

**DAR AL ARKAN**

**REAL ESTATE DEVELOPMENT COMPANY**

**SAUDI JOINT STOCK COMPANY**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AND AUDITORS' LIMITED REVIEW REPORT**

**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' LIMITED REVIEW REPORT**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

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## AUDITORS' LIMITED REVIEW REPORT

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

### Scope of review

We have reviewed the accompanying interim consolidated balance sheet of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group") as at June 30, 2014 and the related interim consolidated statement of income for the three-month and six-month periods then ended and the interim consolidated statements of cash flows and changes in shareholders' equity for the six-month period then ended, prepared by the Group and submitted to us with all the information and explanations which we required. These interim consolidated financial statements are the responsibility of the Group'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 the Auditing Standards Generally Accepted in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Review 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 the Accounting Standards Generally Accepted in the Kingdom of Saudi Arabia.

Deloitte & Touche  
Bakr Abulkhair & Co.



Ehsan A. Makhdoum  
License No. 358

Ramadan 17, 1435  
July 14, 2014

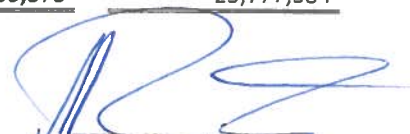


DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
SAUDI JOINT STOCK COMPANY

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)  
AS AT 30 JUNE 2014

	Notes	2014 SR 000	2013 SR 000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		2,976,885	2,186,078
Accounts receivable, net	( 5 )	1,897,336	1,428,282
Prepaid expenses and others	( 6 )	903,397	249,279
Due from a related party	( 7 a )	193	143
Projects in progress – short-term	( 8 a )	-	46,339
Developed land – short-term		927,537	896,735
<b>Total Current Assets</b>		<b>6,705,348</b>	<b>4,806,856</b>
<b>Non-Current Assets</b>			
Projects in progress – long-term	( 8 b )	8,207,752	8,255,447
Investments in land under development	( 9 )	5,081,130	5,009,839
Developed land – long-term		1,992,536	2,162,628
Investment properties, net	( 10 )	3,594,050	2,719,008
Investment in associates	( 11 )	755,907	747,407
Property and equipment, net	( 12 )	72,852	76,001
Deferred charges, net	( 13 )	-	198
<b>Total Non-Current Assets</b>		<b>19,704,227</b>	<b>18,970,528</b>
<b>TOTAL ASSETS</b>		<b>26,409,575</b>	<b>23,777,384</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Islamic borrowings – current portion	( 14 )	1,989,341	1,738,118
Due to a related party	( 7 b )	196,220	197,946
Accounts payable	( 16 )	175,789	314,070
Accrued expenses and others	( 17 )	808,280	864,424
<b>Total Current Liabilities</b>		<b>3,169,630</b>	<b>3,114,558</b>
<b>Non-Current Liabilities</b>			
Islamic borrowings	( 14 )	5,860,427	3,992,815
Provision for end-of-service indemnities	( 18 )	17,501	17,346
<b>Total Non-Current Liabilities</b>		<b>5,877,928</b>	<b>4,010,161</b>
<b>Total liabilities</b>		<b>9,047,558</b>	<b>7,124,719</b>
<b>Shareholders' Equity</b>			
Share capital	( 19 )	10,800,000	10,800,000
Statutory reserve		884,914	816,768
Retained earnings		5,677,103	5,035,897
<b>Total Shareholders' Equity</b>		<b>17,362,017</b>	<b>16,652,665</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>26,409,575</b>	<b>23,777,384</b>

