ANNUAL REPORT 2012

Dar Al Arkan Real Estate Development Company

دار الأركان

DAR AL-ARKAN

عامرة

BUILT FOR LIFE

Head Office: Riyadh-Al-Ma'ather Road

Kingdom of Saudi Arabia

Tel: +966 1 2061100
+966 1 2069888

Fax: +966 1 2061898
+966 1 2061616

P.O Box: 105633 Riyadh 11656

Makkah Al-Mukaramah - Southern Al-Aziziah

Tel: +966 2 5564364

Fax: +966 2 5566607

P.O Box: 18051

Jeddah King Fahad Road Alsiteen Street

Tel: +966 2 67466666

Fax: +966 2 67598333

P.O Box: 23393 Jeddah 21426

Al Madainah

Tel: +966 4 8640000

Fax: +966 4 8640555

Toll Free: 800 123 3333

www.alarkan.com
ir@alarkan.com

بسم الله الرحمن الرحيم

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2012

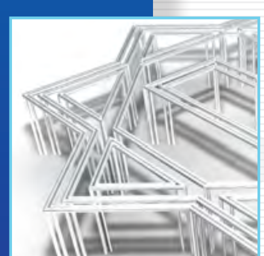
King Abdullah
bin Abdulaziz Al Saud

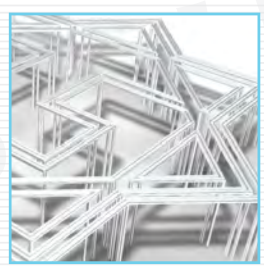
The Custodian
of the Two Holy Mosques

Crown Prince
Salman bin Abdulaziz Al Saud

Deputy Premier
and Minister of Defence

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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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 seeks 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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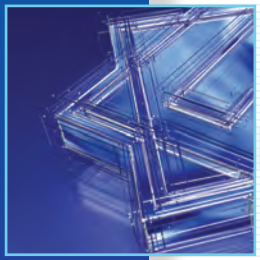

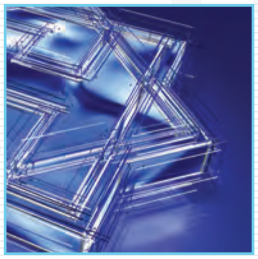

دار الأركان

DAR AL-ARKAN

عامرة

BUILT FOR LIFE

OUR VISION

To further our leadership position as the most respected and dynamic Saudi Arabian real estate solutions provider, developing integrated communities for life in the region.

OUR MISSION

To create and nurture thriving integrated communities, which fulfill and add value to the social, cultural, recreational, and commercial needs of our communities, maximizing long term financial returns for our investors.

Chairman Message |

Yousef Abdullah Al Shalash

Chairman's Message

On behalf of the Board of Directors of Dar Al-Arkan Real Estate Development Company ("DAAR"), I have pleasure in presenting this report on the Company's performance and the results of operations for the fiscal year 2012. Given the significant accomplishments in the year, Dar Al-Arkan pressed ahead with consolidating its financial position and reinforcing its leading role as the major real estate company in Saudi Arabia.

The Company achieved good results for 2012 earning revenues of SR 3,557 million, an increase of 7.4% compared to the previous year. This year's revenues include an increase in leasing generated revenues, achieving an annual growth rate of 252%. The Company earned a net profit of SR 988 million, a decrease of 9% compared to the previous year, while equity increased by more than 6%.

Throughout 2012, the Company was successful in maintaining and developing its relations as well as excellent credit record with investors in capital markets, local and international financial institutions and simultaneously, maintaining good operational investment standards and projects. During the first half of 2012, the Company managed to increase liquidity rates above those achieved in 2011, which enabled the Company to repay its Islamic Sukuk II of SR 3.75 billion (one billion US Dollars) on maturity and repay SR 1.9 billion of Islamic Murabaha loans and financing charges. Furthermore, DAAR invested SR 2.8 billion in projects, with an increase of one billion Saudi Riyals compared to the fiscal year 2011, (a 55% increase). The Company achieved remarkable milestones in 2012 that enhanced the Company's strong financial position as well as enhancing the efficiency of its investment activities, management and performance.

Net debt as at 31 December 2012 was 17.5% of total assets and such a low debt rate will enable the Company to reinvest its cash flow in further development cycles and implement its strategic plan of diversifying its investment base leading to the diversification of income streams. It is noteworthy that the investment base of the Company comprises property management, development and sale of residential units (detached villas, attached villas and apartments) and land (developed, semi-developed or undeveloped). The five to seven year strategic plan aims to diversify the investment base and sources of income, which are expected to be approximately 40% from sale of land and residential projects, approximately 50% from lease and property management and approximately 10% from other non-real estate investments.

In this context it should be noted that the real estate assets assigned to leasing have grown from 2% of the Company's total assets in 2008 to 13% in 2012 and, taking into consideration the leasing projects in the real estate portfolio that is work in progress, the growth rate is expected to continue in 2013.

Thanks to God, the Kingdom enjoys political stability as well as continuous economic growth and the 2013 budget, which is considered to be the largest budget ever initiated in the history of the Kingdom, reflects the Government's determination to support all economic activities that boost Saudi standards of living. We are confident that the 2013 budget will enhance the prosperity of the national economy over the next year. Moreover, a very significant event occurred in July 2012, which is the enactment of the Mortgage Law and the regulations that govern its practice. Needless to say, this is considered to be a qualitative development in the legislative structure of the real estate sector. Mortgage Law enactment is expected to have the potential of creating a mortgage industry of an annual estimated value of US$32 billion over the next 10 years, which could represent about 23% of GDP.

Such a significant development in the legislative structure of the real estate sector is the stimulus needed to increase demand for real estate, which is expected to grow at an accelerated pace. The law will also stimulate local banks to finance real estate projects. There is also an ongoing dialogue in the Ministry of Housing on strategic partnerships between the public and private sectors in order to initiate big-scale projects in the real estate sector, capable of balancing supply and demand in large urban settlements, such as Riyadh, Jeddah and Dammam. In conclusion, this will allow more feasible and remunerative investment opportunities that will definitely enhance growth.

We are more optimistic than ever that the Saudi real estate market, in light of the Mortgage Law enactment and its positive implications on real estate investment, is on the verge of a new economic cycle. The new economic cycle is expected to last over 25 years, the next five years of which are the most important as the real estate market will take a quantum leap.

Finally, I would like to extend my sincere thanks to my colleagues, the Board of Directors, for their efforts and constructive ideas which are appreciated and to the executive management, as well as the executive staff for their dedicated efforts to serve the Company. I would also like to extend my sincere thanks to our customers and shareholders for the invaluable confidence they have placed in us.

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Dar Al Arkan Real Estate Development Co.

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 2012.

LIFE

The Company's Activities

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1. Company's activities

Dar Al Arkan Real Estate Development Company, is a Saudi Joint Stock Company which 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 limited liability companies in order to facilitate the achievement of its strategic objectives of diversifying its investment portfolio and its income streams.

1.1 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 is registered in Riyadh under the Commercial Registration No. 1010247583, dated 28/3/1429 H (corresponding to 5/4/2008 G). The Company operates in construction of residential and commercial buildings (construction, maintenance, demolition and restructuring) in the Kingdom of Saudi Arabia.

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). The Company operates in development as well as the acquisition of commercial and residential real estates, provision of management, operation and maintenance of residential facilities, commercial buildings and public facilities in the Kingdom of Saudi Arabia.

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). The Company operates in real estate procurement, acquisition and investment in the Kingdom of Saudi Arabia.

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). The Company operates in Real Estate investments and development in the Kingdom of Saudi Arabia.

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). The Company operates in development, maintenance and management of real estate as well as land procurement and general contracting in the Kingdom of Saudi Arabia.

1.1.6 Thawabit Investment Company

Thawabit Investment Company is a limited liability Company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010275449, dated 30/10/1430 H (corresponding to 19/102009 G). The Company operates in real estate investment and development in the Kingdom of Saudi Arabia.

1.1.7 Seyadat Investment Company

Seyadat Investment Company is a limited liability Company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010275448, dated 30/10/1430 H (corresponding to 19/102009 G). The Company operates in real estate investment and development in the Kingdom of Saudi Arabia.

1.1.8 Investments defined by the rules of CMA as subsidiary companies

Khouzam Development Real Estate Company

The Company is a joint venture between Jeddah Development and Urban Regeneration Company (49%), a Company wholly-owned by Jeddah Municipality, and Dar Al-Arkan (51%). The Company was established exclusively to develop the Qasr Khozam project and registered in Jeddah under Commercial Registration No. 4030193909 dated 25/10/1430H, (corresponding to 14/10/2009G). The Company's paid up capital amounts to SR 540 million and operates in the Kingdom of Saudi Arabia with headquarters based in Jeddah.

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 27/3/1430H. (Corresponding to 24/03/2009). Alkhair headquarters is based in Riyadh city and operates in the Kingdom of Saudi Arabia.

2 Description of Company's activities and contribution of revenues

Although all the operations of the Company as well as its subsidiaries, are carried out within the Kingdom of Saudi Arabia, the management considers its operations to be in three distinct segments within one geographical zone.

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 2012 this segment accounted for SR 3,504 million, representing 98.5% of the Company's total revenues, as compared to SR 3,297 million, being 99.5% in 2011.

2.2 Property Management

The 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, commercial buildings and public facilities. By the end of 2012 the revenues generated by property management amounted to SR 53 million and represented 1.5% of the Company's revenues as compared to SR 15 million, representing 0.45% of total revenues in 2011.

2.3 Investment activities

Revenues from investment activities represent income generated by strategic investment, which the Company's management believes is complementary to Dar Al-Arkan's real estate development operations. During 2012, such investment activities were not significant to the Company's net profits as their contribution to net profit accounted for less than 1% .

Moreover, the Company earned other non-operating revenues amounting to SR 93 million representing 9.4% of net income in 2012 as compared to SR 99 million (9.1% of net income) in 2011. The Company will seek to maximize returns and diversify sources of income through property management and real estate investment activities as well as the sale of residential units and land trading. The Board of Directors undertakes that the Company undoubtedly has the ability to continue to sustain its activities.

3 Saudi Real Estate Sector Overview

3.1 Current position of the Saudi Real Estate Market

Domestic demand for real estate is considered to be the main driver of growth in all components of the real estate market. Domestic demand for residential units, according to statistics from the Ministry of Economy and Planning, is estimated to be 1.25 million housing units over the period of the 9th Development Plan (2010-2014). The area of land required to establish these units is estimated to be about 350 million square meters, while demand is expected to grow to more than 4 million units by 2024. The statistics also indicate the growing gap between supply and demand and the inability of the current production capacity to bridge this gap. Therefore, solving the housing crisis has become a top priority against a backdrop whereby the Kingdom is witnessing prosperity due to higher oil prices and an accumulation of significant financial surpluses. Meanwhile the rate at which Saudis owning their own homes has increased rapidly throughout the past two decades, to reach, as reported about 70% of the total Saudi population. It is noteworthy that the solutions to the housing crisis have focused on the following:

Increase the capital of the Real Estate Development Fund and raise the credit ceiling of SR 300,000 to SR 500,000. Moreover, develop the procedures that arrange the granting of loans and control the collection process. It is worth noting that the Real Estate Development Fund has developed mechanisms capable of allowing other private sources such as commercial banks, to offer improved and numerous financing opportunities and develop new security tools.

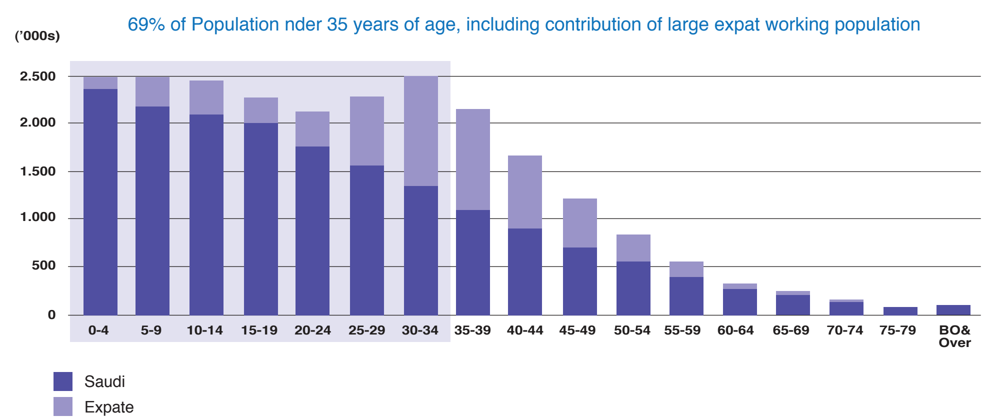
Establish a Ministry of Housing from the initiative of the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz Al Saud to allocate SR250 billion from Saudi budget surpluses in 2011 to the establishment of 500,000 residential units and to identify the mechanisms of their development and distribution. This dialogue continues between the Ministry of Housing and real estate developers to form strategic partnerships between the private and public sectors to develop large scale projects in the real estate sector.

Develop the real estate legislative environment and provide an appropriate mechanism to encourage investment in the economic cycle of the real estate industry. The approval on the mortgage system in July 2012 was a major milestone in this context and its impact is discussed elsewhere in the report.

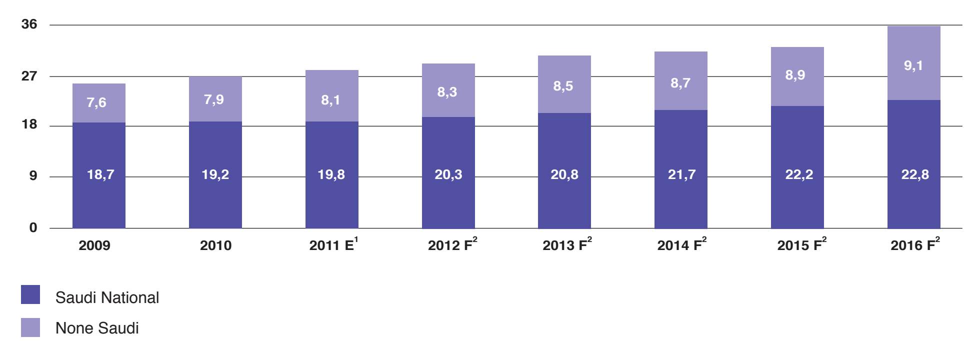
One of the reasons for optimism about future growth prospects is the expansion in the annual budget of the Kingdom for 2013 and the ongoing growth of the Government's construction and real estate projects sector by injecting cash for contractors and suppliers. A large part of this is being injected into various real estate projects as a safe investment for surplus funds. Historically, known investment patterns in the Kingdom have been supported by positive sentiment towards the Saudi real estate sector.

