilities and Meetings

- Nominate qualified candidates for Board membership.
- Periodically review the requirement of Board members for appropriate skills.
- Recommend changes/modifications to Board structure and nomination procedures.
- Report on weaknesses and recommend remedies.
- Ensure members' independence and absence of any conflict of interests if the member also belongs to another company board.
- Develop clear policies and criteria for Board members' remuneration.
- The Committee held 4 meetings during the year 2011.

Fourth – Investment Committee Consists of:

1. Yousuf Abdullah Al Shelash — Chairman of the Committee
2. Abdullatif Bin Abdullah Al Shelash — Member
3. Majid Romi Al-Romi — Member
4. Abdul Aziz Bin Abdullah Al Shelash — Member
5. Khalid Bin Abdullah Al Shelash — Member

The Committee Responsibilities and Meetings

- Recognize the general Real Estate policies, principles, objectives, rules, indications and purposes and approve Company's strategy by means of a long-term plan, establish policies and processes of sale, purchase and development of Real Estate.
- Help the Board to perform its duties pertaining to investment activities, review and approval of long-term Real Estate strategy, study potential acquisition and sale operations, recommend on government legislations relevant to Real Estate.
- Determine the objectives of investment and monitor management compliance. Timely review investment performance, create strategic substitutes and follow-up on their application.
- Study risk management policies and information concerning investment management.
- Supervise the selection and appointment of external investment managers.
- Oversee investment and ensure its compliance to the established policies and customers' interests.
- Encourage and facilitate investment opportunities available for the Company.
- The Committee held 5 meetings during the year 2011.

14 Remunerations and Compensation Paid to Board Members and Top Executives

The following table shows the remuneration and compensation paid to Board members and top five senior executives who received the highest bonuses and compensation from the Company during 2011 (in Saudi Riyal):

Description	Executive Board Members	Non-Executive/ Independent Board Members	Senior Executives (Including General Manager and CFO)
Salaries and compensation	-	-	5,083,200
Allowances	-	-	1,547,000
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	-

15 Description of Interest of Board Directors, Top Senior Executives and Changes Occurring During 2011

Name	Capacity	No. of Shares at the Beginning of the Year	Ownership Percentage in the Beginning of the Year	Net variance in the No. of Shares During the Year	Total Shares at the End of the Year	Total Ownership Percentage at the End of the Year	Nature of Ownership
Yousuf Abdullah Al-Shelash	Chairman	83,989,083	7.78%	0	83,989,083	7.78%	Direct
		4,082,803	0.38%	0	4,082,803	0.38%	Indirect: a share in ownership of private company
Hathloul bin Saleh Al-Hathloul	Board member	74,656,963	6.91%	(6,787,828)	67,869,745	6.28%	Direct
Khalid Abdullah Al-Shalash	Board member	98,352,745	9.11%	0	98,352,745	9.11%	Direct
		6,832,495	0.63%	0	6,832,495	0.63%	Indirect: a share in the ownership of private company
		957	0.00%	0	957	0.00%	Owned by first-class relatives
Majed Abdul Rahman Al-Kasim	Board member	57,859,147	5.36%	0	57,859,147	5.36%	Direct
		639,154	0.06%	0	639,154	0.06%	Owned by first-class relatives
Tariq Mohamed Al-Jarallah	Board member	38,628,515	3.58%	(15,295,214)	23,333,301	2.16%	Direct
		19,933,409	1.85%	0	19,933,409	1.85%	Indirect: a share in the ownership of a private company
Abdulaziz Abdullah Al-Shalash	Board member	40,958,367	3.79%	(15,817,695)	25,140,672	2.33%	Direct
		10,174,344	0.94%	0	10,174,344	0.94%	Indirect: a share in the ownership of a private company
Majid Romi Al-Romi	Board member	23,998,652	2.22%	(11,400,289)	12,598,363	1.17%	Direct
		11,420,182	1.06%	0	11,420,182	1.06%	Indirect: a share in the ownership of a private company
Abdullatif Abdullah Al-Shalash	Board member	25,237,405	2.34%	(15,518,649)	9,718,756	0.90%	Direct
Abdul Kareem Hamad Al-Babtain	Board member	7,029,090	0.65%	(29,000)	7,000,090	0.65%	Direct
Abdulrahman Abdulaziz Al-Hussain (in person)	Board member	1,000	0.00%	1,000	1,000	0.00%	Direct
		19	0.00%	0	19	0.00%	Owned by first-class relatives
Abdulrahman Abdulaziz Al-Hussain (as a representative of GOSI)	Board member	43,780,457	4.05%	0	43,780,457	4.05%	Owned by general organization for social insurance
Saud Abdulaziz Al-Gusaiyer	Board member	1,100	0.00%	0	1,100	0.00%	direct
Ahmed Saleh Al-Dehailan	Chief internal Audit	50,000	0.00%	10,000	60,000	0.01%	direct
TOTAL		**547,625,887**	**50.71%**	**(64,838,675)**	**482,787,212**	**44.70%**	

16 Corporate Governance

The Company applies the binding regulations and guiding rules of the Saudi Capital Market Authority (CMA) Corporate Governance regulations.

During the year 2011, many policies that accommodate the basic principles of corporate governance have been updated, approved and activated to ensure the shareholders' rights in terms of getting information, attending the annual general meeting, using their voting rights and equal treatment, as well as ensure disclosure transparency on the Company's activities and developments, maintaining the Board members and senior executives information, their election criteria, responsibilities and authorities.

