

**DAR AL ARKAN**

**REAL ESTATE DEVELOPMENT COMPANY**

**SAUDI JOINT STOCK COMPANY**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND**

**AUDITORS' REVIEW REPORT**

**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011**

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REVIEW REPORT  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011**

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### AUDITORS' 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 September 30, 2011 and the related interim consolidated statement of income for the three-month and nine-month periods then ended and the interim consolidated statements of cash flows and changes in shareholders' equity for the nine-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  
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18 Dhual Qa'dah 1432 H  
16 October 2011

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
SAUDI JOINT STOCK COMPANY

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)  
AS AT 30 SEPTEMBER 2011

	<u>Notes</u>	<u>30 September 2011</u> SR 000	<u>30 September 2010</u> SR 000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		1,998,092	1,134,592
Accounts receivable	( 5 )	1,541,640	954,657
Prepaid expenses and others	( 6 )	346,009	661,268
Due from related parties	( 7 )	143	5,083
Projects in progress – short-term	( 8 a )	71,305	398,765
Developed land – short-term		<u>2,824,032</u>	<u>270,887</u>
<b>Total Current Assets</b>		<u>6,781,221</u>	<u>3,425,252</u>
<b>Non-Current Assets</b>			
Projects in progress – long-term	( 8 b )	7,915,841	8,637,768
Investments in land under development	( 9 )	5,299,220	4,731,661
Developed land – long-term		-	3,248,999
Investment properties	(10a)	2,670,532	1,726,844
Investment in associates	(10b)	1,162,760	1,162,360
Property and equipment	( 11 )	84,382	93,450
Deferred charges	( 12 )	<u>1,155</u>	<u>2,175</u>
<b>Total Non-Current Assets</b>		<u>17,133,890</u>	<u>19,603,257</u>
<b>TOTAL ASSETS</b>		<u>23,915,111</u>	<u>23,028,509</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Islamic borrowings – current portion	( 13 )	4,722,086	1,000,000
Accounts payable	( 15 )	305,661	421,525
Accrued expenses and others	( 16 )	<u>730,321</u>	<u>704,206</u>
<b>Total Current Liabilities</b>		<u>5,758,068</u>	<u>2,125,731</u>
<b>Non-Current Liabilities</b>			
Islamic borrowings	( 13 )	2,844,313	6,719,769
Provision for end-of-service indemnities	( 17 )	<u>14,772</u>	<u>13,817</u>
<b>Total Non-Current Liabilities</b>		<u>2,859,085</u>	<u>6,733,586</u>
<b>Shareholders' Equity</b>			
Share capital	( 18 )	10,800,000	10,800,000
Statutory reserve		607,768	462,268
Retained earnings		<u>3,625,449</u>	<u>2,642,183</u>
<b>Equity attributable to Dar Al Arkan shareholders</b>		<u>15,033,217</u>	<u>13,904,451</u>
Non-controlling interests from Group subsidiaries		<u>264,741</u>	<u>264,741</u>
<b>Total Equity</b>		<u>15,297,958</u>	<u>14,169,192</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>23,915,111</u>	<u>23,028,509</u>

  
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Managing Director

  
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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 THREE AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

	Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
		2011	2010	2011	2010
		SR 000	SR 000	SR 000	SR 000
Revenues from operations		755,190	910,214	2,501,581	3,169,589
Cost of operations		<u>(434,560)</u>	<u>(535,319)</u>	<u>(1,476,586)</u>	<u>(1,785,418)</u>
<b>Gross profit</b>	(4)	<b>320,630</b>	<b>374,895</b>	<b>1,024,995</b>	<b>1,384,171</b>
<b>Operating expenses:</b>					
General, administrative, selling and marketing expenses		(22,184)	(23,583)	(64,535)	(84,110)
Depreciation		(3,701)	(3,465)	(10,725)	(11,594)
Amortisation of deferred charges	(12,13a)	<u>(4,853)</u>	<u>(7,565)</u>	<u>(14,546)</u>	<u>(20,937)</u>
<b>Income for the period from operating activities</b>		<b>289,892</b>	<b>340,282</b>	<b>935,189</b>	<b>1,267,530</b>
<b>Other Income / (expenses) :</b>					
Share of income from investment in associates		-	-	400	-
Islamic Murabaha charges		(15,187)	(14,915)	(48,736)	(43,341)
Islamic Sukuk charges		(35,750)	(40,403)	(110,483)	(110,526)
Other income		<u>2,764</u>	<u>12,662</u>	<u>59,460</u>	<u>38,612</u>
<b>Income for the period before Zakat</b>		<b>241,719</b>	<b>297,626</b>	<b>835,830</b>	<b>1,152,275</b>
Zakat provision		<u>(14,245)</u>	<u>(8,000)</u>	<u>(37,500)</u>	<u>(27,000)</u>
<b>Net Income for the period</b>		<b>227,474</b>	<b>289,626</b>	<b>798,330</b>	<b>1,125,275</b>
<b>Earnings per share for the period ( in Saudi Riyal )</b>					
	(19)				
From operating activities		<u>0.27</u>	<u>0.32</u>	<u>0.87</u>	<u>1.17</u>
From net income		<u>0.21</u>	<u>0.27</u>	<u>0.74</u>	<u>1.04</u>



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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011

	Nine-month period ended 30 September	
	2011 SR 000	2010 SR 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income for the period before zakat	835,830	1,152,275
<b>Adjustment for:</b>		
Depreciation	10,725	11,594
Amortisation of deferred charges	14,546	20,937
Provision for end-of-service indemnities	2,682	3,603
Share of income from investment in associates	(400)	-
Gain on disposal of property and equipment	(288)	-
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	125,360	(108,745)
Prepaid expenses and others	30,921	17,157
Due from related parties	1,221	(2,374)
Projects in progress – short-term	113,355	278,666
Developed land	376,794	938,395
Accounts payable	(75,749)	(49,432)
Accrued expenses and others	(28,155)	42,070
Zakat paid	(12,763)	-
End-of- service indemnities paid	(509)	(1,824)
<b>Net cash from operating activities</b>	<b>1,393,570</b>	<b>2,302,322</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Projects in progress – long-term	732,977	(46,732)
Investments in land under development	(567,560)	(1,048,270)
Advance payments to purchase land	179,461	(445,619)
Investment properties	(760,256)	(209,239)
Purchase of property and equipment	(64)	(1,549)
Proceeds from disposal of property and equipment	322	-
<b>Net cash used in Investing activities</b>	<b>(415,120)</b>	<b>(1,751,409)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Islamic borrowings	(168,871)	(559,816)
Dividends	-	(1,080,000)
<b>Net cash used in financing activities</b>	<b>(168,871)</b>	<b>(1,639,816)</b>
Increase/(Decrease) in cash and cash equivalents	809,579	(1,088,903)
Cash and cash equivalents, beginning of the period	1,188,513	2,223,495
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>1,998,092</b>	<b>1,134,592</b>

  
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Managing Director

  
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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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011

	Share Capital	Statutory Reserve	Retained Earnings	Equity attributable to Dar Al Arkan Shareholders
	SR 000	SR 000	SR 000	SR 000
<b>2010</b>				
Balance as at 1 January 2010	10,800,000	462,268	2,596,908	13,859,176
Dividends	-	-	(1,080,000)	(1,080,000)
Net income for the Period	-	-	1,125,275	1,125,275
Balance as at 30 September 2010	<u>10,800,000</u>	<u>462,268</u>	<u>2,642,183</u>	<u>13,904,451</u>
<b>2011</b>				
Balance as at 1 January 2011	10,800,000	607,768	2,827,119	14,234,887
Net income for the period	-	-	798,330	798,330
Balance as at 30 September 2011	<u>10,800,000</u>	<u>607,768</u>	<u>3,625,449</u>	<u>15,033,217</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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011**

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**1. GENERAL INFORMATION:**

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

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

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

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

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

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

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

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

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

The accompanying 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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (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 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 September 2011.