  
Managing Director

  
Chief Financial Officer

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

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

**INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

	Notes	Three-month period ended		Six-month period ended	
		30 June 2014	30 June 2013	30 June 2014	30 June 2013
		SR 000	SR 000	SR 000	SR 000
Revenues from operations		774,210	680,861	1,698,299	1,516,682
Cost of operations		(479,970)	(472,791)	(1,001,290)	(933,031)
<b>Gross profit</b>	( 4 )	<b>294,240</b>	208,070	<b>697,009</b>	583,651
<b>Operating expenses:</b>					
General, administrative, selling and marketing expenses		(60,180)	(26,881)	(113,598)	(78,185)
Depreciation	( 12 )	(921)	(1,000)	(1,847)	(2,062)
Amortisation of deferred charges	( 13, 14 a )	(8,734)	(6,452)	(17,063)	(11,458)
<b>Income for the period from operating activities</b>		<b>224,405</b>	173,737	<b>564,501</b>	491,946
<b>Other Income / (expenses) :</b>					
Share of income from investment in associates	( 11 )	3,000	2,750	8,500	3,250
Islamic Murabaha charges		(29,412)	(20,850)	(51,477)	(57,616)
Islamic Sukuk charges		(89,887)	(44,866)	(172,791)	(71,404)
Other income / (expenses), net		15,683	(4,776)	30,191	(16,270)
<b>Income for the period before Zakat</b>		<b>123,789</b>	105,995	<b>378,924</b>	349,906
Zakat provision	( 17 a )	(2,450)	(2,300)	(9,728)	(8,600)
<b>Net income for the period</b>		<b>121,339</b>	103,695	<b>369,196</b>	341,306
<b>Earnings per share for the period</b>					
( in Saudi Riyal )	( 20 )				
From operating activities		0.21	0.16	0.52	0.46
From net income		0.11	0.10	0.34	0.32

  
Managing Director

  
Chief Financial Officer

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

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

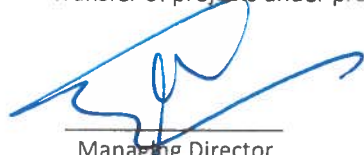
	2014 SR 000	2013 SR 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income for the period before Zakat	378,924	349,906
<b>Adjustment for:</b>		
Depreciation	26,888	23,497
Amortisation of deferred charges	17,063	11,458
Provision for end-of-service indemnities	1,407	1,475
Provision for doubtful debts	7,861	-
Gain on disposal of property and equipment	(14)	-
Share of income from investment in associates	(8,500)	(3,250)
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	(540,900)	64,467
Prepaid expenses and others	16,153	20,607
Due from a related party	(50)	-
Projects in progress – short-term	5,350	363
Developed land	(56,349)	(90,590)
Accounts payable	(91,309)	57,937
Accrued expenses and others	(10,960)	42,182
Cash generated from operations	(254,436)	478,052
Zakat paid	(10,730)	-
End-of-service indemnities paid	(1,254)	(704)
<b>Net cash (used in)/from operating activities</b>	<b>(266,420)</b>	<b>477,348</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Projects in progress – long-term	572,705	(1,116,862)
Investments in land under development	(216,828)	595,791
Advance payments to purchase land	(435,349)	362,895
Investment properties	(885,274)	(3,383)
Proceeds from disposal of property and equipment	14	-
Purchase of property and equipment	(329)	(389)
<b>Net cash used in investing activities</b>	<b>(965,061)</b>	<b>(161,948)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Islamic borrowings	1,929,260	1,335,062
Due to a related party	(26)	(155)
<b>Net cash from financing activities</b>	<b>1,929,234</b>	<b>1,334,907</b>
Increase in cash and cash equivalents	697,753	1,650,307
Cash and cash equivalents, beginning of the period	2,279,132	535,771
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>2,976,885</b>	<b>2,186,078</b>