Some policies were updated during the year and submitted to the Board for review including delegation of authority policy, conflict of interest policy, corporate governance manual, dividend policy, information security policy, and risk management policy. Other policies are under process including, Investor Relations Information Security Policy, cash management policy, property deeds policy, and power of attorney policy.

The Company seeks to update and enhance its internal corporate governance systems and controls, taking into consideration the best corporate governance practices locally and internationally. This in turn will create the best suitable work environment, which is conductive to productive and efficient relationships between departments.

We refer with respect to item (b) of Article 6, "voting rights"; this item is still under study, where the Company's bylaws do not indicate that cumulative voting method is the method of voting on the selection of Board members at the General Assembly.

17 Internal Audit

The internal audit department reports to the Board of Directors directly. Its professional staff is certified by the International Institute of Internal Audit and employs international auditing standards. The internal audit department verifies the authenticity of the internal control procedures to monitor Company's operations. Furthermore, protect the Company's assets and to ensure the accuracy and reliability of financial statements according to accounting standards and in compliance with laws and regulations. Internal audit helps the Company to achieve its goals by applying the methodology aimed to improve risk controls, review the internal control procedures effectiveness and enforce the corporate governance system. In addition, it ensures the application of laws, Company systems, regulations and Board decisions. The internal audit department reports directly to the Audit Committee of the Company's BoD.

During 2011, internal audit suggested some updates on the policies and procedures that aimed to provide better monitoring of expenses related to the projects' cost and internal control procedures.

18 Internal Control

The internal control system of Dar Al Arkan represents an integrated process implemented by the Company's management and staff members. The system is designed for the purpose of mitigating risks, efficient and cost-effective execution of all the Company's operations, ensuring accuracy and reliability of the Company's financial statements, compliance with applied laws and regulations to safeguard properties from loss, misuse or damage.

18.1 Features of the Internal Control System

The Organizational Structure

The Company has established an organizational structure with clear operating and reporting procedures, which assigns lines of responsibilities and authorization limits in the presence of clear and reliable procedures and processes enabling the Company to attain its objectives properly.

Advanced Information Systems

The Company builds upon a combination of advanced systems in alignment with international standards to establish an effective internal control and furnishing of accurate and transparent information.

Internal Control Procedures

The procedures of internal control relate to: administrative and accounts controls and the Company's internal control system. Such procedures are applied on a consistent basis.

Internal Control Documentation System

Documents describing the internal control system, particularly financial documents, are classified and saved. This documentation is necessary for staff training and facilitating testing and inspection procedures undertaken by management to ascertain the efficiency and effectiveness of Company's internal controls.

Competent Staff

Company sought employing competent staff with world-standard qualifications to execute its internal control system in the best way and most effective manner. This is intended to help the Company to attain its goals and consolidate its position in the Real Estate sector in the Kingdom.

18.2 Results of Annual Audit of the Effectiveness of the Company's Internal Controls

During 2011 the Audit Committee of the Board of Directors reviewed the periodical reports prepared by the Internal Audit Department, and submitted a report to BoD regarding its recommendations and suggested procedures. BoD reviewed the effectiveness of the Company's internal controls at the financial and operation levels and its compliance with policies and regulations of risk management. The Board admitted that the internal control system has been prepared on sound basis and implemented in an effective manner.

19 Investor Relations

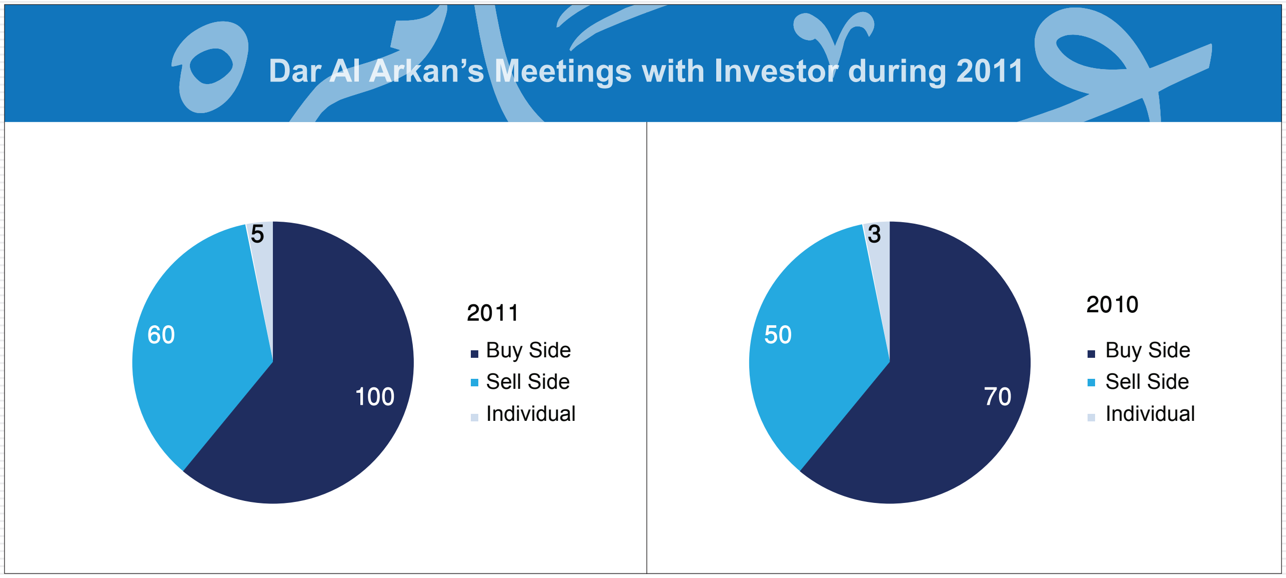
Communication with shareholders, investors and the financial community are given high priority as an important part of the Company's strategy, and there is regular dialogue between Company executives and its shareholders, local and international investors. During the year, the Company undertook procedures that ensure shareholders' access to Company's information through transparent disclosure aligned to the rules of CMA. Information is disseminated through approved channels including publication of periodical and annual financial statements, progress of projects, BoD recommendations and any other material occurrences pertaining to Company's work.