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

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

The excess of cost of acquisition over the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the carrying value of the identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the 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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (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%
Plant and machinery	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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (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 receivables*

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

*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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)**

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**2.8 IMPAIRMENT OF TANGIBLE ASSETS**

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

**2.9 REVENUE RECOGNITION**

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

**2.10 ZAKAT TAXATION**

Zakat is calculated and recognised in the 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 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 interim consolidated balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the interim consolidated balance sheet date. Non-monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the cost was determined.

**2.12 STATUTORY RESERVE**

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

**2.13 END OF SERVICE INDEMNITIES**

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (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 ("Sales of land") and the development of residential and commercial projects for Sale ("Sales of residential properties") or leasing such developed properties to generate rental revenue ("Lease income").

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)

Information in respect of these products is presented below:

	Nine-month period ended	
	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
<b>REVENUES</b>		
Sales of residential properties	64,144	331,167
Sales of land	2,426,128	2,838,422
Leasing of properties	11,309	-
<b>Total</b>	<b>2,501,581</b>	<b>3,169,589</b>
<b>COST OF SALES</b>		
Residential properties	54,097	292,689
Land	1,422,489	1,492,729
<b>Total</b>	<b>1,476,586</b>	<b>1,785,418</b>
<b>GROSS PROFIT</b>		
Residential properties	10,047	38,478
Land	1,003,639	1,345,693
Leasing of properties	11,309	-
<b>Total</b>	<b>1,024,995</b>	<b>1,384,171</b>
<b>5. ACCOUNTS RECEIVABLE</b>		
	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Customers	1,546,119	959,136
Provision for doubtful debtors	(4,479)	(4,479)
<b>Total</b>	<b>1,541,640</b>	<b>954,657</b>
<b>6. PREPAID EXPENSES AND OTHERS</b>		
	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Advance payments to purchase land	239,506	566,813
Advance payments to contractors	39,060	63,648
Accrued income	17,363	11,494
Positive value of commission SWAP contract	34,278	-
Prepaid expenses	8,159	7,282
Advance payments to suppliers	4,190	3,336
Employees' advances and receivables	3,417	2,110
Others	36	6,585
<b>Total</b>	<b>346,009</b>	<b>661,268</b>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)

7. RELATED PARTY TRANSACTIONS

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

	Nine-month period ended	
	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Balance, beginning of the period	1,364	2,709
Sales	27,179	44,529
Commission	(23)	(38)
Collection	(28,377)	(42,117)
<b>Balance, end of the period</b>	<b>143</b>	<b>5,083</b>

For the period ended 30 September 2011 and the period ended 30 September 2010, no transactions were entered with entities that have common Board Members or Shareholders to the Group.

8. PROJECTS IN PROGRESS

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

	30 September	
	2011 (Unaudited) SR 000	2010 (Unaudited) SR 000
Residential and commercial development	71,305	398,765
<b>Total</b>	<b>71,305</b>	<b>398,765</b>

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

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

	30 September	
	2011 (Unaudited) SR 000	2010 (Unaudited) SR 000
Residential and commercial development	3,820,115	3,609,131
Land development projects	4,095,726	5,028,637
<b>Total</b>	<b>7,915,841</b>	<b>8,637,768</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.