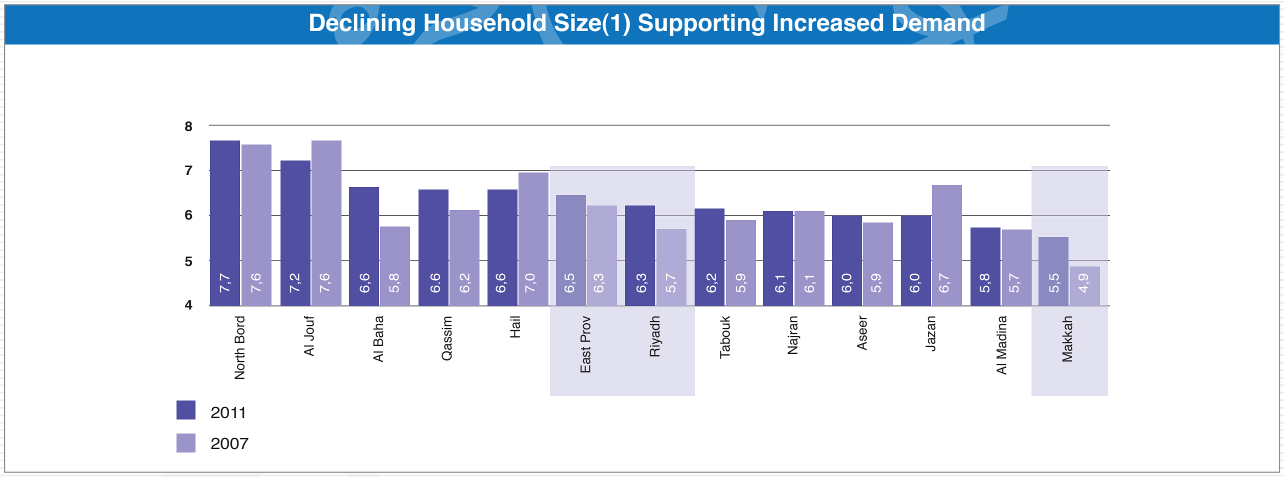
3.2 Saudi Real Estate Market Demographic Make-Up

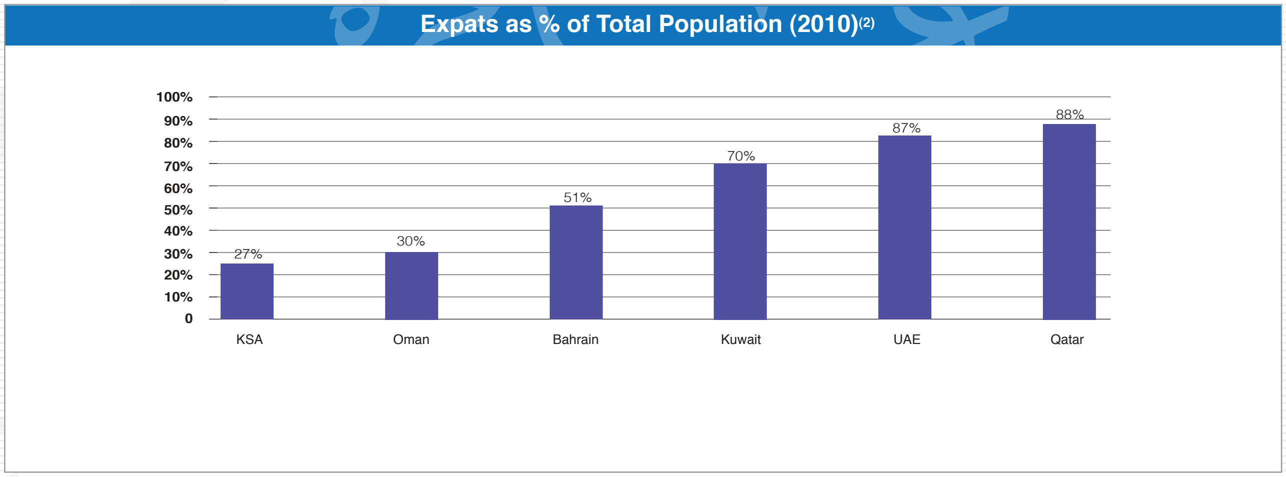
Population distribution by Age Group (1)



Population Growth Forecast (2)

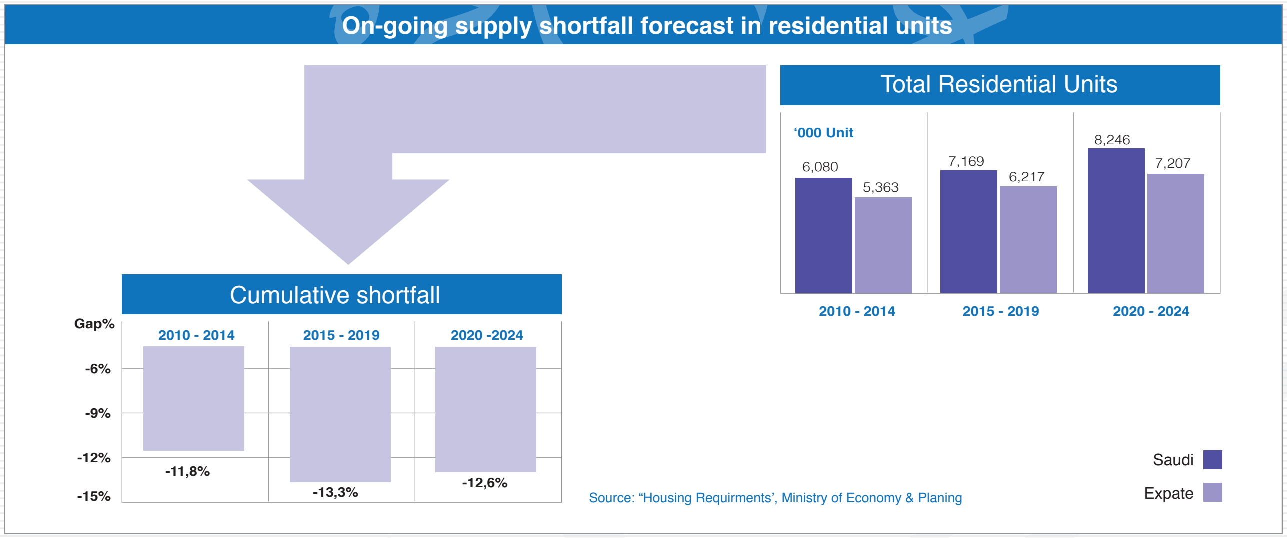






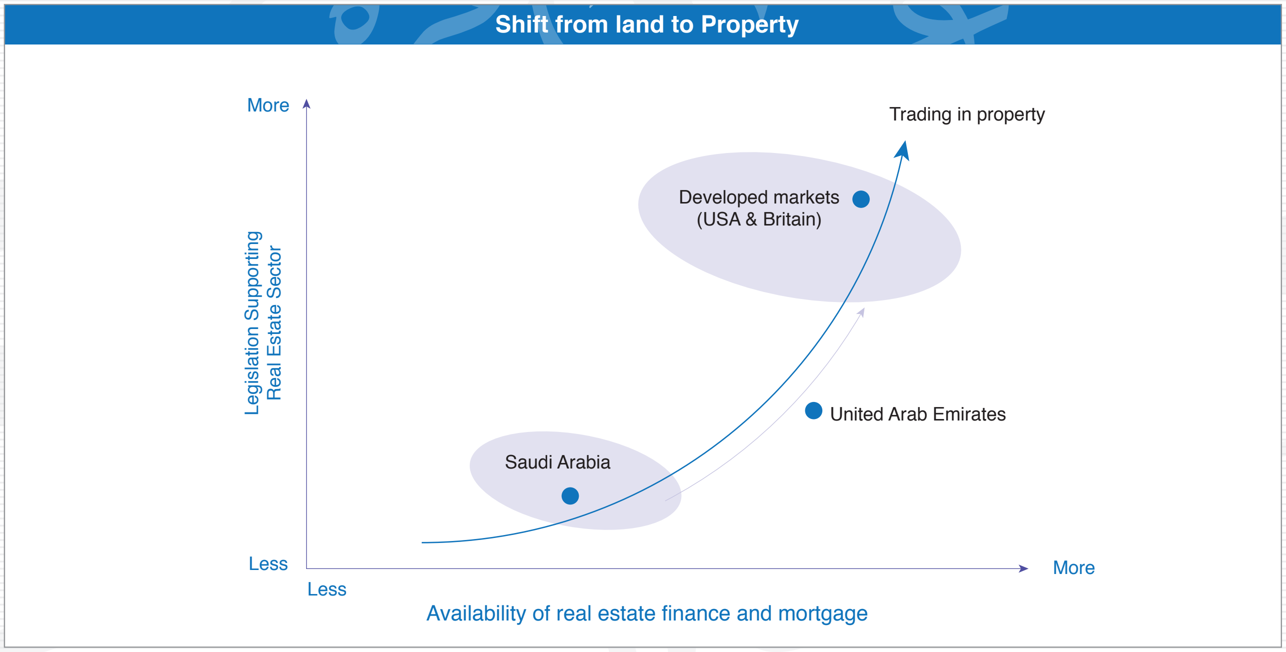
3.3 Supply and demand trends indicate on-going supply shortfall in residential units

- Growing population, declining household size and an 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 middle and lower end of the market
- Estimated demand of c.1mn housing units for every 5 year period
- Residential demand is concentrated in the metropolitan areas where Dar Al-Arkan is active: Riyadh, Makah and Eastern Province are all expected to suffer from undersupply
- The Ministry of Economy & Planning estimates that these 3 regions account for 71% of total new housing demand and 63% of total replacement demand



3.4 Mortgage laws and regulation

3.4.1 Relationship between availability of real estate finance and mortgages along with im proved legislation supporting the real estate industry



The above illustrates how the improved availability of real estate finance and mortgages along with improved legislation supports the real estate industry leading to a shift in real estate markets from a 'land model' to a 'property model'. The lack of modern real estate legislation means higher legal risks prevail in property and therefore markets continue to rely on the safer land trading model. This legal uncertainty also restricts growth in real estate finance and the mortgage industry as a whole. Enactment of modern legislation governing the real estate sector normally goes hand in hand with availability of finance for real estate development.

Real estate markets in developed countries such as USA and Britain are characterised by a 'property model' as they have evolved a comprehensive set of laws and enjoy substantial funding/mortgage markets. Even the UAE's real estate market has started to evolve towards the 'property model' seen in developed markets. By contrast, the lack of a set of modern laws governing property and the associated lack of funding and mortgages has hindered the development of the Saudi real estate market and the sector continues to largely rely on a 'land trading' model.

3.4.2 Issuance of Mortgage Law and Regulations and the Anticipated Impact

A significant development has occurred in the real estate market in 2012, where mortgage law and regulations governing related practice have been issued. The mortgage system is anticipated to make a qualitative and quantitative shift in the real estate sector by balancing forces of supply and demand, and escalating competition for the benefit of consumers. Moreover, investors' liquidity is likely to be allocated to real estate development which is viewed as the safest asset for conserving value. It is noteworthy that success in mortgage lending depends on the availability of considerable liquidity in the market on the one hand and well monitored, controlled and effective implementation on the other. It is also worth mentioning that the Mortgage Law has the potential to create a mortgage industry of an annual estimated value of US$32 billion over the next 10 years, which could represent about 23% of GDP.

Availability of liquidity in the real estate sector will help expand the financing umbrella and increase housing loans which will eventually help citizens to own adequate housing.

The enactment of mortgage law will stimulate the real estate market in general, (whether in terms of developed land or procurement of existing housing units) and will also help numerous potential customers to own their housing through domestic lending. This is expected to assist investment specifically by preserving their rights through law.

If financial institutions, such as banks, participate in mortgages, the impact of the Mortgage Law will extend to the wider economy by increasing the income of real estate owners and banks as a direct result of increased lending.

On the other hand the Mortgage Law will contribute to considerable liquidity inflow to the mortgage sector, which will benefit the SUKUK market. It is estimated that the global demand for SUKUKs will triple by 2017. This boom in demand is attributable mainly to the steady growth in the Islamic banking services sector resulting from increasing demand for reliable Islamic Sharia compliant securities, generated by Islamic financial institutions, fund managers, and high net worth individuals. The traditional institutions are also considered as key investors of SUKUK products.

The volume of investment in the housing sector during the years 2011-2020 is anticipated to be a trillion Saudi Riyals (equivalent to 345 billion dollars), used in the construction of 2.4 million housing units. This implies that numerous opportunities will be available to developers and investors through government and private sector expenditure in order to bridge the demand-supply gap. Enactment of the Mortgage Law, under prevailing conditions of an accelerating growth in housing demand, will allow more opportunities for mortgage and real estate development and will also help develop the concept of investing in real estate in a way that responds to the requirements of modern life as well as taking into consideration the variables that may occur in future.

The above factors will help to build investment models on economies of scale and intensity of construction by using funds from both internal and external sources into the real estate. This will also attract foreign investment as well as state support in terms of genuine partnerships between financiers, developers and state institutions in order to implement giant, integrated real estate projects. Such projects are likely to produce developments characterised by multiple socio-economic and environmental benefits that help enhance market needs and provide a balance of demand and supply.

4 Overview of Company's Investment Model

The Company pursues a flexible and unique investment model aimed at maximising and promoting the growth of the Company's assets and profits. Therefore, the Company invests sizable capital in any project which proves to be financially viable and technically feasible to maximise value. In this respect, the Company focuses on purchasing undeveloped land in big cities (where affordability is considerably higher) at a price which is likely to maximise development potential.

External financing is the main source that enables the Company to expand its investments and, in turn, enhances profitability, assets and return on shareholder equity. The Company has successfully used internal and external sources of finance in its projects to maximise value by virtue of the investment model. The Company started its activities by trading undeveloped and developed land, then developing a limited number of housing units, which was followed by medium size urban development, and then by progressing into master-planned community developments.

By 2007, Dar Al Arkan had diversified its income streams by means of proper planning models, timely resource allocation, horizontal and vertical expansion and diversification. Diversification of income aims to introduce fixed and variable income streams and sustain the productive activities of the Company. Our plan was to expand our portfolio to include the sale of developed land, sale of residential units (detached & attached villas & apartments) and property management (residential units, offices, commercial facilities & malls). This strategic initiative was to be implemented over the five years ending 2012. But the global economic crisis curtailed access to new financing, leaving us with no other option but to stretch the execution of our strategic initiative over a longer time span. We have therefore, gradually started diversifying our income streams by increasing our real estate portfolio. Now, we have new sources of fixed as well as variable income, which we will continue to develop and grow to reach our target of approximately 40% from sale of land and residential projects, approximately 50% from lease and property management and approximately 10% from other non-real estate investments.