To enhance the effectiveness of communication with investors, analysts and the financial community, and to disseminate accurate information about the Company's operations, the Company holds periodical meetings with investors and other stakeholders including shareholders, Sukuk-holders, financial analysts from local and international banks that maintain coverage of the Company. The aim is to ensure the effectiveness of regular communication and transparent disclosure that will be reflected in a proper understanding and fair evaluation of Company's business.

Specialized personnel in the investor relations section support shareholders, investors and analysts' inquiries through a variety of channels; a toll free number, e-mail and fax, as well as a recently developed interaction page on the Company's website with full access to the Company's information.

The Company invites all shareholders to attend the general assembly meetings and take part in decision-making. The Company announces such invitations through the website of the Saudi capital market (TADAWL), the Company's website and daily newspapers. to the Company facilitates automated systems to ensure the soundness of recording and counting of votes and transparent segregation of results by a qualified staff to facilitate the running of general assembly operations as per applied rules and in the presence of competent authorities. In view of this, the Company's shareholders were involved in voting in the eighth ordinary general assembly meeting and fourth extraordinary assemble meeting held on 29 June 2011.

In a bid to expand its investors' base, the Company has participated in a number of international investors' events to showcase success stories of its current projects and future investments. The Company's presence in these events expressed the solid grounds of the Company and its financial position, as well as the opportunities available in the Saudi Real Estate sector and the investment climate in the Kingdom as such.



20 Ecological and Social Services

The Company gives special attention in all of its activities to the dominant social values and emphasizes the importance of the socio-economic, health, security, environmental and cultural factors in the development of building and construction in the Kingdom.

The mega project of Qasr Khozam in center of Jeddah is an outstanding contribution of the Company in social responsibility issues; it is collaboration between the Company and the concerned government agencies for restructuring Qasr Khozam area and its surrounding slum neighborhoods. This is intended to develop the Real Estate properties in the area that will provide for investment and employment opportunities in addition to provision of healthy and secured environment suitable for good living of natives and expatriates.

As part of its social responsibility, the Company has linked the area of Shams Alarous to Palestine Street by a fifty-two-meter wide road extending over four kilometers costing SAR 30 million, opening a new access to Jeddah from the east. This road is a new extension of Palestine street east of Haramain road in Jeddah city. This has not only led to increased demand for Real Estate in the area, but it has also made the area more attractive for both investors and job seekers, and in the future, it will become attractive for inhabitants of Jeddah. The city will become prone to future developments.

The Company has also given careful attention to tackling social problems by sponsoring many of the intellectual events that contribute to the analysis and diagnosis of these problems and proposing innovative solutions for them. In this respect, the most outstanding contribution of the Company was in workshops regarding study of housing solutions in the Kingdom with the Ministry of Housing. On the other hand, the Company made good efforts to improve the living conditions of its employees and their families as part of its social responsibility.

21 Human Resources

The Company gives special attention to the recruitment of competent and highly skilled human resources to create a work force capable of meeting existing and future challenges. Based on that, the Company gives priority to the human capital as a strategic investment and does not spare any effort to sustain and develop human capabilities and skills by:

- Attracting qualified recruits in local and international labor markets, offering them rewarding remunerations, and retaining them for the short and long run.
- Participating in the “Profession Day” celebrated by Saudi universities, and American University of Beirut to attract top-notch Saudi students across different fields including finance, marketing, administration and engineering.
- Filling vacancies in departments like construction, sales, property management with qualified personnel to make these departments a main source of revenue generation.
- During 2011, the Company consulted one of the major specialized companies to review and develop salaries and indemnities charts in line with the functioning of major companies in the Saudi labor market.
- During 2011, the benefits of the insurance policy were reviewed, recommending an increase of medical benefits through a network of distinct medical centers serving all employees and their families.
- At the end of 2011, an annual appraisal of employees’ performance was conducted, and goals to be attained in the next year were identified. By the end of 2011, the Company’s labor force stood at 370 employees.

22 Statement of Regulatory Payments During 2011

Item	2011 In Saudi Riyals	Description	Type of payment
Social Insurance	1,816,461	To be paid as per the rules of GOSI. Paid in full	Regular requirement
Government Charges	275,147	Charges for building licenses, subscription for Chamber of Commerce, fees for work permits, renewal of Iqamah and others. Paid in full	Regular requirement
Zakat	12,745,160	Due as per the legitimate rules of Zakat duty and instructions of Dept. of Zakat and Income Tax in Saudi Arabia. Paid in full	-
Total	**14,836,768**		

These payments include all regulatory payments by the Company and its subsidiaries.