During the period the Group's management capitalised Islamic Sukuk charges in the amount of SR 120 million (30 September 2010: 113 million) under projects in progress.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)

9. INVESTMENTS IN LAND UNDER DEVELOPMENT

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

10. a) INVESTMENT PROPERTIES

	Nine-month period ended 30 September 2011 (Unaudited) SR 000	Nine-month period ended 30 September 2010 (Unaudited) SR 000
<b>COST</b>		
At beginning of the period	1,918,823	1,521,913
Additions	751,101	188,850
Capitalisation of borrowing costs	9,155	20,389
At end of the period	<u>2,679,079</u>	<u>1,731,152</u>
<b>ACCUMULATED DEPRECIATION</b>		
At beginning of the period	4,496	3,746
Charge during the period	4,051	562
At end of the period	<u>8,547</u>	<u>4,308</u>
<b>CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<u>2,670,532</u>	<u>1,726,844</u>

Included within investment properties is land with an original cost of SR 378.1 million (30 September 2010: SR 378.1 million).

b) INVESTMENT IN ASSOCIATES

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

	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Balance, beginning of the period	1,162,360	1,162,360
Share of income	400	-
Balance, end of the period	<u>1,162,760</u>	<u>1,162,360</u>

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
SAUDI JOINT STOCK COMPANY

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)

11. PROPERTY AND EQUIPMENT

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

	Land and Buildings	Leasehold Improvements	Vehicles	Plant and Machinery	Office equipment	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
<b>Cost</b>						
Balance at 1 January, 2011	109,145	19,037	9,990	13,390	39,074	190,636
Additions for the period	-	-	-	-	64	64
Disposals during the period	-	-	(740)	-	(80)	(820)
Balance at 30 September 2011	<u>109,145</u>	<u>19,037</u>	<u>9,250</u>	<u>13,390</u>	<u>39,058</u>	<u>189,880</u>
<b>Accumulated Depreciation</b>						
Balance at 1 January, 2011	27,042	18,070	9,904	11,152	33,442	99,610
Depreciation for the period	2,262	532	185	1,719	1,976	6,674
Transfers / Adjustments during the period	-	(121)	(357)	12	466	-
Transfers / Disposals during the period	-	-	(740)	-	(46)	(786)
Balance at 30 September 2011	<u>29,304</u>	<u>18,481</u>	<u>8,992</u>	<u>12,883</u>	<u>35,838</u>	<u>105,498</u>
<b>Net book value</b>						
30 September 2011	<u>79,841</u>	<u>556</u>	<u>258</u>	<u>507</u>	<u>3,220</u>	<u>84,382</u>
Net book value 30 September 2010	<u>82,856</u>	<u>1,016</u>	<u>92</u>	<u>3,056</u>	<u>6,430</u>	<u>93,450</u>

Included within land and buildings are land with an original cost of SR 9.50 million (30 September 2010: SR 9.50 million).

12. DEFERRED CHARGES

The movement during the period is as below:

	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Balance, beginning of the period	1,916	2,956
Amortisation charge for the period	<u>(761)</u>	<u>(781)</u>
Balance, end of the period	<u>1,155</u>	<u>2,175</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)

13. ISLAMIC BORROWINGS

	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Islamic Sukuk – International	5,437,500	5,437,500
Islamic Sukuk – Local	750,000	750,000
Islamic Murabaha	1,443,946	1,632,793
	<u>7,631,446</u>	<u>7,820,293</u>
Less: Un-amortised transaction costs	(65,047)	(100,524)
Islamic borrowings – end of the period	7,566,399	7,719,769
Less: Islamic borrowings – current portion	(4,722,086)	(1,000,000)
Islamic borrowings - long-term	<u>2,844,313</u>	<u>6,719,769</u>

*Repayable as follows:*

	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Within one year	4,741,143	1,000,000
In the second year	185,050	4,182,793
In the third to fifth years inclusive	2,705,253	2,637,500
	<u>7,631,446</u>	<u>7,820,293</u>

*(a) Islamic borrowings transaction costs:*

	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Balance, beginning of the period	91,217	95,313
Additions during the period	2,589	46,409
Capitalisation during the period	(14,974)	(21,042)
Amortisation charge for the period	(13,785)	(20,156)
Balance, end of the period	<u>65,047</u>	<u>100,524</u>

*Analysis of borrowings:*

*Islamic Sukuk – International*

This represents SR 5.44 billion of Islamic Sukuk comprising:

- 1) SR 3.75 billion (USD 1 billion) of Islamic Sukuk carried in the books of the Group, issued by Dar Al Arkan International Sukuk Company at LIBOR plus profit margin of 2.25% and maturing in 2012.
- 2) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar International Sukuk Company II at 10.75% and maturing in 2015.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)

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

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

*Islamic Sukuk - Local*

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

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 30 September 2011.