5 Updates of projects' progress as at 31/12/ 2012

5.1 Al Qasr Project

Al Qasr Project: The project is located in the Alswaidi district - Riyadh city – (one of the most lively neighbourhoods) on a total area of 816,000 square meters. The project's built-up area is approximately 1.2 million square meters and project facilities include: 3,051 residential units (comprising detached, semi-detached, villas and apartments), as well 63,000 square metres of commercial retail space and 19,000 square metres of office space. It is worth mentioning more than 92% of the units offered for sale have already been sold. The project also includes 6 mosques, a spacious public park and considerable areas of land area assigned to education (schools) and government facilities.

The Company has retained 1,386 residential units for lease (1,318 apartments and 68 villas) and of these, 852 apartments and 68 villas have been leased to date. The Company has also retained an office building including all retail facilities on the first floor for lease and by the end of 2012, 46% of retail facilities have been leased while the remainder is in the lease process. The majority of related leases are long term contracts with government agencies and private entities for three to five years, which eventually will achieve the Company's goal of focusing on remunerative long term leases. Furthermore, long term contracts enable the Company to generate regular income from these assets secured by asset backed mortgages.

The Al Qasr project has won the prize of the largest residential project in the Kingdom awarded by the Ministry of Housing. The prize was given by His Majesty, the Minister of Housing to the Chairman of Dar Al Arkan, Mr. Yousef Al Shelash during the Housing Forum and Riyadh Urban Development and Real Estate Investment Exhibition. The prize has been awarded in appreciation of the Company's contribution to developing distinctive residential communities with unrivaled advantages and ideal living space that meet the requirements of both consumers and investors, and providing them with real estate of the highest quality.

5.2 Al Qasr Mall Project

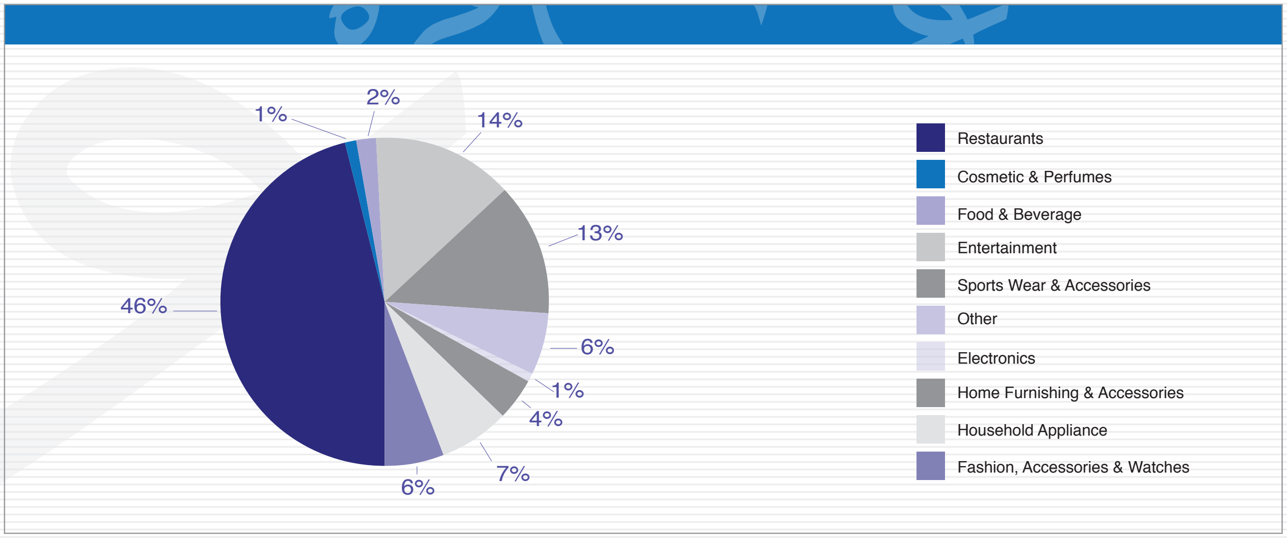
Al Qasr Mall, since inauguration in June 2012, is a state-of-the-art development that represents a distinctive landmark in the City of Riyadh. The mall of more than 90,000 square metres of shopping and entertainment space offers a memorable shopping experience. The mall accommodates one of biggest indoor amusement parks in Riyadh containing more than 22 rides, and an ice park which is second to none in the City. The value of the related investment amounts to SR1 billion. The mall's design, build and finish are considered unique by international standards. The mall is a three storey building of 250,000 square metres in area and comprising 350 stores, a family entertainment zone, restaurants, as well as a two storey ground & basement parking facility for 2,200 cars, including a parking area assigned for the disabled. The internal design of the mall is luxurious and charming, making shopping an enjoyable pastime, as customers move inside a spacious and sunny lobby equipped with transparent glass elevators, 6 escalators and 14 elevators linking all floors and areas. Customers can easily see and access shops on all floors from any point. The mall is equipped with a state of the art building management system by Schneider, which uses more than 100,000 electronic sensors across the mall building to monitor and control all the facilities as well as mechanical and electrical systems.

Al Qasr Mall is uniquely located in Riyadh city, on King Fahd highway, within the Al Qasr residential project. The mall serves the inhabitants of Al Qasr and the adjacent districts with a population that exceeds one million people.

By the end of 2012, about 83% of the leasable space in the Al Qasr Mall had been leased to a selection of prominent international and regional retailers including Carrefour, Al Othaim, Dar Al Bander Co./Land Mark Group (Centre Point, City Max, Iconic, Shoe Express, Carpisa, Bossini, New Look & Koton), Al Shaya (H&M, Peacock, Payless, Next, Vision Express, Pink Berry, Claire's, Castania Nuts, Mother Care, Boots, Dorothy-Parkins, Milano Evans, Victoria), Dana for Trading Co. (Mango, ADK, Blanco, Fridays Project), Anwal for Trading Co. (Cache cache, Etam & Etam Lingeria, Prafios & Marrow), Red Tag, and SACO.

5.2.1 Merchandise Mix in Al Qasr Mall

Al Qasr Mall comprises many retail outlets providing shoppers with all their requirements of merchandise and services on one floor: modern fashions, utensils, cosmetics and perfumes, indoor entertainment, take away and full service restaurants, care services, hypermarket, electronics and toys and others.



5.2.2 Al Qasr Mall, a strategic value

The mall's shopping and entertainment activities are expected to have a positive impact on the market and lease value of the Company's real estate near the mall.

The mall area was previously suffering from a scarcity of high quality shopping centres, where the areas to the South and West of Riyadh accommodate only 17% of the totality of all shopping centres in Riyadh city, whereas the North and East of the City are served by 83% of those centres. This makes Al Qasr Mall a key attraction for more than a million people living in its catchment area.

5.2.3 Al Qasr Mall attractions

Beside the numerous attractions of Al Qasr Mall, the mall management, in coordination with tenants, frequently organise promotional events to attract families for an incomparable entertainment experience.

5.2.4 Al Qasr Mall … unique advertising experience in Riyadh, adds value to the mall income

The enchanting facade of the mall is equipped with moving advertising hoarding. The internal space is unprecedented in its design with its wide and sunny lobby equipped with 4 transparent glass elevators, 6 escalators and 14 further elevators linking all floors and areas. The shopper, from any point, can see and easily access shops on all floors; all this has added a new momentum to the interest of many shops showcasing their products along the mall's corridors, adding value to the mall's income from advertising.

5.3 Shams ArRiyadh Project

The project is located in North West of Riyadh city on an area of 5 million square metres. The project comprises 2,694 plots of land assigned for villa units and 7 commercial facilities with a permitted build area of 3 million square metres with floors ranging between 4, 10, 14, and 25. The Company is developing an integrated and luxurious residential project, in a location blending beauty of nature from the charming scene of Wadi Haneefa beside the project's own natural valley and modern technology. Furthermore, the project master plan includes gardens and terraces, as well as space designated for different sports, social and cultural activities, public amenities and other urban facilities. The project is equipped with a multi-service digital structure that enables inhabitants to use a wide range of visual and audio media applications and information platforms. Moreover, the buildings and property management systems are linked to a unified network in order to enjoy numerous services such as high speed internet, telecommunications, wireless solutions, network protection and surveillance systems, that maintain security and safety, air conditioning, lighting, and firefighting.

In May 2012, part of the project's residential land was sold to Saudi Basic Industries Corporation (SABIC) to establish a residential compound for its employees. The area sold is equivalent to 1,854,224.60 square metres and amounted to SR 741,689,840 (i.e. SR 400/square metre). After the sale to SABIC the project master plan is being designed with application for planning and approval by the relevant authorities. The changes in the master plan include redistribution of the licensed BUA, approval to build 1000 units on 450,000 square metres of land as a gated residential expatriot complex, which will be retained as rental properties.

A considerable portion of the project's infrastructure has been completed, which includes: landscaping, development of the project's frontage and main gate, construction of a bridge over the natural valley, which links commercial and residential areas and installation of a main power station of 132 KVA. Water supply to the entire project is in progress and expected to be completed soon.

5.4 Shams Al Arous Project

The project is located in the east of Jeddah on an area of 3 million square metres. The project will include more than 10,000 residential units and will be furnished with all modern conveniences such as public facilities, shopping and office centres, resorts and entertainment parks.

In order to add more value to the investment, the Company has linked the project to Palestine Street, a famous commercial street in Jeddah, of 52 metres wide, kilometres long and contains 5 lanes in each direction comprising 3 main and 2 bypass lanes. The new link is an extension of Palestine Street, east of Haramain road, which will provide new access to the City from the East allowing future developments. Furthermore, the building ratio of the project has been raised, therefore increasing the built-up area by 100% and the number of storeys to 7. The land development phase of the project is in progress. During 2012 the sales office facility was constructed on site and 316,682 square metres of residential plots have been sold. The vertical construction works are expected to start in 2013. The Company has not yet decided whether the commercial and residential units will be retained for lease, as this is still under review.

5.5 Al Tilal Project

The project is in the South West of Al-Medina Al-Munwara, within Alharam boundaries (9 km from the Prophet Holy Mosque and 8 km from the Qiba Mosque). The project is located on Prince Sultan road, one of the main roads in Medina. The project area is about 2.2 million square metres, comprising 499 villa units within an area of 170,000 square metres. The remaining area comprises developed land plots, the sale of which has already started with approximately 85% of the total land area being sold.

Al Tilal project is characterised by an integrated infrastructure incorporating electricity & water supply, irrigation system, communications network, flood drainage system, 32 and 64 metre wide paved roads and landscaping, as well as integrated superstructure. Moreover, the project incorporates a fibre optic service in Medina. The project plan includes spacious areas for public facilities such as schools, mosques, parks, municipal services, trading centres and a parking facility.

In 2013, the company plans to build and retain two mixed use buildings as a rental asset on the project's main road.

شركة تطوير خزام العقارية
Khozam Development Company

5.6 Qasr Khozam Area Development Project

The project is located in the central hub of Jeddah and contains the first Royal Palace established by King Abdulaziz in Hijjaz area. The project contains some strategic landmarks such as the Islamic Development Bank, Effat University (the first private female university in the Kingdom), and government owned land assigned to the permanent headquarters of the Islamic Conference Organisation, which ranks as the largest organisation in the world after UNESCO.

This large scale project is and envisaged to regenerate the central part of Jeddah through a partnership between DAAR and the Jeddah Development and Urban Regeneration Company (Khozam Estate Development Company is a limited liability company, established as a joint venture between Dar Al Arkan (51%) and Jeddah Municipality (49%), represented by Jeddah Development and Urban Regeneration Company, with a paid up capital of SR 540 million).

The project area is approximately 4.13 million square metres with an estimated total cost of SR 11 billion . The cost of acquiring the land represents 56% of the total cost. The cost of developing infrastructure, general and administrative expenditure and financing cost constitutes 44% of the project cost.

Currently the site comprises unplanned derelict housing units, old buildings, multi-family dwellings and an aging infrastructure of roads, electricity and water networks. The project is now in the process of re-registering land ownership and will be followed by the implementation of infrastructure works. The Company has completed the processes of undertaking a comprehensive real estate survey, conceptualizing owners' compensation mechanisms and endorsing the project master plan. Initial project finance is estimated to be SR 6 billion. The Company has obtained approval from the Public Investments Fund to contribute SR 4 billion with the balance to be provided by Saudi commercial banks and financial institutions.

The project aims to rejuvenate scattered slums by demolishing illegal buildings and replacing the existing infrastructure, while preserving the cultural heritage and historical landmarks in the area and establishing a modern integrated urban community furnished with all modern conveniences.

The project will be implemented over five phases. The first phase, which focuses on the Company's land, has commenced with site clearance (removal of all buildings, walls, pavements, sidewalks, parks and gardens). The area has then been fenced, land plots demarcated and surveying signs marked on each land plot. All related documents, plans, bills of quantities and infrastructure specifications have been prepared for contractors to qualify for tendering, and the next phase involves selecting contractors for the job.

The project funding plan targets government funding agencies and upon finalisation of the project's feasibility study, and in accordance with the Ministry of Finance approval, the Public Investment Fund has taken the initiative to finance the project in collaboration with local and international financial institutions.


شمس الرياض
Shams ArRiyadh

SHAMS ARRIYADH PROJECT I

The project is located in North West of Riyadh city on an area of 5 million square metres. The project comprises 2,694 plots of land assigned for villa units and 7 commercial facilities with a permitted build area of 3 million square metres with floors ranging between 4, 10, 14, and 25. The Company is developing an integrated and luxurious residential project, in a location blending beauty of nature from the charming scene of Wadi Haneefa beside the project's own natural valley and modern technology. Furthermore, the project master plan includes gardens and terraces, as well as space designated for different sports, social and cultural activities, public amenities and other urban facilities. The project is equipped with a multi-service digital structure that enables inhabitants to use a wide range of visual and audio media applications and information platforms. Moreover, the buildings and property management systems are linked to a unified network in order to enjoy numerous services such as high speed internet, telecommunications, wireless solutions, network protection and surveillance systems, that maintain security and safety, air conditioning, lighting, and firefighting.

In May 2012, part of the project's residential land was sold to Saudi Basic Industries Corporation (SABIC) to establish a residential compound for its employees. The area sold is equivalent to 1,854,224.60 square metres and amounted to SR 741,689,840 (i.e. SR 400/square metre). After the sale to SABIC the project master plan is being designed with application for planning and approval by the relevant authorities. The changes in the master plan include redistribution of the licensed BUA, approval to build 1000 units on 450,000 square metres of land as a gated residential expatriot complex, which will be retained as rental properties.