Qasr Khozam Area Development Project

Qasr Khozam project is the largest regeneration project for scattered developments in the city of Jeddah and the first Public and Private Partnership Project (PPP) of its kind. The project will enable the Company to contribute to the attainment of Jeddah's development objectives. Qasr Khozam will offer a stable, healthy and safe living environment, while blending tradition and culture. This vast undertaking is destined to strengthen social bonds and raise the standards of living in Jeddah and its surrounding vicinities. The project accommodates several strategic landmarks including the old Qasr Khozam and the headquarters of the Islamic Development Bank as a financial center in the heart of the project. In addition, a government-owned land assigned for the construction of a permanent headquarters for the Organization of the Islamic Conference, which stands as the largest organization in the world after UNESCO.

Board of Directors Report

Dar Al Arkan

Real Estate Development Company

Board of Directors Report and the
Annual Consolidated Financial Statements
for the Year Ending 31 December 2011

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BUILT FOR LIFE

Auditors' Report

ANNUAL REPORT

2011

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

License No. 96

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

License No. 81

AUDITORS' REPORT

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of Dar Al Arkan Real Estate Development Company (A Saudi joint stock company) (the "Company") as at December 31, 2011, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 21 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and submitted to us with all the necessary information and explanations which we required. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2011, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the Company's bylaws as these relate to the preparation and presentation of the consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.

Bakr A. Abulkhair

Certified Public Accountant
License No. 101

22 Safar 1433 H
January 16, 2012

Talal Abu-Ghazaleh & Co.

Abdulqadir A. Al-Wohaib

Certified Public Accountant
License No. 48

Dar Al Arkan Real Estate Development Company

Consolidated Balance Sheet As At 31 December 2011

	Notes	31 December 2011 SAR 000	31 December 2010 SAR 000
Assets			
Current Assets			
Cash and cash equivalents		**2,505,774**	1,188,513
Accounts receivable	(5)	**1,227,708**	1,667,000
Prepaid expenses and others	(6)	**506,761**	556,391
Due from related parties	(7)	**143**	1,364
Projects in progress – short-term	(8 a)	**64,469**	184,660
Developed land – short-term		**2,106,603**	270,887
Total Current Assets		**6,411,458**	3,868,815
Non-Current Assets			
Projects in progress – long-term	(8 b)	**7,846,934**	8,648,818
Investments in land under development	(9)	**5,082,926**	4,731,660
Developed land – long-term		**759,757**	2,929,939
Investment properties	(10a)	**2,753,353**	1,914,327
Investment in associates	(10b)	**1,162,760**	1,162,360
Property and equipment	(11)	**82,604**	91,026
Deferred charges	(12)	**967**	1,916
Total Non-Current Assets		**17,689,301**	19,480,046
Total Assets		**24,100,759**	23,348,861
Liabilities and Equity			
Current Liabilities			
Islamic borrowings – current portion	(13)	**4,634,380**	1,000,000
Accounts payable	(15)	**338,596**	381,410
Accrued expenses and others	(16)	**768,306**	733,739
Total Current Liabilities		**5,741,282**	2,115,149
Non-Current Liabilities			
Islamic borrowings	(13)	**2,757,756**	6,721,485
Provision for end-of-service indemnities	(17)	**14,158**	12,599
Total Non-Current Liabilities		**2,771,914**	6,734,084
Shareholders' Equity			
Share capital	(18)	**10,800,000**	10,800,000
Statutory reserve		**716,768**	607,768
Retained earnings		**3,806,054**	2,827,119
Equity attributable to Dar Al Arkan shareholders		**15,322,822**	14,234,887
Non-controlling interests from Group subsidiaries		**264,741**	264,741
Total Equity		**15,587,563**	14,499,628
Total Liabilities and Equity		**24,100,759**	23,348,861

Managing Director

Chief Financial Officer

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

Dar Al Arkan Real Estate Development Company

Consolidated Statement Of Income For The Year Ended 31 December 2011

	Notes	31 December 2011 SAR 000	31 December 2010 SAR 000
Revenues from operations		**3,312,510**	4,141,981
Cost of operations		**(1,943,497)**	(2,377,724)
Gross profit	(4)	**1,369,013**	1,764,257
Operating expenses:			
General, administrative, selling and marketing expenses		**(90,844)**	(106,452)
Depreciation	(11)	**(8,510)**	(14,260)
Amortisation of deferred charges	(12,13a)	**(19,240)**	(25,887)
Income for the year from operating activities		**1,250,419**	1,617,658
Other Income / (expenses) :			
Share of income from investment in associates	(10b)	**400**	-
Islamic Murabaha charges		**(63,026)**	(59,890)
Islamic Sukuk charges		**(149,783)**	(154,421)
Other income		**99,299**	79,364
Income for the year before Zakat		**1,137,309**	1,482,711
Zakat provision		**(49,374)**	(27,000)
Net income for the year		**1,087,935**	1,455,711
Earnings per share for the year (SAR)	(19)		
From operating activities		**1.16**	1.50
From net income		**1.01**	1.35