**Non-cash transactions related to transfer of investment property (Note 10)**

Transfer of projects under progress-short-term to investment properties

39,179

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Managing Director



Chief Financial Officer

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
SAUDI JOINT STOCK COMPANY

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

	<u>Share Capital</u> SR 000	<u>Statutory Reserve</u> SR 000	<u>Retained Earnings</u> SR 000	<u>Equity attributable to Dar Al Arkan shareholders</u> SR 000
<b><u>2013</u></b>				
Balance as at 1 January 2013	10,800,000	816,768	4,694,591	16,311,359
Net income for the period	-	-	341,306	341,306
Balance as at 30 June 2013	<u>10,800,000</u>	<u>816,768</u>	<u>5,035,897</u>	<u>16,652,665</u>
<b><u>2014</u></b>				
Balance as at 1 January 2014	10,800,000	884,914	5,307,907	16,992,821
Net income for the period	-	-	369,196	369,196
Balance as at 30 June 2014	<u>10,800,000</u>	<u>884,914</u>	<u>5,677,103</u>	<u>17,362,017</u>



Managing Director



Chief Financial Officer

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

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

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

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

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



NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 BASIS OF PREPARATION**

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

**2.2 ACCOUNTING CONVENTION**

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

**2.3 BASIS OF CONSOLIDATION**

The interim consolidated financial statements of the Group incorporate the financial statements of the companies and enterprises controlled by the Group (its subsidiaries) made up to 30 June 2014.

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

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

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

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

***Investments in associates***

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

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)**

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

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

#### **2.4 PROPERTY AND EQUIPMENT**

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

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

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

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

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

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

#### **2.5 INVESTMENT PROPERTIES**

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

Buildings	3%
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)**

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

**2.6 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 interim 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 interim consolidated balance sheet when the Group has become a party to the contractual provisions of the instrument.

***Accounts receivable***

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

***Cash and cash equivalents***

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

***Held for trading investments***

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

***Financial liabilities***

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

***Accounts payables***

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

***Commission rate swaps***

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

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)**

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**2.8 IMPAIRMENT OF TANGIBLE ASSETS**

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

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

**2.11 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 interim consolidated balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to Saudi Riyals at the rates prevailing on the interim consolidated balance sheet date. Non-monetary assets and liabilities that are denominated in foreign currencies are translated to Saudi Riyals at the rates prevailing at the date when the cost was determined.

**2.12 STATUTORY RESERVE**

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

**2.13 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)**

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**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 interim 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 interim consolidated statement of income in the period in which they are incurred. Expenses that are deferred for more than one financial year are allocated to expenses over such periods using historical cost.

**3. USE OF ESTIMATES**

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

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS**

**Business segments**

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

**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").

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

Information in respect of these products is presented below:

	For the six-month period ended	
	30 June	
	2014	2013
	SR 000	SR 000
<b>REVENUES FROM OPERATIONS</b>		
Sale of residential properties	8,000	459
Sale of land	1,628,057	1,463,689
Leasing of properties	62,242	52,534
<b>Total</b>	<b>1,698,299</b>	<b>1,516,682</b>
<b>COST OF OPERATIONS</b>		
Residential properties	5,240	363
Land	967,009	911,233
Leasing of properties	29,041	21,435
<b>Total</b>	<b>1,001,290</b>	<b>933,031</b>
<b>GROSS PROFIT</b>		
Residential properties	2,760	96
Land	661,048	552,456
Leasing of properties	33,201	31,099
<b>Total</b>	<b>697,009</b>	<b>583,651</b>
<b>5. ACCOUNTS RECEIVABLE, NET</b>		
	2014	2013
	SR 000	SR 000
Customers	1,909,676	1,432,761
Provision for doubtful debts	(12,340)	(4,479)
<b>Total</b>	<b>1,897,336</b>	<b>1,428,282</b>
<b>6. PREPAID EXPENSES AND OTHERS</b>		
	2014	2013
	SR 000	SR 000
Advance payments to purchase land	844,749	200,375
Prepaid expenses and other assets	23,113	14,510
Accrued income	12,742	6,884
Advance payments to contractors	12,199	12,399
Employees' advances and receivables	6,170	5,335
Advance payments to suppliers	2,695	9,740
Short term investment- trading (note 6a)	1,693	-
Others	36	36
<b>Total</b>	<b>903,397</b>	<b>249,279</b>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
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a) Short term investment – Trading