6 Major Strategic Decisions during the Year:

6.1 Cash management strategy to enable repayment of the cost of funding (amounting to SR 5.65 million) including

Islamic Sukuk valued at SR 3.75 million - US$ 1 billion) on maturity

The Company pursues an effective cash management strategy that aims to sustain productive operations and eventually maintain reasonable profitability rates, as well as attain equity growth, repay debts and meet other commitments. In 2012 the Company exerted considerable effort in improving liquidity from 2011. By virtue of this strategy, the Company was able to repay the second Islamic SUKUK issuance amounting to SR 3.75 billion (US$1 billion) on maturity and also repay an amount of SR 1.9 billion being Islamic Murabaha finance charges. In the meantime the Company has increased the investment value of its development projects from SR 1.8 billion in 2011 to SR 2.8 billion in 2012, an increase of 55%. This includes Al Qasr Mall, the largest shopping centre in the City of Riyadh, which was inaugurated in June 2012. Moreover, the rate of equity growth has exceeded 6% in 2012, despite some prominent firms and countries failing to meet their due commitments. The successful application of the Company's strategy indicates the strength of the financial position and enhances its credit rating among investors in both domestic and international capital markets.

6.2 The strategy of diversifying the investment base

During the last five years between 2008 and 2012 the Company has applied the strategy of diversifying its investment base. As a result, the value of rental assets increased from 2% of total assets or SR 200 million in 2008 to 13%, or SR 2,737 million in 2012, securing an income stream besides other sources of income. The Saudi real estate market is witnessing high demand for housing units, which is estimated to be 65% of the total real estate market. The Saudi real estate market is also seeing a considerable increase in demand for entertainment and religious tourism facilities as well as commercial facilities and malls. Consequently, the Company will continue to apply its strategy of diversifying its investment base and income streams, with the aim of securing an income composition of approximately 40% from the sale of land and residential projects, approximately 50% from lease and property management and approximately 10% from other non-real estate investments. The diversification strategy creates a solid growth base of sustainable and recurring income streams, which will lead in the mid- to long-term to stability and regularity of the Company's income as well as steady growth in profit margins.

7 The Strategy

The Company's strategic objective is to diversify its investment base and eventually its income streams which are likely to mitigate risk. Diversification of income streams aims to introduce fixed and variable income to sustain the Company's business activities. Fixed income is of a recurring nature, while variable income arises from the sale of real estate at irregular intervals. Creating fixed income as well as variable income avoids opportunity costs by bridging the gap between sale transactions.

The Company's income will be drawn from three major activities: land sales, property management & leasing and property sales. Property management includes both own property management with a portfolio of SR 2.7 billion book value in 2012 and third party property management. Owned property offers a dual advantage by providing regular recurring income and capital appreciation, which represents an indirect net income that enhances the Company's financial position to qualify for fund raising. In addition to its current leased properties comprising villas, apartments, offices, malls and retail shops, the Company is investigating the feasibility of owning and managing properties comprising health, education and hospitality facilities. Income generating assets such as leased properties could be used as a guarantee to obtain finance, taking into consideration that such an asset is the most preferable collateral guarantee and the most cost effective to finance.

The Company undertakes other strategic investment in activities that complement real estate development. Management will continue seeking other feasible investment opportunities in the foreseeable future.

Moreover, the Company will continue applying its strategic initiatives that aim to optimise resource, increase investment benefits, improve material and human potential, increase production rates, achieve both vertical and horizontal expansion and raise growth rates.

We anticipate the above activities will contribute significantly within the next 5 to 7 years to achieve diversity of income so that approximately 40% of income is derived from the sale of land and residential projects, approximately 50% from lease and property management and approximately 10% from other non-real estate investments.

8 The financial results

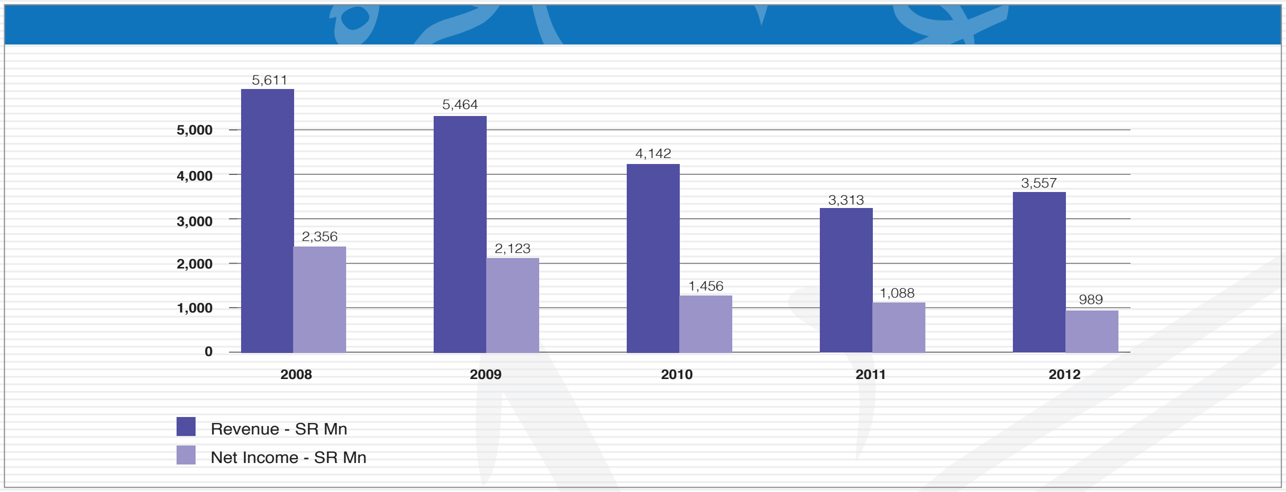
The Board of Directors undertakes that the books of accounts have been maintained properly and there is no departure from the accounting standards issued by the Saudi Organization for Certified Public Accountants – SOCPA.

8.1 The income statement comparison for the years 2008 to 2012

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

Item (in thousands of SR)	2012	2011	2010	2009	2008
Operations' Revenues	3,557,072	3,312,510	4,141,981	5,464,053	5,610,768
Cost of revenues	-2,163,366	-1,943,497	-2,377,724	-2,956,916	-2,765,587
Gross Profit	1,393,706	1,369,013	1,764,257	2,507,137	2,845,181
Principal activities expenses	-209,279	-118,594	-146,599	-186,292	-199,555
Net income from principal activities	1,184,427	1,250,419	1,617,658	2,320,845	2,645,626
Financing expense	-264,086	-212,809	-214,311	-146,230	-245,850
Net Other Income	93,626	99,699	79,364	-1,936	16,894
Net Income before Zakat provisions	1,013,967	1,137,309	1,482,711	2,172,679	2,416,670
Zakat provisions	-25,430	-49,374	-27,000	-50,000	- 60,423
Net Income	988,537	1,087,935	1,455,711	2,122,679	2,356,247
Earnings Per Share	0.92	1.01	1.35	1.97	2.18

Total revenue and net income changes from 2008 to 2012



8.2 The balance sheet comparison for the years 2008 to 2012

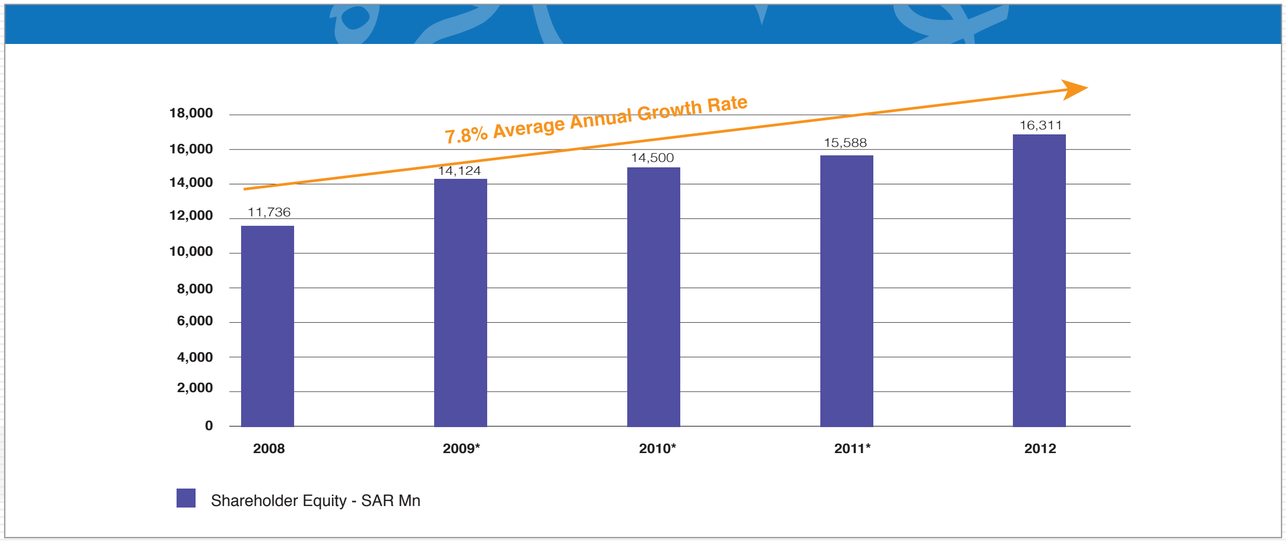
The following table illustrates the main balance sheet items for the last five years. This should be read in conjunction with the audited consolidated financial statements and accompanying notes.

Item (in thousands of SR)	2012	2011	2010	2009	2008
Assets					
Current Asset	3,552,478	6,411,458	3,868,815	4,268,981	4,727,599
Non-current Asset	18,350,137	17,606,697	19,389,020	19,232,496	15,316,591
Fixed Asset	77,674	82,604	91,026	102,933	119,790
Total Asset	21,980,289	24,100,759	23,348,861	23,501,477	20,163,980
Liabilities					
Current Liabilities	2,362,996	5,741,282	2,157,558	3,793,853	2,419,594
Non-Current Liabilities	3,305,934	2,771,914	6,691,675	5,583,707	6,007,889
Total Liabilities	5,668,930	8,513,196	8,849,233	9,377,560	8,427,483
Equity					
Capital	10,800,000	10,800,000	10,800,000	10,800,000	7,200,000
Statutory reserve	816,768	716,768	607,768	462,268	3.600,000
Retained earnings	4,694,591	3,806,054	2,827,119	2,596,908	936,497
Total shareholders' Equity	16,311,359	15,587,563	14,499,628	13,859,176	11,736,497
Total Liabilities and shareholders' Equity	21,980,289	24,100,759	23,348,861	23,501,477	20,163,980
Book value per share*	15.10	14.43	13.43	12.83	16.30

Book value per share calculated by dividing by the total shareholders' Equity by the total number of outstanding shares at the end of each fiscal year.

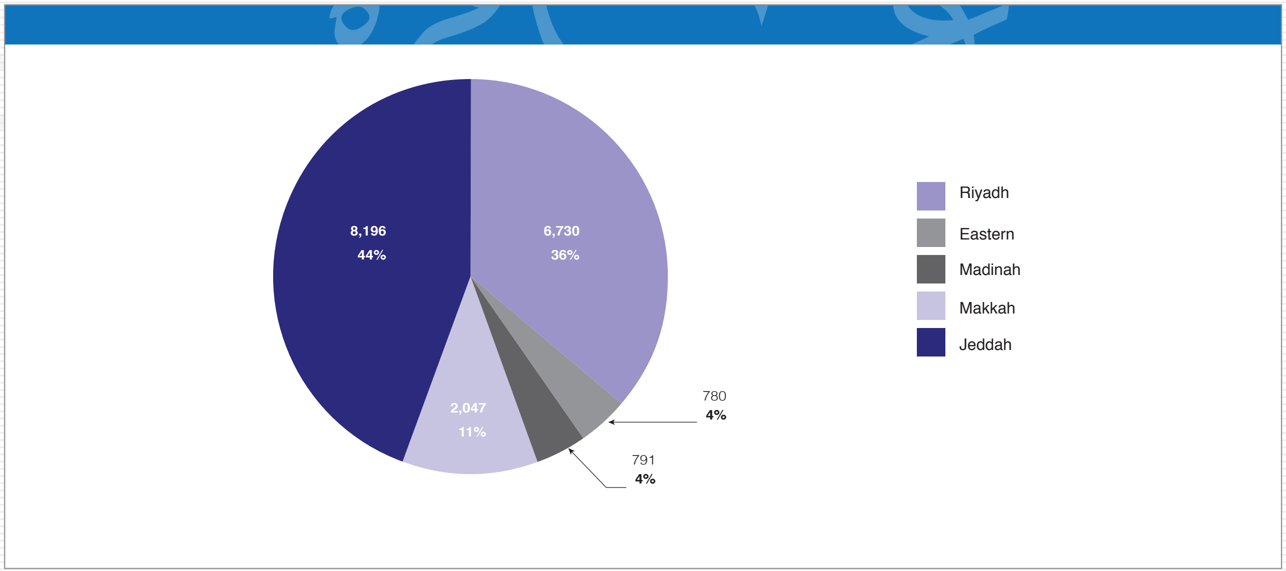
The Company hereby discloses that, for commercial and practical reasons, it registers some of its real estate assets under the name of representatives or agents, in return for official documents against them evidencing the Company's ownership of these assets. The Company only undertook this course of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

Shareholders equity changes from 2008 to 2012



* The years 2009, 2010, 2011 included non-controlling interest from Dar Al-Arkan's subsidiaries of SAR 265 million

8.2.1 Geographical diversification of Real Estate portfolio



8.2.2 Market value of the Company's Real Estate portfolio

In 2011 the Capital Market Authority (CMA) selected a large sample of the Company's Real Estate portfolio with a 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 for an independent valuation by local and international Real Estatevaluers selected by the CMA. Each property was evaluated by at least twovaluers. The sum of each average valuation amounted to SAR 14.8 billion for the selected sample. This implies an inherent surplus of SAR 5.1 billion above the value recorded in the Company's books.

By the end of 2012, and upon review of the valuation of the real estate portfolio, the Company's management believes that thevaluation indicators, including those of 2011, arereasonably indicative of the general value improvement across the Company's total Real Estate portfolio of SAR 18.5billion by the end of 2012, being 153% of the book value of its Real Estates portfolio. 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.

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.

8.3 Results of operations

The following table compares the results of operations for 2011 and 2012.