Managing Director

Chief Financial Officer

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

Dar Al Arkan Real Estate Development Company

Consolidated Statement Of Cash Flow For The Year Ended 31 December 2011

	2011 SAR 000	2010 SAR 000
Cash Flows from Operating Activities		
Income for the year before zakat	**1,137,309**	1,482,711
Adjustment for:		
Depreciation	**14,287**	14,260
Amortisation of deferred charges	**19,240**	25,887
Provision for end-of-service indemnities	**3,876**	2,536
Share of income from investment in associates	**(400)**	-
Gain on disposal of property and equipment	**(290)**	-
Changes in operating assets and liabilities		
Accounts receivable	**439,292**	(821,088)
Prepaid expenses and others	**6,169**	(25,812)
Due from related parties	**1,221**	1,345
Projects in progress – short-term	**120,191**	492,771
Developed land	**334,466**	1,257,455
Accounts payable	**(42,814)**	(89,547)
Accrued expenses and others	**(2,044)**	71,603
Zakat paid	**(12,763)**	-
End-of- service indemnities paid	**(2,317)**	(1,975)
Net cash from operating activities	**2,015,423**	2,410,146
CASH FLOWS FROM INVESTING ACTIVITIES		
Projects in progress – long-term	**801,884**	(57,782)
Investments in land under development	**(351,266)**	(1,048,269)
Advance payments to purchase land	**43,461**	(297,773)
Investment properties	**(844,803)**	(396,910)
Purchase of property and equipment	**(124)**	(1,603)
Proceeds from disposal of property and equipment	**326**	-
Net cash used in investing activities	**(350,522)**	(1,802,337)
Cash Flows from Financing Activities		
Islamic borrowings	**(347,640)**	(562,791)
Dividends	**-**	(1,080,000)
Net cash used in financing activities	**(347,640)**	(1,642,791)
Increase/(Decrease) in cash and cash equivalents	**1,317,261**	(1,034,982)
Cash and cash equivalents, beginning of the year	**1,188,513**	2,223,495
Cash and Cash Equivalents, End of the Year	**2,505,774**	1,188,513

Managing Director

Chief Financial Officer

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

Dar Al Arkan Real Estate Development Company

Consolidated Statement Of Changes In Shareholders' Equity For The Year Ended 31 December 2011

	Share Capital SAR 000	Statutory Reserve SAR 000	Retained Earnings SAR 000	Equity attributable to Dar Al Arkan Shareholders SAR 000
2010				
Balance as at 1 January 2010	10,800,000	462,268	2,596,908	13,859,176
Dividends	-	-	(1,080,000)	(1,080,000)
Net income for the year	-	-	1,455,711	1,455,711
Transfer to statutory reserve	-	145,500	(145,500)	-
Balance as at 31 December 2010	10,800,000	607,768	2,827,119	14,234,887
2011				
Balance as at 1 January 2011	**10,800,000**	**607,768**	**2,827,119**	**14,234,887**
Net income for the year	**-**	**-**	**1,087,935**	**1,087,935**
Transfer to statutory reserve		**109,000**	**(109,000)**	**-**
Balance as at 31 December 2011	**10,800,000**	**716,768**	**3,806,054**	**15,322,822**

Managing Director

Chief Financial Officer

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

The Company's Activities

ANNUAL REPORT
2011

1. GENERAL INFORMATION:

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

The Group is predominantly engaged in the business of development, sale and lease of Real Estate projects and associated activities.

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

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

DAR AL-ARKAN PROJECTS COMPANY – is a limited liability 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The 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 consolidated financial statements have been prepared on the historical cost basis, using accrual basis and going concern assumption except for investments in associates which are accounted for under equity method of accounting.

2.3 BASIS OF CONSOLIDATION

The 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 December 2011.

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 historical cost of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are initially measured at the historical cost at the acquisition date irrespective of the extent of any non-controlling interests. The interests of non-controlling shareholders are stated at the non-controlling proportion of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the parent.

The excess of cost of acquisition over the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the carrying value of the identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the 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 consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the consolidated balance sheet at the Group's share of the net assets of the associate. Losses of the associates in excess of the Group's interests in those associates are not recognised.

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

2.5 INVESTMENT PROPERTIES

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following basis:

Buildings	3%

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

2.6 FINANCE CHARGES

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

2.7 FINANCIAL INSTRUMENTS

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

Accounts receivables

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

Cash and cash equivalents

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

Financial liabilities

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

Accounts payables

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

Commission rate swaps

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

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

2.8 IMPAIRMENT OF TANGIBLE ASSETS

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

2.9 REVENUE RECOGNITION

Revenue represents the sale of development properties. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and significant risks and rewards of ownership have been transferred to the buyer. Revenue is measured at the value of consideration received.

2.10 ZAKAT TAXATION

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

2.11 FOREIGN CURRENCIES

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

2.12 STATUTORY RESERVE

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

2.13 END OF SERVICE INDEMNITIES

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

2.14 RETIREMENT BENEFIT COSTS

The Group makes contributions in line with the General Organisation for Social Insurance Regulations and are calculated as a percentage of employees' wages. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan. Payments made to defined contribution retirement benefit plans are charged as an expense as they fall due.