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

	For the six-month period ended 30 June	
	2014	2013
	SR 000	SR 000
Purchased / sold during the period	830	-
	830	-
Realised gains	933	-
Commissions	(70)	-
<b>Balance, end of the period</b>	<b>1,693</b>	<b>-</b>

Investment includes SR 1.7 million as at 30 June 2014 (30 June 2013 SR nil) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

7. RELATED PARTY TRANSACTIONS

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

a) Due from a related party

During the period, 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 six-month period ended 30 June	
	2014	2013
	SR 000	SR 000
Balance, beginning of the period	143	143
Expenses incurred	50	-
<b>Balance, end of the period</b>	<b>193</b>	<b>143</b>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

**b) Due to a related party**

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

	For the six-month period ended	
	30 June	
	2014	2013
	SR 000	SR 000
Balance, beginning of the period	196,246	198,101
Repayment of advances	(766)	(1,135)
Profit charged	740	980
<b>Balance, end of the period</b>	<b>196,220</b>	<b>197,946</b>

**c) Other related party transactions**

**(i) Bank Alkhair B.S.C**

The Group engaged Bank Alkhair B.S.C, a non-associate entity, to provide general financial advisory, Shariah' compliance advises and management support for the recent international Sukuk. The details of the transactions, included in accounts payable (refer to note: 16), are as follows:

	For the six-month period ended	
	30 June	
	2014	2013
	SR 000	SR 000
Fees and expenses charged during the period	1,296	3,864
Amounts paid during the period	(1,181)	(3,375)
<b>Balance, end of the period</b>	<b>115</b>	<b>489</b>

**(ii) Alkhair Capital Saudi Arabia**

The Group engaged Alkhair Capital Saudi Arabia, an associate entity, to provide general financial advisory, representing and filing the documents on behalf of the Group for requirements with CMA and other statutory bodies, Shariah' compliance reviews and management support for the recent international sukuk issuances and the partial pre-closure of Sukuk III and leasing/subleasing of properties. The details of the transactions are as follows:

	For the six-month period ended	
	30 June	
	2014	2013
	SR 000	SR 000
Fees, lease rentals charged during the period	4,000	-
Amount paid during the period	(4,000)	-
<b>Balance, end of the period</b>	<b>-</b>	<b>-</b>

For the six-month period ended 30 June 2014 and 2013, no other transactions were entered with entities that have common Board Members or Shareholders to the Group.



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FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

8. PROJECTS IN PROGRESS

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

	<u>2014</u> SR 000	<u>2013</u> SR 000
Residential and commercial development	-	46,339
<b>Total</b>	<b>-</b>	<b>46,339</b>

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:*

	<u>2014</u> SR 000	<u>2013</u> SR 000
Residential and commercial development	2,270,563	2,968,052
Land development projects	5,937,189	5,287,395
<b>Total</b>	<b>8,207,752</b>	<b>8,255,447</b>

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

During the period, the Group's management capitalised Islamic Sukuk charges in the amount of SR 16.66 million (30 June 2013: 41.65 million) under projects in progress.

9. INVESTMENTS IN LAND UNDER DEVELOPMENT

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

10. INVESTMENT PROPERTIES, NET

	For the six-month period ended	
	30 June	
	2014	2013
	SR 000	SR 000
<b>COST</b>		
At beginning of the period	2,788,535	2,784,469
Transfers	39,179	-
Additions	885,274	3,383
At end of the period	<u>3,712,988</u>	<u>2,787,852</u>
<b>ACCUMULATED DEPRECIATION</b>		
At beginning of the period	93,897	47,409
Charged during the period	25,041	21,435
At end of the period	<u>118,938</u>	<u>68,844</u>
<b>CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<u><b>3,594,050</b></u>	<u><b>2,719,008</b></u>

Included within investment properties is land with an original cost of SR 578.1 million (30 June 2013: SR 578.1 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%. Movement in investment in associates is as follows:

	For the six-month period ended	
	30 June	
	2014	2013
	SR 000	SR 000
Balance, beginning of the period	747,407	744,157
Share of income	8,500	3,250
Balance, end of the period	<u>755,907</u>	<u>747,407</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

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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 (i)	525,547	51%
Accumulated share of profit, net	8,360	
Balance, end of the period	755,907	

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

- (i) The Group had invested 51% in Khozam Real Estate Development Company (KDC), with Jeddah Development and Urban Regeneration Company (JDURC). As per the arrangements the power to govern the financial and operating activities which affect the returns of KDC is jointly bestowed with the shareholders, accordingly the Group does not have any right to variable returns or absolute power to control with the ability to affect the returns of the investee company, consequently the Group's investment in KDC is accounted for as investment in associates under equity method of accounting.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

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
<b>Cost</b>						
Balance at 1 January 2014	109,145	19,037	9,250	13,536	40,118	191,086
Additions for the period	-	-	-	-	329	329
Disposal for the period	-	-	(46)	-	-	(46)
<b>Balance at 30 June 2014</b>	<b>109,145</b>	<b>19,037</b>	<b>9,204</b>	<b>13,536</b>	<b>40,447</b>	<b>191,369</b>
<b>Accumulated Depreciation</b>						
Balance at 1 January 2014	36,091	18,970	9,248	13,442	38,965	116,716
Depreciation for the Period	1,508	36	-	19	284	1,847
Disposal for the period	-	-	(46)	-	-	(46)
<b>Balance at 30 June 2014</b>	<b>37,599</b>	<b>19,006</b>	<b>9,202</b>	<b>13,461</b>	<b>39,249</b>	<b>118,517</b>
<b>Net book value 30 June 2014</b>	<b>71,546</b>	<b>31</b>	<b>2</b>	<b>75</b>	<b>1,198</b>	<b>72,852</b>
Net book value 30 June 2013	74,562	111	24	113	1,191	76,001

Included within land and buildings are land with an original cost of SR 9.50 million (30 June 2013: SR 9.50 million).

13. DEFERRED CHARGES, NET

The movement during the period is as below:

	For the six-month period ended 30 June	
	2014 SR 000	2013 SR 000
Balance, beginning of the period	132	264
Amortisation charge for the period	(132)	(66)
<b>Balance, end of the period</b>	<b>-</b>	<b>198</b>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

14. ISLAMIC BORROWINGS

	2014	2013
	SR 000	SR 000
Islamic Sukuk	6,000,000	4,125,000
Islamic Murabaha	1,976,697	1,690,505
	<u>7,976,697</u>	<u>5,815,505</u>
Less: Un-amortised transaction costs	(126,929)	(84,572)
<b>Islamic borrowings – end of the period</b>	<b>7,849,768</b>	<b>5,730,933</b>
Less: Islamic borrowings – current portion	(1,989,341)	(1,738,118)
Islamic borrowings - long-term	<u>5,860,427</u>	<u>3,992,815</u>

(a) *Islamic borrowings transaction costs:*

	For the six-month period ended 30 June	
	2014	2013
	SR 000	SR 000
Balance, beginning of the period	85,744	55,962
Additions during the period	58,968	42,695
Capitalisation during the period	(852)	(2,693)
Amortisation charge for the period	(16,931)	(11,392)
Balance, end of the period	<u>126,929</u>	<u>84,572</u>

*Analysis of borrowings:*

*Islamic Sukuk*

This represents SR 6 billion of Islamic Sukuk comprising:

- 1) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar International Sukuk Company II at 10.75% and maturing in 2015.
- 2) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 5.75% and maturing in 2018.
- 3) SR 1.12 billion (USD 300 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 5.75% and maturing in 2016.
- 4) SR 1.50 billion (USD 400 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.5% and maturing in 2019.