Item (in thousands of SR)	2012	2011	Change (+or -)	Change%
Revenues	3,557,072	3,312,510	244,562	7.38%
Cost of revenues	2,163,366	1,943,497	219,869	11.31%
Gross Profit	1,393,706	1,369,013	24,693	1.80%
Principal activities expenses	209,279	118,594	90,685	76.47%
Net income from principle activities	1,184,427	1,250,419	-65,992	-5.28%
Financing charges	264,086	212,809	51,997	24.43%
Net Income before Zakat provisions	1,013,967	1,137,309	-123,342	-10.85%
Zakat provisions	25,430	49,374	-23,944	-48.50%
Net Income	988,537	1,087,935	-99,398	-9.14%
Earnings Per Share	0.92	1.01	-0.09	-8.9%

8.3.1 Revenues

Total revenues were SAR 3,557 million in 2012, compared to SAR 3,313million in 2011, representing an increase of 7.38%. The increase is mainly due to the increase in land sales revenue by 8% compared to 2011 owing to a rise in demand for Company's land back and its effortsto increase its revenues and liquidity of its land portfolio, in addition to the increase in the highly profitable lease revenues which compensated for the decrease in sales of housing units.

Rental revenues increased by 252% to reach SAR 53 million during 2012 compared to SAR 15 million in 2011 due to the growing occupancy ratios of the Company's residential and commercial properties assigned for lease in the Riyadh and Mecca regions.

Revenues from the sale of residential properties in 2012 wereSAR 25 million compared to SAR 77 million in 2011, a 67.3% decrease. The revenue decrease is mainly due to the lower number of units sold in 2012 which stood at 41 units compared to the 99 units sold in 2011as we had fewer units available in 2012. The average selling price per unit during 2012 reached SAR 615,450 compared with SAR 781,272 during 2011; a decrease of 21% related to the types of units sold during 2011 where most of the units sold were villas rather than apartments.

Revenues from the sale of land were SAR 3,479 million compared to SR 3,220 in 2011, representing an increase of 8%. This increase is mainly due to the rise in demand for Company's land back and its efforts to increase its revenues and liquidity, particularly during the first half of 2012. The total area of land sold during 2012 was 6.1 million square meters, a slight decrease from 2011 when 6.2 million square meters of land was sold.

The Company recognizes revenues from land sales upon signature of a contract and on receipt of at least 20% of the transaction value as a non-refundable advance payment.The remaining balance due is recorded in accounts receivable. Transfer of ownership to the buyer and registration of the land is finalisedonly 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 state of the economy in the Kingdom. These factors can delay the timing of land sales as we assess sales pricing with return on investment . It was difficult to determine the actual impact of these factors 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 should reduce going forward since the announcement of the Mortgage Law in 2012.

8.3.2 Cost of revenue

Cost of revenue reached SAR2,163 million in 2012, representing 60.8% of total revenues compared to SAR1,943 million in 2011, or 58.7% of total revenues. This small increase in the cost of revenue is mainly due to the lower profit margin generated by the sale of land and residential units in 2012 compared to 2011, which is attributable to the geographical locations and developmentstatus of properties sold during 2012.

8.3.3 Selling, general, and administrative expenses

Selling, general, and administrative expenses were SAR 154 million compared to SAR 91 million in 2011, representing an increase of 69.2%.The SAR 63 million increase during 2012is attributable to the increase in marketing, advertising and administrative consultancy costs.

8.3.4 Financing charges

Net financing charges were SAR 264 million in 2012 compared to SAR 213 million in 2011,representing an increase of SAR 51 million. This increase is attributable to the Company's success in new financing Murabaha with local and international banks during 2012, particularly after the repayment of the second issuance of the Islamic Sukuk amounting toSAR 3.75 billion.The arrangement costs of these financing facilities were charged on the income statement of 2012.

8.3.5 Net income

Net income in 2012 reached SAR 989 million compared to SAR 1,088 million in 2011.Earnings per share were SAR 0.92 in 2012 compared to SAR 1.01 in 2011.

8.4 Liquidity and capital resources

As at December 31, 2012, we had cash and cash equivalents of SAR 536 million.

8.4.1 Cash flows

The following table sets out the Company's cash flows for the financial periods 2011 and 2012:

(in millions of Saudi Riyals)	2012	2011
Funds from Operating Activities	685	2,015
Funds from (used in) Investing Activities	379	(350)
Funds from (used in) Financing Activities	(3,034)	(348)

Net cash flow from operations stood at SAR685 million compared to SAR 2,015 million in 2011. The negative variance is mostly related to lower revenues generated during 2012 and also an increase in working capital compared to a reduction in working capital in 2011.

The Company's divestments in Associates and investments in land have primarily led to an overall generation of cash in investing activities of SAR379 million in 2012.

The negative cash used in financing activities resulted from repayment of debts exceeding new debt raised during the year, with a net decrease in overall debt of SAR3,008 million during the year.

8.4.2 Projects and investment expenditures

Our priorities for expenditure on projects include continuing to develop integrated residential environments, investing in purchasing and developing land, purchasing and developing income-generating properties. During 2012, we spent SAR 2,850 million on projects.

The amount and timing of project expenditures may be affected by a number of risks.We believe that our requirements for project expenditure can be met through a combination of cash generated from operations andexternal finance from various sources.

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 a dividend is made in consideration of the Company's financial status, the market and economic situation in general, and other factors such as the availability of investment opportunities, reinvestment needs, and other organizational factors.

Article (43) of the Company's Articles 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:

- ZAKAT allocation
- 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

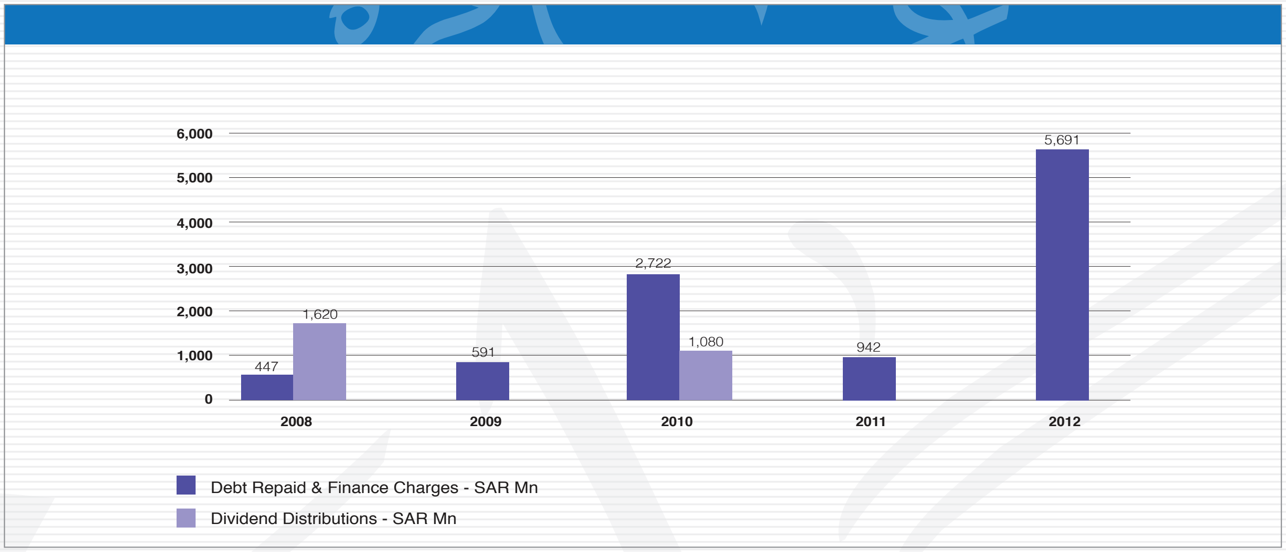
The Company's financing strategy, initiated in2007, is oriented towards medium and long-term financing that matches the Company's project investment cycle of three to five years. This strategy was evident from the issuance of a series of local and international Shariah-compliant Sukuks. In the last five years the Company had three international and one local Sukuk issuance. The total funds raised from these Sukuks amounted to SAR 8.4 billion. The first issuance of SAR 2.25 billion was repaid on maturity in March 2010, and the second issuance of SAR 3.75 billion was repaid on maturity in July 2012. The balance of SAR 2.4 billion (comprising a local issuance of SAR 0.75 billion due in 2014 and an international issuance of SAR 1.65 billion –equivalent to US$ 450 million - maturing in 2015) is still held for financing the Company's projects.

For working capital purposes, the Company took short and medium term financing mostly through renewable Islamic Murabaha facilities from some local and international banks for a total amount of SAR 4,460 million from 2008 to 2012, with SAR 2,857 million being repaid during the same period. The total outstanding amount at the end of 2012 was SAR 2,003 million.

Therefore, the ratio of long-term financing (Sukuks) to total finance raised by the Company (from 2008 to 2012) is approximately 65%, whereas short and medium-term financing accounts for the balance of 35%. 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 in sources of finance including "project financing" from local banks and financial institutions. Currently, the Company is building a portfolio of rental properties that can be offered 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.

Diagram illustrating company's financing program



The above illustration shows that during the last five years the repayments of financing dues, financing charges and dividend payments amounted to SAR 13.1 billion, SAR 2.7 billion of which was paid as dividends during the years 2008-2010 andSAR 10.4 billion was repaid as principal finance installments due and finance charges.Additionally, the Company continued to push ahead with the development of its large projects as announced. This demonstrates the Company's financial strength, especially, in view of the severe global financial crisis over the past five years.

10.2 Trend of the weighted average of total financing cost from 2008 to 2012:

The average financing cost during the years 2008, 2009, 2010, 2011 and 2012 was 6%, 4%, 5%, 4.9% and 6.7% respectively. The average cost of total financing for the Company for the last five years was 5.3%.

The Company has benefited from lowcost long-term Islamic financing during this period, which has witnessed a noticeable fall in the rate of interest following the occurrence of the global financial crisis. This has enabled the Company to secure the cash required for the expansion of its investments in the Saudi real estate market.

10.3 Indebtedness

The Company emphasises that all its financial transactions are Shariah-compliant as evident in its financing policy. Therefore, all financing taken by the Company inside and outside the Kingdom is Shariah-compliant. The following is a description of the repayments and outstanding debts at the end of 2012.

10.3.1 Decline of outstanding debts at the end of 2012

During 2012, the Company repaid a net total of SAR 3,008 million of its financial debt and reduced the outstanding debts to SAR 4,441 million as at 31 December2012 (all secured against certain real estate properties) compared to a total debt of SAR 7,747 million on 31 December 2011. The outstanding debt was made up of SAR 1,687 million of US dollar denominated international Sukuk, SAR 750 million as a local Saudi Riyal Sukuk and SAR 2,003 million as short and long term Islamic Murabaha facilities from some international and local banks.

Hence, the Company's debts declined by 40% by the end of 2012. As a result of this the ratio of net debt to total assets stood at 17.5%, and the ratio of net debt to equity stood at 23.6%. These moderate leverage levels give ample headroom to raise funds if needed.

10.3.2 Financing debts repaid during 2012

During 2012debts due amounting to SAR 5,273 million were repaid including an amount of SAR 1,523 million due from Islamic Murabaha facilities repaid as a lump sum? and/or repayment ranging from monthly, quarterly and half yearly installments,, and SAR 3,750 million from the issuance of the Islamic Sukuk II repaid as a lump sum payment due on maturity in July 2012.

10.3.3 Outstanding Islamic Sukuk at the end of 2012

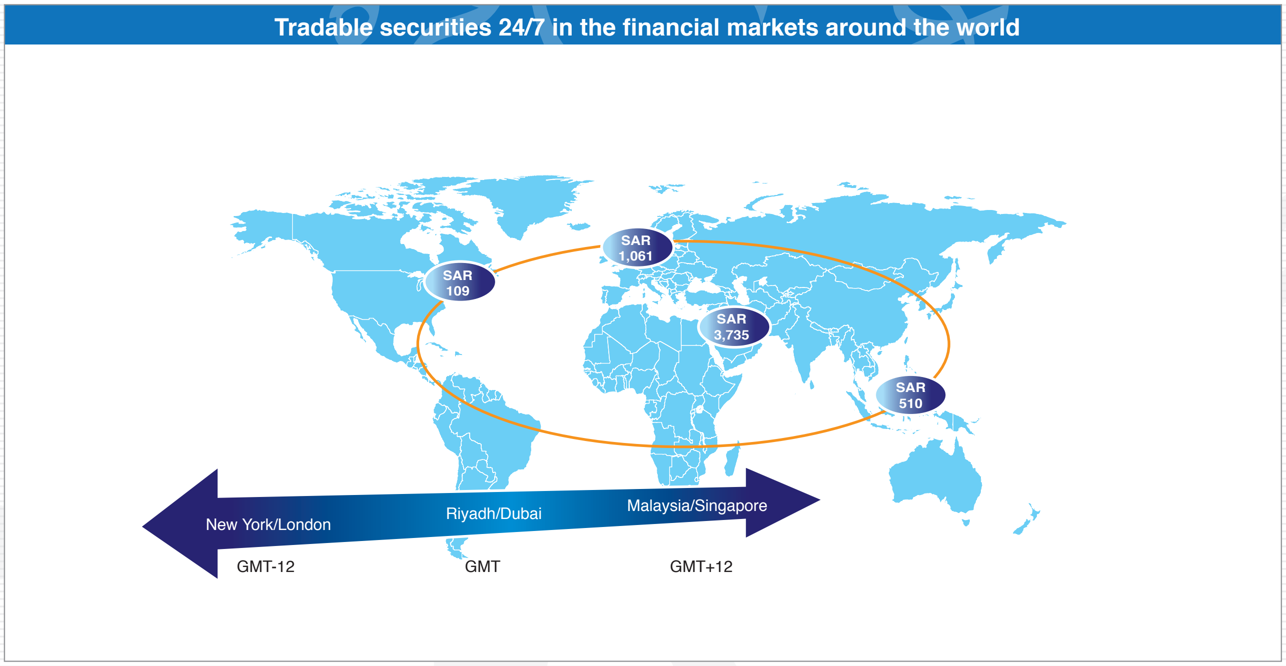
The outstanding Islamic Sukuk at the end of 2012 amounts to SAR 2,440 million and includes SAR 1.69 billion (US$ 450 million) of international Islamic Sukuk-IV maturing in 2015, and SAR 750 million of local Islamic Sukuk-III maturing in 2014.

10.3.4 Outstanding Islamic Murabaha at the end of 2012 as per maturity dates

At the end of 2012 the bilateral Islamic Murabaha facilities from local and international commercial banks amounted to SAR 2,003 million, in the form of Islamic Murabaha, letters of guarantee and letters of credit. These facilities comprise long term and short term tenures ranging from 6 months to 5 yearswith various repayment schedules including annual revolving credit, lump sum payments and installment repayments ranging from monthly, quarterly and half yearly as detailed below.