2.15 LEASING

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

2.16 OPERATING EXPENSES

The Group follows accrual basis of accounting to record the operating expenses and recognised as expenses in the 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 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and activities actual result ultimately may differ from those estimate.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Geographical regions

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

Products and services

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

Information in respect of these products is presented below:

	Thousands SAR	
	For the year ended	
	2011	2010
Revenues		
Sales of residential properties	**77,346**	376,681
Sales of land	**3,220,167**	3,765,300
Leasing of properties	**14,997**	-
Total	**3,312,510**	4,141,981
Cost of Sales		
Residential properties	**64,470**	330,289
Land	**1,873,250**	2,047,435
Leasing of properties	**5,777**	-
Total	**1,943,497**	2,377,724
Gross Profit		
Residential properties	**12,876**	46,392
Land	**1,346,917**	1,717,865
Leasing of properties	**9,220**	-
Total	**1,369,013**	1,764,257

5. ACCOUNTS RECEIVABLE

	Thousands SAR	
	2011	2010
Customers	**1,232,187**	1,671,479
Provision for doubtful debtors	**(4,479)**	(4,479)
Total	**1,227,708**	1,667,000

6. PREPAID EXPENSES AND OTHERS

	Thousands SAR	
	2011	2010
Advance payments to purchase land	**375,506**	418,967
Positive value of commission SWAP contract	**52,837**	27,769
Accrued income	**38,237**	22,987
Advance payments to contractors	**27,527**	57,087
Prepaid expenses	**6,171**	11,879
Employees' advances and receivables	**3,252**	2,194
Advance payments to suppliers	**3,195**	5,323
Others	**36**	10,185
Total	**506,761**	556,391

7. RELATED PARTY TRANSACTIONS

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 a bad debt. The details of the transactions are as follows:-

	2011 Thousands SAR	2010 Thousands SAR
Balance, beginning of the year	**1,364**	2,709
Sales	**35,120**	51,546
Commission	**(26)**	(49)
Collection	**(36,315)**	(52,842)
Balance, end of the year	**143**	1,364

For the year ended 31 December 2011 and 2010, no transactions were entered with entities that have common Board Members or Shareholders to the Group.

8. PROJECTS IN PROGRESS

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

	2011 Thousands SAR	2010 Thousands SAR
Residential and commercial development	**64,469**	184,660
Total	**64,469**	184,660

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

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

	2011 Thousands SAR	2010 Thousands SAR
Residential and commercial development	**3,868,580**	3,677,456
Land development projects	**3,978,354**	4,971,362
Total	**7,846,934**	8,648,818

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 year the Group’s management capitalised Islamic Sukuk charges in the amount of SR 165.30 million (31 December 2010: 157.45 million) under projects in progress.

9. INVESTMENTS IN LAND UNDER DEVELOPMENT

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

10. a) INVESTMENT PROPERTIES

	For the year ended	
	2011	2010
	Thousands SAR	Thousands SAR
COST		
At beginning of the year	**1,918,823**	1,521,913
Additions	**830,585**	373,888
Capitalisation of borrowing costs	**14,218**	23,022
At end of the year	**2,763,626**	1,918,823
Accumulated Depreciation		
At beginning of the year	**4,496**	3,746
Charge during the year	**5,777**	750
At end of the year	**10,273**	4,496
Carrying Amount at the End of the Year	**2,753,353**	1,914,327

Included within investment properties is land with an original cost of SR 378.1 million (31 December 2010: SR 378.1 million).

b) INVESTMENT IN ASSOCIATES

This represents investment in shares of companies that are not publicly traded. The Group's ownership in these companies ranges from 15% to 34%. Movement in investment in associates is as follows:

	For the year ended	
	2011	2010
	Thousands SAR	Thousands SAR
Balance, beginning of the year	**1,162,360**	1,162,360
Share of income	**400**	-
Balance , end of the year	**1,162,760**	1,162,360

11. PROPERTY AND EQUIPMENT

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

In Thousands SAR	Land and Buildings	Leasehold Improvements	Vehicles	Machinery and tools	Office equipment	Total
Cost						
Balance at 1 January, 2011	109,145	19,037	9,990	13,390	39,074	190,636
Additions for the year	-	-	-	14	110	124
Disposals during the year	-	-	(740)	-	(96)	(836)
Balance at 31 December 2011	109,145	19,037	9,250	13,404	39,088	189,924
Accumulated Depreciation						
Balance at 1 January, 2011	27,042	18,070	9,904	11,152	33,442	99,610
Depreciation for the year	3,017	621	233	2,104	2,535	8,510
Transfers / Adjustments during the year	-	(121)	(357)	12	466	-
Disposals during the year	-	-	(740)	-	(60)	(800)
Balance at 31 December 2011	30,059	18,570	9,040	13,268	36,383	107,320
Net book value 31 December 2011	79,086	467	210	136	2,705	82,604
Net book value 31 December 2010	82,103	967	86	2,238	5,632	91,026

Included within land and buildings are land with an original cost of SR 9.50 million (31 December 2010: SR 9.50 million).

12. DEFERRED CHARGES

The movement during the year is as below:

	For the year ended	
	2011 Thousands SAR	2011 Thousands SAR
Balance, beginning of the year	**1,916**	2,956
Amortisation charge for the year	**(949)**	(1040)
Balance , end of the year	**967**	1,916

13. ISLAMIC BORROWINGS

	2011 Thousands SAR	2010 Thousands SAR
Islamic Sukuk – International	**5,437,500**	5,437,500
Islamic Sukuk – Local	**750,000**	750,000
Islamic Murabaha	**1,260,003**	1,625,202
	7,447,503	7,812,702
Less: Un-amortised transaction costs	**(55,367)**	(91,217)
Islamic borrowings – end of the year	**7,392,136**	7,721,485
Less: Islamic borrowings – current portion	**(4,634,380)**	(1,000,000)
Islamic borrowings - long-term	**2,757,756**	6,721,485

Repayable as follows:

	2011 Thousands SAR	2010 Thousands SAR
Within one year	**4,634,380**	1,000,000
In the second year	**187,143**	4,182,793
In the third to fifth years inclusive	**2,625,980**	2,629,909
	7,447,503	7,812,702

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

	For the year ended	
	2011 Thousands SAR	2010 Thousands SAR
Balance, beginning of the year	**91,217**	95,313
Additions during the year	**2,589**	46,480
Capitalisation during the year	**(20,148)**	(25,729)
Amortisation charge for the year	**(18,291)**	(24,847)
Balance, end of the year	**55,367**	91,217

Analysis of borrowings:

Islamic Sukuk – International

This represents SR 5.44 billion of Islamic Sukuk comprising:

1. SR 3.75 billion (USD 1 billion) of Islamic Sukuk carried in the books of the Group, issued by Dar Al Arkan International Sukuk Company at LIBOR plus profit margin of 2.25% and maturing in 2012.

2. SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar International Sukuk Company II at 10.75% and maturing in 2015.

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

The Islamic Sukuk (International) is denoted in US dollars. Since the Saudi Arabian Riyal is limited to fluctuations in the US Dollar there is no exposure to foreign exchange risk.

Islamic Sukuk - Local

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

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2011.

Islamic Murabaha

This represents SR 1.8 billion Murabaha facilities from local commercial banks, in the form of Islamic Murabaha, letters of guarantee and letters of credit comprising:

1. An amount of SR 400 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus annual profit margin of 3%. The facility is being repaid in eight equal semi-annual payments starting 2010. As at 31 December 2011 an amount of SR 250 million is outstanding towards this facility.
2. An amount of SR 200 million in the form of short-term Islamic Murabaha bearing finance charges at prevailing rates between the local banks plus annual profit margin of 3%. As at 31 December 2011 an amount of SR 200 million is outstanding towards this facility.
3. An amount of SR 200 million in the form of long-term Islamic Murabaha bearing finance charges at prevailing rates between the local banks plus annual profit margin of 3.75%. The facility is being repaid in seven equal semi-annual payments starting 2011. As at 31 December 2011 an amount of SR 142.86 million is outstanding towards this facility.
4. An amount of SR 500 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus an annual profit margin of 4%. The facility is being repaid in nine equal monthly payments. As at 31 December 2011 an amount of SR 111.11 million is outstanding towards this facility.
5. An amount of SR 100 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus annual profit margin of 3.5% (minimum of 4.5%). The facility is

being repaid in twenty equal quarterly payments starting 2012. As at 31 December 2011 an amount of SR 100 million is outstanding against this facility.

6. An amount of SR 400 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus an annual profit margin of 2.25% and matures in 2012. As at 31 December 2011, the Group has utilised SR 386.1 million. This facility is collateralised by specific assets of a subsidiary.

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2011 and there were no defaults or breaches of loan terms during the current or preceding years.

The annualised weighted average effective commission rate for the year ended 31 December 2011 is 4.92% (4.60% for 31 December 2010).

14. COMMISSION RATE SWAP DERIVATIVES

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

The cumulative positive fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards amounted to SR 52.84 million (USD 14.10 million). The change in the fair value during the year amounting to SR 25.07 million (USD 6.68 million) has been recognised as other income in the consolidated statement of income. (SR 27.77 million (USD 7.40 million) for year ended 31 December 2010).

15. ACCOUNTS PAYABLE

The detail of the above account is as follows:

	2011	2010
	Thousands SAR	Thousands SAR
Contractors	**267,985**	330,809
Suppliers	**55,370**	49,609
Advances from customers	**6,049**	164
Others	**9,192**	828
Total	**338,596**	381,410

16. ACCRUED EXPENSES AND OTHERS

	2011 Thousands SAR	2010 Thousands SAR
Zakat provision (c)	**623,685**	587,074
Islamic Murabaha charges	**11,347**	15,669
Islamic Sukuk charges	**75,746**	75,341
Accrued expenses	**16,460**	17,862
Dividend payable	**36,441**	36,782
Others	**4,627**	1,011
Total	**768,306**	733,739

Zakat provision

a) The principal elements of the Zakat base are as follows:

	2011 Thousands SAR	2010 Thousands SAR
Zakat base:		
Share capital and statutory reserve – beginning of the year	**11,672,509**	11,527,009
Provisions – beginning of the year after deduction of amounts paid during the year	**584,594**	576,130
Adjusted net income for the year – Note 16/b	**1,141,185**	1,485,247
Retained earnings after dividends	**2,827,119**	1,516,908
Islamic Murabaha	**241,607**	954,750
Islamic Sukuk	**2,528,717**	4,500,000
Total Zakat base	**18,995,731**	20,560,044
Deductions:		
Total deduction after adjustment	**(17,020,761)**	(19,480,046)
Zakat base	**1,974,970**	1,079,998
Estimated Zakat provision for the year	**49,374**	27,000

b) Adjusted net income for the year:

	2011 Thousands SAR	2010 Thousands SAR
Adjusted net income:		
Income for the year before Zakat	**1,137,309**	1,482,711
Provisions	**3,876**	2,536
Adjusted net income	**1,141,185**	1,485,247

c) The movement in provision for Zakat is as follows:

	For the year ended	
	2011 Thousands SAR	2010 Thousands SAR
Balance beginning of the year	**587,074**	560,074
Estimated Zakat for the current year	**49,374**	27,000
Payment made during the year	**(12,763)**	-
Estimated Zakat provision, end of the year	**623,685**	587,074