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Islamic Sukuks listed above are denoted in US dollars. Since the Saudi Arabian Riyal is limited to fluctuations in the US Dollar there is no exposure to foreign exchange risk. The investment profit is payable to the Saudi SPV, through which the Sukuk was issued, by the sale of properties owned by the Group. The beneficiary rights of these properties are with Dar Al Arkan Real Estate Development Company and its subsidiaries with the rights to buy back the ownership of these properties upon the full repayment of the Sukuk. The Group has issued a corporate guarantee to the Sukuk holders. The facility due in 2015 has index linked commission rate swap arrangements which effectively reduce the fixed rate commission (Note 15).

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 30 June 2014.

**Islamic Murabaha**

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

**Summary of the Murabahas:**

Maturity date	Outstanding	Short-term	Long-term
	Balance SR 000		
2014	2,500	2,500	-
2015	88,477	-	88,477
2016	458,334	190,834	267,500
2018	1,427,386	118,901	1,308,485
<b>TOTAL</b>	<b>1,976,697</b>	<b>312,235</b>	<b>1,664,462</b>

The facility agreements include certain financial covenants, which the Group was in compliance with as at 30 June 2014.

**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. In July 2012, the group 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.

During October 2013, considering the steady upward change of commission rate and to avoid losses, the Group had cancelled and closed one of its index linked commission rate swap capped at 12.55%.

The cumulative fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards amounted to SR nil (USD nil) (30 June 2013: SR (21.10) million (USD (5.63) million). The change in the fair value during the period amounting to SR 2.0 thousand (USD 0.5 thousand) has been recognised as other expense in the interim consolidated statement of income (SR 31.13 million (USD 8.30 million) for the period ended 30 June 2013).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

16. ACCOUNTS PAYABLE

	2014	2013
	SR 000	SR 000
Contractors	152,229	184,596
Suppliers (a)	14,331	37,478
Advances from customers	7,910	87,037
Others	1,319	4,959
<b>Total</b>	<b>175,789</b>	<b>314,070</b>

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

17. ACCRUED EXPENSES AND OTHERS

	2014	2013
	SR 000	SR 000
Zakat provision (a)	599,243	652,669
Islamic Sukuk charges	90,928	83,177
Unearned revenue	48,345	35,726
Dividend payable	35,424	35,753
Islamic Murabaha charges	19,082	17,850
Accrued expenses	15,258	18,152
Negative value of commission rate SWAP (Note 15)	-	21,097
<b>Total</b>	<b>808,280</b>	<b>864,424</b>

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

	For the six-month period ended 30 June	
	2014	2013
	SR 000	SR 000
Balance beginning of the period	600,245	644,069
Estimated Zakat for the period	9,728	8,600
Paid during the period	(10,730)	-
<b>Estimated Zakat provision, end of the period</b>	<b>599,243</b>	<b>652,669</b>

b) The Company has received the assessments from DZIT for the years 2003 to 2009 and has filed an objection for the years 2008 and 2009 which is issued with an additional zakat liability. The basis for this additional liability is being formally contested by the Company and is awaiting a response from DZIT. The management believes that the ultimate outcome of the appeals filed and actions taken by the Company cannot be determined reliably at this stage, however, the carrying provisions are sufficient to meet any additional liability, if required. The Company has not received DZIT assessment for year 2010 and 2011. The filing of the consolidated zakat return for year 2012 and 2013 is currently under process.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (CONTINUED)

18. PROVISION FOR END-OF-SERVICE INDEMNITIES

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

	For the six-month period ended 30 June	
	2014 SR 000	2013 SR 000
Balance, beginning of the period	17,348	16,575
Charged to expenses during the period	1,407	1,475
Paid during the period	(1,254)	(704)
<b>Balance, end of the period</b>	<b>17,501</b>	<b>17,346</b>

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:

	For the six-month period ended 30 June	
	2014 SR 000	2013 SR 000
<i>Earnings</i>		
For the purpose of basic earnings per share:		
Income for the period from operating activities	564,501	491,946
Net income for the period	369,196	341,306
<i>Number of shares</i>		
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 30 June 2014, the Group has commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 81 million (30 June 2013: SR 85 million).

22. INTERIM RESULTS

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