Maturity date	In millions of Saudi Riyal		
	Outstanding balance	Short-term	Long-term
2013	543	543	-
2014	253	167	86
2015	1,127	377	750
2016	80	20	60
Total	2,003	1,107	896

10.4 The geographical distribution of Sukuk holders in different capital markets before repayment of Sukuk II, 2012



The above graphrepresents the geographical distribution of 2012 Sukuk investors across financial centers around the world. UAE in first place includes Dubai which is a financial centre embracing regional branches of different international banks and financial institutions serving a broad base of international investors. Saudi Arabiain second place, is where some of its local banks invested in the 2012 Sukuk. Bahrain in third placeis an outstanding financial centre 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 asUK, Switzerland, Hong Kong, and Luxemburg, etc.

The 2015 Sukuk is listedonthe London Stock Exchange which draws the attention of financial centresaround theworld.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. The UK is the most important due to the importance of London as a major financial centre in Europe and the world. UAE is the second next important as Dubai includes a financial centre embracing regional branches of different international banks and financial institutions serving a broad base of international investors. Switzerland occupies the third most important position thanks to its advanced banking system providing private banking services, management of properties and its portfolio of international fixed return investors. These are followed by several financial centres around the world known for their financial and banking services including Malaysia, Hong Kong, Luxemburg, etc.

11 Related party transactions

The Company declares that during the year 2012 it had no significant transactions with related companies, and no contracts or material interest with any of its directors, the CEO or CFO or with any other related party. During 2012, 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. 2012, the total amount that was due for such transactions from these related parties was SAR 143,000.

12 Risks attributable to the Company's activities

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

AL QASR MALL PROJECT

Al Qasr Mall, since inauguration in June 2012, is a state-of-the-art development that represents a distinctive landmark in the City of Riyadh. The mall of more than 90,000 square metres of shopping and entertainment space offers a memorable shopping experience. The mall accommodates one of biggest indoor amusement parks in Riyadh containing more than 22 rides, and an ice park which is second to none in the City. The value of the related investment amounts to SR1 billion. The mall's design, build and finish are considered unique by international standards. The mall is a three storey building of 250,000 square metres in area and comprising 350 stores, a family entertainment zone, restaurants, as well as a two storey ground & basement parking facility for 2,200 cars, including a parking area assigned for the disabled. The internal design of the mall is luxurious and charming, making shopping an enjoyable pastime, as customers move inside a spacious and sunny lobby equipped with transparent glass elevators, 6 escalators and 14 elevators linking all floors and areas. Customers can easily see and access shops on all floors from any point. The mall is equipped with a state of the art building management system by Schneider, which uses more than 100,000 electronic sensors across the mall building to monitor and control all the facilities as well as mechanical and electrical systems.

Al Qasr Mall is uniquely located in Riyadh city, on King Fahd highway, within the Al Qasr residential project. The mall serves the inhabitants of Al Qasr and the adjacent districts with a population that exceeds one million people.


ALQASR MALL
القصر مول
SACO
ساكو

13 Management and administration

13.1 Board of directors

A tenmember Board of Directors runs the Companyuntil the end of 2012, of whom one is executive, three are non-executive and six are independent members. The Board shall hold regular quarterly meetings on the invitation of the Chairman, and in each case the Board considersthe need for such convening meetings. The Board held four meetings during 2012 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 – Bahrain Alkhair Capital - Saudi Arabia
Hathloul Bin Saleh Al Hathloul	Member	Non-executive	4	Saudi Home Loan Co. (SAHL) Alkhair Investment Bank – Bahrain Alkhair Capital - Saudi Arabia
Khalid Bin Abdullah Al Shelash	Member	Non-executive	3	
Tariq Bin Mohamed Al Jarallah	Member	Independent	4	Saudi Home Loan Co. (SAHL)
Abdul Aziz Bin Abdullah Al Shelash	Member	Independent	4	
Majid Romi Al-Romi	Member	Independent	3	
Abdul Kareem Bin Hamad Al Babtain	Member	Independent	2	Al-Babtain Power and Telecommunication Company
Majed Bin Abdul Rahman Al Qasim	Member	Independent	3	
Abdul Rahman Bin Abdul Aziz Al Hussain	Member	Independent	3	Jabal Omar Development Company
Abdullatif Bin Abdullah Al Shelash	Managing Director	Executive	4	Saudi Home Loan Co. (SAHL) Alkhair Investment Bank – Bahrain Alkhair Capital - Saudi Arabia

13.2 Attendance Record of Board of Directors' meetings during 2012

Member Name	First Meeting 29/02/2012	Second Meeting 28/05/2012	Third Meeting 26/06/2012	Fourth Meeting 07/07/2012
Yousuf Abdullah Al Shelash	Attended	Attended	Attended	Attended
Abdullatif Bin Abdullah Al Shelash	Attended	Attended	Attended	Attended
Hathloul Bin Saleh Al Hathloul	Attended	Attended	Attended	Attended
Khalid Bin Abdullah Al Shelash	-	Attended	Attended	Attended
Tariq Bin Mohamed Al Jarallah	Attended	Attended	Attended	Attended
Abdul Aziz Bin Abdullah Al Shelash	Attended	Attended	Attended	Attended
Majid Romi Al-Romi	-	Attended	Attended	Attended
Abdul Kareem Bin Hamad Al Babtain	-	Attended	Attended	-
Majed Bin Abdul Rahman Al Qasim	Attended	Attended	-	Attended
Abdul Rahman Bin Abdul Aziz Al Hussain	Attended	Attended	-	Attended

13.3 Board of Directors' Committees

13.3.1 Executive Committee, consisting of:

1- Yousuf Abdullah Al Shelash — Chairman of the Committee

2- Tariq Bin Mohamed Al Jarallah — Member

3- Abdullatif Bin Abdullah Al Shelash — Member

Committee responsibilities and meetings

Prepare transparent procedures to facilitate development of the Company, specify shortterm strategic objectives and priorities, review the general manager's reports pertaining to performance and work commitments, review, evaluate and study investment requests in conjunction with the Investment Committee. Ensure adequate human resources for the achievement of Company's shortterm strategic objectives and assessment of their performance. Take decisions within the Board's remit to ensure achievement of financial and other objectives established by the Board. Determine appropriate criteria for remunerating middle and lower management.

Appoint and terminate (as appropriate) managers in middle and lower level management. Settle conflicts of interest between the Company's departments. Monitor departments' performance to assure commitment to agreed Company policies. Periodically review each department's expectations. Periodically review the Company's properties' title deeds and ensure that all the Company's assets and properties are under its name and there is valid documentation to preserve the Company's assets.

The Committee held 12 meetings during the year 2012.

13.3.2 Audit Committee, consists of:

1-	Tariq Bin Mohamed Al Jarallah	Chairman of the Committee
2-	Yousuf Abdullah Al Shelash	Member
3-	Abdul Kareem Bin Hamad Al Babtain	Member
4-	Majed Bin Abdul Rahman Al Qasim	Member

Committee responsibilities and meetings

Oversee the internal audit department to ensure its efficiency in carrying out tasks assigned to it by the Board, control risk management criteria and all the Company's internal control systems, review internal audit reports and follow up implementation of corrective procedures, report to the Board any significant control failure or weaknesses identified, recommend retaining or terminating external auditors and approve terms of their appointment and remuneration endorsed by the General Assembly, follow up certified accountants work and approve any job(s) other than audit tasks assigned to them duringan audit, check qualifications, independence and performance of the Company's independent auditors, review and approve annual audit plan and all subsequent changes, 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 internal control effectiveness, monitor compliance with quality control processes; ensure economic viability of funding sources and compliance to Shariah.Review and discuss with management and the independent auditors the Company's earnings announcements as well as financial information and earnings guidance provided to analysts and rating agencies, if applicable. The Committee held four meetings during the year 2012.

13.3.3 The 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

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 is another company's board member. Develop clear policies and criteria for Board members' compensations and remuneration. The Committee held four meetings during the year 2012.

13.3.4 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

Committee responsibilities and meetings

Recognize the general real estate policies, principles, objectives, rules, indications and purposes and approve the Company's strategy by means of a longterm plan, establish policies and processes of sale, purchase and development of real estates. Help the Board to perform its duties pertaining to investment activities, review and approval of longterm 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. Review investment performance, create strategic substitutes and look after 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 4 meetings during the year 2012.

13.4 Remunerations and indemnities 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 2012.

Description (in Saudi Riyal)	Executive Board members	Non-executive/independent Board members	Senior executives (including general manager and CFO)
Salaries and compensation	-	-	8,006,400
Allowances	-	-	2,241,792
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	-
Any other compensations or incentives paid monthly or annually	-	-	-

14 Description of any interest of Board directors and top senior executives and occurring changes during 2012

Name	capacity	No. of shares in 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	67,869,135	6.28%	-34,980,653	31,888,482	3.05%	Direct
		0	0.00%	4,923,336	4,923,336	0.46%	Indirect: a share in the ownership of private company
Khalid Bin Abdullah Al Shelash	Board member	98,352,745	9.11%	0	98,352,745	9.11%	Direct
		6,832,495	0.63%	-6,832,495	0	0.00%	Indirect: a share in the ownership of private company
		957	0.00%	0	957	0.00%	Owned by first-class relatives
Majed Bin Abdul Rahman Al Qasim	Board member	57,859,147	5.36%	-55,059,147	2,800,000	0.26%	Direct
		0	0.00%	44,310,022	44,310,022	4.10%	Owned by first-class relatives
		639,154	0.06%	0	639,154	0.06%	Owned by first-class relatives
Tariq Bin Mohamed Al Jarallah	Board member	23,333,301	2.16%	20,000,000	23,333,301	0.31%	Direct
		19,933,409	1.85%	0	19,933,409	1.85%	Indirect: a share in the ownership of a private company
Abdul Aziz Bin Abdullah Al Shelash	Board member	25,140,672	2.33%	-25,135,672	5,000	0.00%	Direct
		10,174,344	0.94%	-10,174,344	0	0.00%	Indirect: a share in he ownership of a private company
Majid Romi Al-Romi	Board member	12,598,363	1.17%	-8,000,000	4,598,363	0.43%	Direct
		11,420,182	1.06%	-11,420,182	0	0.00%	Indirect: a share in the ownership of a private company
Abdullatif Bin Abdullah Al Shelash	Board member	9,718,756	0.90%	-5,235,756	4,483,000	0.42%	Direct
Abdul Kareem Bin Hamad Al Babtain	Board member	7,000,090	0.65%	-6,998,090	2,000	0.00%	Direct

15 Description of any interest of persons (other than Board directors and top senior executives and their relatives) notifiedto the Company.Disclosure of 5% or more of its shares during 2012

Name	Notification date	No. of shares	Ownership percentage	Variance in percentage of shares during the year
Idrees Salih M. Al Hathloul	08/07/2012	60,000,000	%5.556	
	10/07/2012	38,301,750	%3.546	-2.01%
Mercury Securities Sdn. Bhd.	10/07/2012	57,859,147	%5.357	

The Company has also received other notificationsas follows (Description of any interest of persons other than Board directors and top senior executives and their relatives notifiedto the Company with their major ownership of shares)

Name	Notification date	No. of shares	Ownership percentage	Variance in percentage of shares during the year
Range Securities	July 8, 2012	42,529,846	3.9%	-
Prime securities	July 9, 2012	49,525,378	4.6%	-
Margin Securities	July 10, 2012	16,154,011	1.5%	-

16 Corporate Governance

The Company defines Corporate Governance as a systematic process by which companies are directed and controlled to enhance their wealth generating capacity by adherence to statutory, regulatory and company polices and guidelines.

The Company's Board believes that sound corporate governance is critical to its business integrity and to maintaining investors' trust. Thus, the Board of Directors strives to continuously improve the effectiveness of the Corporate Governance system by monitoring the performance of established Board Committees.

Throughout the year ended 31st December 2012 the Company has followed the regulations and guiding rules of the Saudi Capital Market Authority (CMA) Corporate Governance Regulations.

The philosophy of the Company is to attain a high level of accountability, transparency and fairness in its functioning and conduct of business with due emphasis on statutory compliance.

The Board Committees consists of the Nominations & Remuneration Committee, Executive Committee, Audit Committee, Investment Committee and Sharia Advisor. Each Committee has specific charter and terms of reference that define its scope, authorities, duties & responsibilities and accountability. Details of these

Committees can be found in the Board of Directors' Committee section of this report.

The Company has developed guidelines and best practices over the years to ensure transparent, timely and accurate disclosure of information regarding its financial statements, operational performance, leadership and governance.

During the year 2012, ten policies were updated so that the Company would be in line with Corporate Governance best practices.

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

17 The Internal audit

The internal audit department reports to the Board of Directors ("BoD") directly. Its professional staff are certified by the International Institute of Internal Audit and work in accordance with the highest international auditing standards.

The internal audit department verifies the authenticity of the internal control procedures in monitoring the Company's operations and protecting the Company's assets and ensuring the accuracy and reliability of the financial statements according to accounting standards and in compliance with laws and regulations.

Internal audit helps the Company achieve its goals by applying the methodology aimed at improving risk controls, reviewing the effectiveness of internal control procedures and enforcing the corporate governance. In addition, it ensures the application of laws, Company systems, regulations and Board decisions. The internal audit dept. reports directly to the Audit Committee of the Company's BoD.

During 2012, the internal audit suggested periodic updating of some policies and regulations with the intention of improving performance and monitoring project costs and internal controls.

17.1 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 risk, providing efficient and costeffective execution of all the Company's operations, ensuring accuracy and reliability of the Company's financial statements, compliance with laws and regulations to safeguard properties from loss, misuse or damage.

17.2 Features of the internal control system

Organisational structure

The organizational structure assigns lines of responsibilitiesand authorisation limits, determines relations between departments and stipulates the Company's strategy and investment structure.

Advanced information systems

The Company builds its advanced systems in alignment with international standards to establish effective internal controlsthat produce accurate and transparent information.

Internal control procedures

The internal control procedures were designed with administrative and accounting control processes in mind, along with the internal regulations of the Company. These procedures become part of the control policy and process of the Company.

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 examination and inspection procedures undertaken by management to ascertain the efficiency and effectiveness of the Company's internal controls.

Competent staff

The Company seek to employ competent staff with worldstandard qualifications to execute its internal control system in the best way and in the most effective manner.

17.3 Results of the effectiveness of the Company's internal controls in the annual audit

During 2012, the Audit Committee of the Board of Directors reviewed the various reports prepared by the Internal Audit Dept., and submitted a report to the BoD regarding its recommendations and suggested procedures. The BoD reviewed the effectiveness of the Company's internal controls at the financial and operational levels and in compliance with policies and regulations of risk management. The Board stated that the internal control system has been prepared on a proper basis and implemented in an effective manner.