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

17. PROVISION FOR END OF SERVICE INDEMNITIES

This item represents the balance of provision for end of service indemnities as at 31 December 2011. During the year the Group's management charged an amount of SR 3.88 million (2010: SR 2.54 million) to expenses. The movement during the year is as below:

	For the year ended	
	2011 Thousands SAR	2010 Thousands SAR
Balance, beginning of the year	**12,599**	12,038
Charged to expenses during the year	**3,876**	2,536
Paid during the year	**(2,317)**	(1,975)
Balance, end of the year	**14,158**	12,599

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:

	2011 Thousands SAR	2010 Thousands SAR
Earnings		
For the purpose of basic earnings per share:		
Income for the year from operating activities	**1,250,419**	1,617,658
Net income for the year	**1,087,935**	1,455,711
Number of shares	**Number**	Number
Weighted average number of ordinary shares		
For the purpose of basic earnings per share	**1,080,000,000**	1,080,000,000

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

20. COMMITMENTS

As at 31 December 2011, the Group and its subsidiaries have commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 195 million (2010: SR 369 million).

21. COMPARATIVE FIGURES

Certain comparative figures for the year 2010 have been reclassified to conform to the presentation adopted in the current year.

Shams Al Arous Project

The project is located east of Jeddah extending eastwards along Palestine Street over an area of 3 million square meters of land assigned for a master-planned community. It will include more than 10,000 residential units furnished with all public facilities providing for a unique living experience. It is planned to be a delightful place with resorts and leisure areas, public and amusement parks. In addition to that, there will be shopping and office centers, restaurants, schools and mosques.

2011
ANNUAL REPORT
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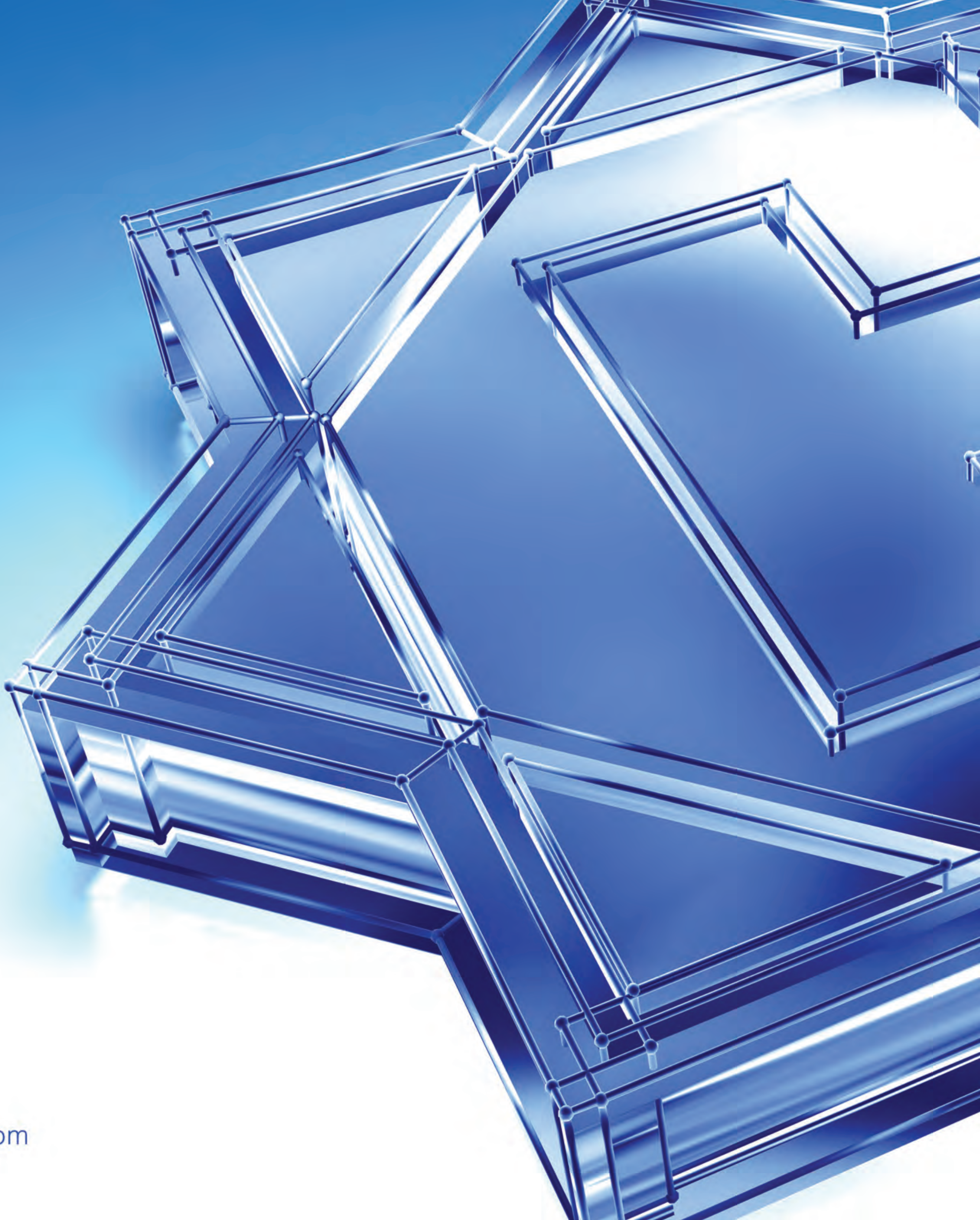

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