18 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 the CMA. Information is disseminated through approved channels including the publication of periodic and annual financial statements, progress of projects, BoD recommendations and any other material occurrences relating to the Company'soperations.

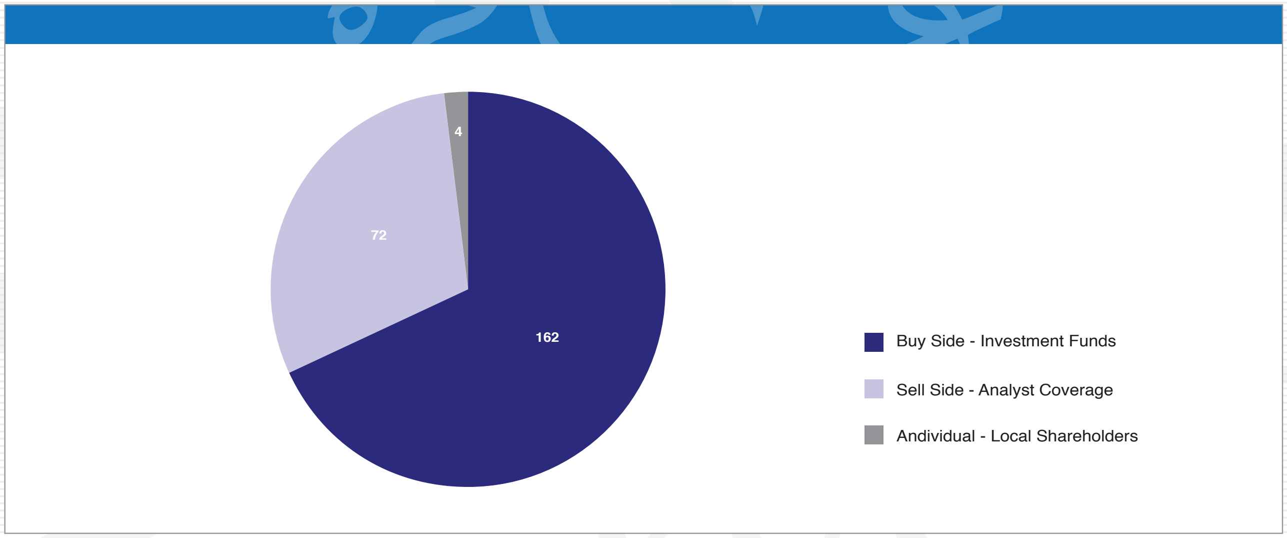
To enhance the effectiveness of communication with investors, analysts and the financial community, and to disseminate accurate information about the Company's operations, the Company holds periodic meetings with investors and other stakeholders including shareholders, Sukuk-holders and financial analysts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

Specialist staff in the investor relations department support shareholders, investors and analysts' inquiries through a variety of channels which includea 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 decisionmaking. The Company announces such invitations through the website of the Saudi capital market (TADAWUL), the Company's website and daily newspapers. The Company facilitates automated systems to ensure accurate recording and counting of votes and transparent analysis of results by qualified staff who facilitate the running of general assembly operations in accordance with applied rules and in the presence of competent authorities. In light of this,the Company's shareholders were involved in voting in the eighth ordinary general assembly meeting and fourth extraordinary assemble meeting held on 26 June 2012.

In a bid to expand its investor base, the Company has participated in a number of international investor events to showcase success stories of its current projects and future investments. The Company's presence at these events has emphasised the solid baseof 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.

An illustration showing Dar Al Arkan meetings with its investors during 2012



19 Corporate social responsibility

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

The significant project of Qasr Khozam in the centre of Jeddah is an outstanding contribution by the Company in social responsibility issues; it is a collaboration between the Company and the relevant government agencies for restructuring the Qasr Khozam area and its surrounding slum neighbourhoods . The project is intended to develop the real estate properties in the area that will provide investment and employment opportunities in addition to the provision of a healthy and secure environment suitable for high living standards for local people and expatriates.As part of its social responsibility, the Company has linked the area of Shams Al-Arous to Palestine Street by a 52meter 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 the inhabitants of Jeddah. The city will attract 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 has been in workshops for the study of housing solutions in the Kingdom with the Ministry of Housingwhich expressesanopinionon thedraft implementation for regulation of mortgagesissued by theSaudiArabianMonetaryAgency.Also the Company has made good efforts to improve the living conditions of its employees and their families as part of its social responsibility.

Moreover, Dar Al Arkan participates in exhibitions to support events that stimulate real estate activities as a major means of communication with specialists in the real estate sector and other related sectors.This is to exchange knowledge, expertise and views which contribute to the development of the real estate sector in the region, in addition to directly communicating with different social categories and customers to identify their interests and requirements.These exhibitions showcase the Company's activities by offering real estate solutions that meet market demand, satisfy the needs of society members for modern high class residential units.

These events ensure the premier position of Dar Al Arkan and its leadership in the Saudi real estate development sector. They exhibit the Company's achievements including the value-added investment-alluring projects that dominate the real estate scene in Saudi Arabia.

19.1 Participations and sponsorships of Dar Al Arkan in 2012

The 15th Riyadh Real Estate and urban development exhibition – Riyadh

Dar Al Arkan participated in the 15th Riyadh Real Estate and Urban Development Exhibition held in Riyadh to showcase its thoughts, expertise and achievements in the real estate market, particularly in the housing sector, where this has received unprecedented government support in pushing the private sector to exert more effort to meet the increasing demand for housing. In this regard, Dar Al Arkan is committed to playing a national role by participating in the implementation of the State's housing policies, by pressing ahead to achieve its goal of constructing full-service integrated housing environments based on its philosophy of comprehensive development of residential neighborhoods through significant projects.

International centers and trading agencies exhibition – Dubai

Dar Al Arkan participated in the Middle East and North Africa exhibition held in Dubai's International Centre for Trade with the participation of major developers of trading centers and retail companies in the region. Dar Al Alarkan showcased its Al-Qasr mall project. The exhibition is one of the largest shows specialising in the development of trading centres and retail in the region. The event was a good opportunity for the Company to showcase the Al-Qasr mall project and capitalize on the marketing and promotion opportunities in the exhibition.Exhibitors could communicate with large companies and agencies in the region as well as new international companies and agencies which are expanding with new branches in Saudi Arabia.

20 Human Resources

The Company pays special attention to the recruitment of competent and highly skilled human resources to build a workforce capable of meeting the existing and future challenges. Therefore, the Company gives priority to the human capital as a strategic investment and does not spare any effort in sustaining and developing capabilities and skills by:

- Attracting qualified recruits in local and international labour markets, offering them rewarding remuneration, and retaining them as a fundamental asset in the short and long run.
- Participating in the Care Day celebrated by Saudi universities and the American University of Beirut to attract excellent Saudi students in a wide variety of fields including finance, marketing, administration and engineering.
- During 2012, the benefits offered to the Company's employees were reviewed, after having made comparisons to local market conditions.32 % of the Company's employees have had their benefits amended following this review.
- During 2012, the internal human resource policies were reviewed and updated to in accordance with progress in the Saudi labour market.
- During 2012, Company management expanded the range of medical benefits for all employees and their families through a network of specific medical centers.
- At the end of 2012, an annual appraisal of employees' performance was conducted, and goals to be achieved in the next year were identified. By the end of 2012,the total number of employees amounted to 350.

21 Statement of regular payments dueduring 2011 with brief description of items and types of payment

Item	2012 In Saudi Riyal	Description	Type of payment
Social Insurance	1,828,642	To be paid as per the rules of GOSI. Paid in full	Regular requirement
Government Charges	336,131	Charges for building licenses, subscription for Chamber of Commerce, fees for work permits, renewal of Iqamah and others. Paid in full	Regular requirement
Zakat	5,045,957	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	7,210,730		

It is indicative that the due regular payables mentioned above stand for corporate value for the Company and its subsidiaries.

AL QASR PROJECT I

Al Qasr Project: The project is located in the Alswaidi district - Riyadh city – (one of the most lively neighbourhoods) on a total area of 816,000 square meters. The project's built-up area is approximately 1.2 million square meters and project facilities include: 3,051 residential units (comprising detached, semi-detached, villas and apartments), as well 63,000 square metres of commercial retail space and 19,000 square metres of office space. It is worth mentioning more than 92% of the units offered for sale have already been sold. The project also includes 6 mosques, a spacious public park and considerable areas of land area assigned to education (schools) and government facilities.

The Company has retained 1,386 residential units for lease (1,318 apartments and 68 villas) and of these, 852 apartments and 68 villas have been leased to date. The Company has also retained an office building including all retail facilities on the first floor for lease and by the end of 2012, 46% of retail facilities have been leased while the remainder is in the lease process. The majority of related leases are long term contracts with government agencies and private entities for three to five years, which eventually will achieve the Company's goal of focusing on remunerative long term leases. Furthermore, long term contracts enable the Company to generate regular income from these assets secured by asset backed mortgages.

Board of Directors Report |

ANNUAL REPORT
2012


Dar Al Arkan

Real Estate Development Company

Board of Directors Report and the
Annual Consolidated Financial Statements
for the Year Ending 31 December 2012

Index

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' LIMITED REVIEW REPORT

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

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") as at March 31, 2012 and the related interim consolidated statements of income, cash flows and changes in shareholders' equity for the three-month period then ended, prepared by the Company and submitted to us with all the information and explanations which we require. These interim consolidated financial statements are the responsibility of the Company's management.

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

Review result

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

Deloitte & Touche
Bakr Abulkhair & Co.

Bakr A. Abulkhair
License No. 101

Talal Abu-Ghazaleh & Co.

Abdulqadir A. Al-Wohaib
License No. 48

26 Jumada Al Awal 1433H
18 April 2012

Dar Al Arkan Real Estate Development Company

Consolidated Balance Sheet As At 31 December 2012

	Notes	2012	2011
ASSETS		**SR 000**	SR 000
Current Assets			
Cash and cash equivalents		**535,771**	2,505,774
Accounts receivable, net	(5)	**1,492,749**	1,227,708
Prepaid expenses and others	(6)	**632,781**	506,761
Due from a related party	(7 a)	**143**	143
Projects in progress – short-term	(8 a)	**46,702**	64,469
Developed land – short-term		**844,332**	2,106,603
Total Current Assets		**3,552,478**	6,411,458
Non-Current Assets			
Projects in progress – long-term	(8 b)	**7,138,585**	7,846,934
Investments in land under development	(9)	**5,605,630**	5,082,926
Developed land – long-term		**2,124,441**	759,757
Investment properties, net	(10)	**2,737,060**	2,753,353
Investment in associates	(11)	**7,44,157**	1,162,760
Property and equipment, net	(12)	**77,674**	82,604
Deferred charges	(13)	**264**	967
Total Non-Current Assets		**18,427,811**	17,689,301
TOTAL ASSETS		**21,980,289**	24,100,759
LIABILITIES AND EQUITY			
Current Liabilities			
Islamic borrowings – current portion	(14)	**1,095,120**	4,634,380
Due to a related party	(7 b)	**198,101**	-
Accounts payable	(16)	**256,133**	338,596
Accrued expenses and others	(17)	**813,642**	768,306
Total Current Liabilities		**2,362,996**	5,741,282
Non-Current Liabilities			
Islamic borrowings	(14)	**3,289,359**	2,757,756
Provision for end-of-service indemnities	(18)	**16,575**	14,158
Total **Non**-Current Liabilities		**3,305,934**	2,771,914
Total liabilities		**5,668,930**	8,513,196
Shareholders' Equity			
Share capital	(19)	**10,800,000**	10,800,000
Statutory reserve		**816,768**	716,768
Retained earnings		**4,694,591**	3,806,054
Equity attributable to Dar Al Arkan shareholders		**16,311,359**	15,322,822
Non-controlling interests from Group subsidiaries		**-**	264,741
Total Equity		**16,311,359**	15,587,563
TOTAL LIABILITIES AND EQUITY		**21,980,289**	24,100,759

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 2012

	Notes	2012	2011
		SR 000	SR 000
Revenues from operations		**3,557,072**	3,312,510
Cost of operations		**(2,163,366)**	(1,943,497)
Gross profit	(4)	**1,393,706**	1,369,013
Operating expenses:			
General, administrative, selling and marketing expenses		**(153,898)**	(90,844)
Depreciation	(10, 12)	**(21,197)**	(8,510)
Amortisation of deferred charges	(13, 14 a)	**(34,184)**	(19,240)
Income for the year from operating activities		**1,184,427**	1,250,419
Other Income / (expenses) :			
Share of income from investment in associates	(11)	**850**	400
Islamic Murabaha charges		**(110,226)**	(63,026)
Islamic Sukuk charges		**(153,860)**	(149,783)
Other income, net		**92,776**	99,299
Income for the year before Zakat		**1,013,967**	1,137,309
Zakat provision	(17 c)	**(25,430)**	(49,374)
Net income for the year		**988,537**	1,087,935
Earnings per share for the year (in Saudi Riyal)	(20)		
From operating activities		**1.10**	1.16
From net income		**0.92**	1.01

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 2012

	2012 SR 000	2011 SR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the year before zakat	**1,013,967**	1,137,309
Adjustment for:		
Depreciation	**42,521**	14,287
Amortisation of deferred charges	**34,184**	19,240
Provision for end-of-service indemnities	**3,252**	3,876
Share of income from investment in associates	**(850)**	(400)
Gain on disposal of property and equipment	**-**	(290)
Gain on disposal of investment in associates	**(56,700)**	-
Changes in operating assets and liabilities		
Accounts receivable	**(265,041)**	439,292
Prepaid expenses and others	**61,744**	6,169
Due from a related party	**-**	1,221
Projects in progress – short-term	**17,767**	120,191
Developed land	**(102,413)**	334,466
Accounts payable	**(82,463)**	(42,814)
Accrued expenses and others	**24,952**	(2,044)
Zakat paid	**(5,046)**	(12,763)
End-of-service indemnities paid	**(835)**	(2,317)
Net cash from operating activities	**685,039**	2,015,423
CASH FLOWS FROM INVESTING ACTIVITIES		
Projects in progress – long-term	**108,765**	801,884
Investments in land under development	**(522,704)**	(351,266)
Advance payments to purchase land	**(187,764)**	43,461
Investment properties	**(20,843)**	(844,803)
Proceeds from disposal of investment in associates	**1,001,700**	-
Purchase of property and equipment	**(455)**	(124)
Proceeds from disposal of property and equipment	**-**	326
Net cash from/(used in) investing activities	**378,699**	(350,522)
CASH FLOWS FROM FINANCING ACTIVITIES		
Islamic borrowings	**(3,041,138)**	(347,640)
Due to a related party	**7,397**	-
Net cash used in financing activities	**(3,033,741)**	(347,640)
(Decrease)/Increase in cash and cash equivalents	**(1,970,003)**	1,317,261
Cash and cash equivalents, beginning of the year	**2,505,774**	1,188,513
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**535,771**	2,505,774
Non-cash transactions related to deconsolidation of a subsidiary		
Projects under progress-long-term	**599,584**	**-**
Investment in associates	**(525,547)**	**-**
Non-controlling Interests	**(264,741)**	**-**
Due to a related party	**190,704**	**-**

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 2012

	Share Capital	Statutory Reserve	Retained Earnings	Equity attributable to Dar Al Arkan shareholders
2011	**SR 000**	**SR 000**	**SR 000**	**SR 000**
Balance as at 1 January 2011	10,800,000	607,768	2,827,119	14,234,887
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
2012				
Balance as at 1 January 2012	10,800,000	716,768	3,806,054	15,322,822
Net income for the year	-		988,537	988,537
Transfer to statutory reserve	-	100,000	(100,000)	-
Balance as at 31 December 2012	10,800,000	816,768	4,694,591	16,311,359

Managing Director

Chief Financial Officer

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

The Company's Activities |

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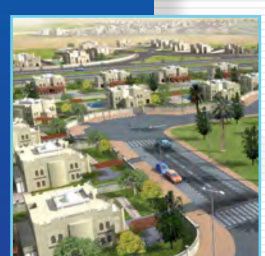

1 GENERAL INFORMATION:

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

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

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

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

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

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

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

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

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

SIYADA INVESTMENT COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010275448, dated 30/10/1430H (corresponding to 19/10/2009G). It operates in Real Estate investments and development.

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

The accompanying 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 commission rate swaps which are measured at fair value and investments in associates which are accounted for under equity method of accounting.

2.3 BASIS OF CONSOLIDATION

The 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 2012.

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

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

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

Accounts receivable are initially recognised at transaction value. They are subsequently measured for their realisable value and a provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with original terms of the agreement. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the 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 Group reviews the carrying amounts of its tangible assets for any indication that those assets have suffered impairment losses. When such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of realisable value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of income.

2.9 REVENUE RECOGNITION

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

2.10 ZAKAT

Zakat is calculated and recognised in the consolidated statement of income for the year and for each financial period separately pursuant to Zakat Regulation in the Kingdom of Saudi Arabia. The provision for Zakat is adjusted in the financial period in which the final assessment of Zakat is issued. Variances between the amount of provision for Zakat as per the consolidated financial statements and the provision as per final assessment issued by the Department of Zakat and Income Tax ("DZIT") are recognised in the 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 to Saudi Riyals at the rates prevailing on the consolidated balance sheet date. Non-monetary assets and liabilities that are denominated in foreign currencies are translated to Saudi Riyals at the rates prevailing at the date when the cost was determined.

2.12 STATUTORY RESERVE

According to the article (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 ("Sale of land") and the development of residential and commercial projects for Sale ("Sale of residential properties") or leasing such developed properties to generate rental revenue ("Lease income"). Information in respect of these products is presented below:

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

5 ACCOUNTS RECEIVABLE, NET

	2012	2011
	SR 000	SR 000
Customers	**1,497,228**	1,232,187
Provision for doubtful debtors	**(4,479)**	(4,479)
Total	**1,492,749**	1,227,708

6 PREPAID EXPENSES AND OTHERS

	2012	2011
	SR 000	SR 000
Advance payments to purchase land	**563,270**	375,506
Accrued income	**16,589**	38,237
Advance payments to contractors	**14,242**	27,527
Advance payments to suppliers	**13,419**	3,195
Prepaid expenses and other assets	**11,123**	6,171
Positive value of commission rate SWAP (Note 15)	**10,032**	52,837
Employees' advances and receivables	**4,070**	3,252
Others	**36**	36
Total	**632,781**	506,761

7 RELATED PARTY TRANSACTIONS

a) Due from a related party

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 sold to the Group on behalf of the individual. There is no recourse to the Group if such lending by Saudi Home Loans results in a bad debt. The details of the transactions are as follows:

	For the year ended 31 December	
	2012	2011
	SR 000	SR 000
Balance, beginning of the year	**143**	1,364
Sales	**11,054**	35,120
Commission	**(13)**	(26)
Collections	**(11,041)**	(36,315)
Balance, end of the year	**143**	143

b) Due to a related party

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

	For the year ended 31 December	
	2012	2011
	SR 000	SR 000
Balance transferred as on 1 April 2012	205,425	-
Expenses/assets	(84)	-
Repayment of advances	(8,710)	-
Profit charged	1,470	-
Balance, end of the year	198,101	-

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

8 PROJECTS IN PROGRESS

a) Projects in progress – short-term:

	2012	2011
	SR 000	SR 000
Residential and commercial development	**46,702**	64,469
Total	**46,702**	64,469

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

b) Projects in progress – long-term:

	2012	2011
	SR 000	SR 000
Residential and commercial development	**3,214,085**	3,868,580
Land development projects	**3,924,500**	3,978,354
Total	**7,138,585**	7,846,934

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 141.90 million (31 December 2011: 165.30 million) under projects in progress.

Starting 1 April 2012, the projects in progress recorded for Khozam project has been deconsolidated from these financial statements (Note 11).

9 INVESTMENTS IN LAND UNDER DEVELOPMENT

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

10 INVESTMENT PROPERTIES, NET

	For the year ended 31 December	
	2012	2011
	SR 000	SR 000
COST		
At beginning of the year	**2,763,626**	1,918,823
Additions	**15,575**	830,585
Capitalisation of borrowing costs	**5,268**	14,218
At end of the year	**2,784,469**	2,763,626
ACCUMULATED DEPRECIATION		
At beginning of the year	**10,273**	4,496
Charged during the year	**37,136**	5,777
At end of the year	**47,409**	10,273
CARRYING AMOUNT AT THE END OF THE YEAR	**2,737,060**	2,753,353

Included within investment properties is land with an original cost of SR 378.1 million (31 December 2011: SR 378.1 million).

11 INVESTMENT IN ASSOCIATES

This represents investment in shares of the companies that are not publicly traded. The Group's ownership in these companies ranges from 15% to 51%. The Group had invested 51% in Khozam Real Estate Development

Company (KDC) and maintained control of the operations and consolidated KDC's financial statements with its financial statements up to 31 March 2012. Subsequent to 31 March 2012, the Group signed a Technical and Management Service Agreement (TMSA) with KDC for supervision and technical support for Khozam project. Since the power to govern the financial and operating policies of KDC are bestowed with Jeddah Development and Urban Regeneration Company, the assets and liabilities of KDC have been deconsolidated from the Group's financial statements and accounted for as investment in associates under equity method of accounting. Movement in investment in associates is as follows:

	For the year ended 31 December	
	2012	2011
	SR 000	SR 000
Balance, beginning of the year	1,162,760	1,162,360
Transfer on deconsolidation	525,547	-
Sold during the year	(945,000)	-
Share of income	850	400
Balance , end of the year	**744,157**	1,162,760

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

Name of the entity	**Amount invested**	**% of Holding**
	SR 000	
Saudi Home Loans	120,000	15%
Alkhair Capital Saudi Arabia	102,000	34%
Khozam Real Estate Development Company	525,547	51%
Accumulated share of losses	(3,390)	
Balance, end of the year	744,157	

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

12 PROPERTY AND EQUIPMENT, NET

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

	Land and Buildings SR 000	Leasehold improvements SR 000	Vehicles SR 000	Machinery and tools SR 000	Office equipment SR 000	Total SR 000
Cost						
Balance at 1 January 2012	109,145	19,037	9,250	13,404	39,088	189,924
Additions for the year	-	-	-	132	323	455
Balance at 31 December 2012	109,145	19,037	9,250	13,536	39,411	190,379
Accumulated Depreciation						
Balance at 1 January 2012	30,059	18,570	9,040	13,268	36,383	107,320
Depreciation for the year	3,016	296	144	136	1,793	5,385
Balance at 31 December 2012	33,075	18,866	9,184	13,404	38,176	112,705
Net book value 31 December 2012	76,070	171	66	132	1,235	77,674
Net book value 31 December 2011	79,086	467	210	136	2,705	82,604

Included within land and buildings are land with an original cost of SR 9.50 million (31 December 2011: SR 9.50 million).

13 DEFERRED CHARGES

The movement during the year is as below:

	For the year ended 31 December	
	2012	2011
	SR 000	SR 000
Balance, beginning of the year	967	1,916
Amortisation charge for the year	(703)	(949)
Balance , end of the year	264	967

14 ISLAMIC BORROWINGS

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

a) Islamic borrowings transaction costs:

	For the year ended 31 December	
	2012	2011
	SR 000	SR 000
Balance, beginning of the year	**55,367**	91,217
Additions during the year	**46,742**	2,589
Capitalisation during the year	**(12,666)**	(20,148)
Amortisation charge for the year	**(33,481)**	(18,291)
Balance, end of the year	**55,962**	55,367

Analysis of borrowings:

Islamic Sukuk – International

This represents SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group maturing in 2015. The beneficiary rights of the properties are with Dar Al Arkan Real Estate Development Company and its subsidiaries with the rights to buy back the ownership of these properties upon the full repayment of the Sukuk. The investment profit is payable to the Saudi SPV, through which the Sukuk was issued, by the sale of properties owned by the Group. The Group has issued a corporate guarantee to the Sukuk holders. This facility has index based commission rate swap arrangements which effectively reduce the fixed rate commission (Note 15).

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

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

Islamic Sukuk - Local

This represents an Islamic Sukuk issued by the Group for the amount of SR 750 million maturing in 2014.

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

Islamic Murabaha

This represents the bilateral Murabaha facilities from local and international commercial banks, secured against certain real estate properties, in the form of Islamic Murabaha, letters of guarantee and letters of credit. These facilities comprise of long- term and short- term tenures ranging from 6 months to 5 years with various repayment schedules like annual roll revolvers, bullet payments and installment repayments ranging from monthly, quarterly and half yearly as detailed below.

Summary of the Murabahas:

Maturity date	Outstanding Balance SR 000	Short-term SR 000	Long-term SR 000
2013	542,500	542,500	-
2014	253,214	167,143	86,071
2015	1,127,227	377,727	749,500
2016	80,000	20,000	60,000
	2,002,941	**1,107,370**	**895,571**

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

15 COMMISSION RATE SWAP

The Group, through a shari'ah compliant arrangement, agreed to exchange fixed rate commission liability with floating rate commission amounts, calculated on agreed notional principal amounts. During the year, the group have replaced its existing commission rate swap with two new index linked swap facilities for a notional amount of SR 843.75 million (US$ 225 million) each, maturing on 18 February 2015 whereby the counter party banks shall periodically calculate the floating commission rate based on their respective and designated index performance for the period and settle the differential amounts, if any with respect to the original fixed rate of the commission applicable for the securities at semi-annual basis. The index performance is capped at 10.75% and 12.55% respectively for this index linked swap facilities.

The cumulative positive fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards amounted to SR 10.03 million (USD2.67 million) (31 December 2011: SR 52.84 million (USD 14.10 million). The change in the fair value during the year amounting to SR 42.81 million (USD11.42 million) has been recognised as other expenses in the consolidated statement of income (SR 25.07 million (USD 6.68 million) for the year ended 31 December 2011).

16 ACCOUNTS PAYABLE

	2012	2011
	SR 000	SR 000
Contractors	**201,925**	267,985
Suppliers	**39,431**	55,370
Advances from customers	**3,305**	6,049
Others	**11,472**	9,192
Total	**256,133**	338,596

17 ACCRUED EXPENSES AND OTHERS

	2012	2011
	SR 000	SR 000
Zakat provision (c)	**644,069**	623,685
Islamic Murabaha charges	**29,526**	11,347
Islamic Sukuk charges	**74,134**	75,746
Accrued expenses	**23,340**	16,460
Dividend payable	**36,027**	36,441
Others	**6,546**	4,627
Total	**813,642**	768,306

Zakat provision

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

	2012	2011
	SR 000	SR 000
Zakat base:		
Share capital and statutory reserve – beginning of the year	**11,516,768**	11,672,509
Provisions – beginning of the year after deduction of amounts paid during the year	**618,639**	584,594
Adjusted net income for the year – Note 17/b	**1,017,219**	1,141,185
Retained earnings after dividends	**3,806,054**	2,827,119
Islamic Murabaha	**895,571**	241,607
Islamic Sukuk	**2,381,538**	2,528,717
Total Zakat base	**20,235,789**	18,995,731
Deductions:		
Total deduction after adjustment	**(19,835,413)**	(17,020,761)
Zakat base	**400,376**	1,974,970
Estimated Zakat provision for the year	**25,430**	49,374

b) Adjusted net income for the year:

	2012	2011
	SR 000	SR 000
Adjusted net income:		
Income for the year before Zakat	**1,013,967**	1,137,309
Provisions	**3,252**	3,876
Adjusted net income	**1,017,219**	1,141,185

BUILT FOR

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

	For the year ended 31 December	
	2012	2011
	SR 000	SR 000
Balance beginning of the year	**623,685**	587,074
Estimated Zakat for the current year	**25,430**	49,374
Payment made during the year	(5,046)	(12,763)
Estimated Zakat provision, end of the year	644,069	623,685

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 and 2011 are currently under process.

18 PROVISION FOR END-OF-SERVICE INDEMNITIES

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

	For the year ended 31 December	
	2012	2011
	SR 000	SR 000
Balance, beginning of the year	**14,158**	12,599
Charged to expenses during the year	**3,252**	3,876
Paid during the year	**(835)**	(2,317)
Balance, end of the year	**16,575**	14,158

19 SHARE CAPITAL

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

20 EARNINGS PER SHARE

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

	2012	2011
	SR 000	SR 000
Earnings		
For the purpose of basic earnings per share:		
Income for the year from operating activities	**1,184,427**	1,250,419
Net income for the year	**988,537**	1,087,935
Number of shares	**Number**	Number
Weighted average number of ordinary shares		
For the purpose of basic earnings per share	**1,080,000,000**	1,080,000,000

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

21 COMMITMENTS

As at 31 December 2012, the Group has commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 107 million (2011: SR 195 million).

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www.alarkan.com
ir@alarkan.com

For more Information ...

Banking and Investor Relation

Tel: +966 11 2069888

Ext. 1644 - 1625 - 1673

ir@alarkan.com
www.alarkan.com