*Islamic Murabaha*

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

- 1) An amount of SR 400 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus annual profit margin of 3%. The facility is being repaid in eight equal semi-annual payments starting 2010. As at 30 September 2011 an amount of SR 300 million is outstanding towards this facility.
- 2) An amount of SR 200 million in the form of short-term Islamic Murabaha bearing finance charges at prevailing rates between the local banks plus annual profit margin of 3%. As at 30 September 2011 an amount of SR 200 million is outstanding towards this facility.
- 3) An amount of SR 200 million in the form of long-term Islamic Murabaha bearing finance charges at prevailing rates between the local banks plus annual profit margin of 3.75%. The facility is being repaid in seven equal semi-annual payments starting 2011. As at 30 September 2011 an amount of SR 171.42 million is outstanding towards this facility.
- 4) An amount of SR 500 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus an annual profit margin of 4% and matures in 2011. As at 30 September 2011 an amount of SR 277.78 million is outstanding towards this facility.
- 5) An amount of SR 100 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus annual profit margin of 3.5% (minimum of 4.5%). The facility is being repaid in twenty equal quarterly payments starting 2012. As at 30 September 2011 an amount of SR 90 million is utilised against this facility.
- 6) An amount of SR 400 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus an annual profit margin of 2.25% and matures in 2012. As at 30 September 2011, the Group has utilised SR 332.8 million. This facility is collateralised by specific assets of a subsidiary.

The facility agreements include certain financial covenants, which the Group was in compliance with as at 30 September 2011 and there were no defaults or breaches of loan terms during the current or preceding periods.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)

The annualised weighted average effective commission rate for the period ended 30 September 2011 is 4.8% (4.75% for 30 September 2010).

14. COMMISSION RATE SWAP DERIVATIVES

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

The cumulative positive fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards amounted to SR 34.28 million (USD 9.14 million). The change in the fair value during the period amounting to SR 6.51 million (USD 1.74 million) has been recognised as other income in the interim consolidated statement of income.

15. ACCOUNTS PAYABLE

The detail of the above account is as follows:

	30 September 2011 (Unaudited)	30 September 2010 (Unaudited)
	SR 000	SR 000
Contractors	249,611	340,147
Suppliers	52,675	80,515
Advances from customers	164	164
Others	3,211	699
<b>Total</b>	<b>305,661</b>	<b>421,525</b>

16. ACCRUED EXPENSES AND OTHERS

	30 September 2011 (Unaudited)	30 September 2010 (Unaudited)
	SR 000	SR 000
Zakat provision (a,b)	611,811	587,074
Islamic Murabaha charges	11,693	14,171
Islamic Sukuk charges	47,597	47,281
Accrued expenses	17,758	17,638
Dividend payable	36,501	37,178
Others	4,961	864
<b>Total</b>	<b>730,321</b>	<b>704,206</b>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)

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

	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Balance beginning of the period	587,074	560,074
Estimated Zakat for the current period	37,500	27,000
Payment made during the period	<u>(12,763)</u>	-
<b>Estimated Zakat provision, end of the period</b>	<u><b>611,811</b></u>	<u><b>587,074</b></u>

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

**17. PROVISION FOR END OF SERVICE INDEMNITIES**

This item represents the balance of provision for end of service benefits as at 30 September 2011. During the period the Group's management charged an amount of SR 1.90 million (2010: SR 3.60 million) to expenses. The movement during the period is as below:

	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
Balance, beginning of the period	12,599	12,038
Charged to expenses during the period	2,682	3,603
Paid during the period	<u>(509)</u>	<u>(1,824)</u>
<b>Balance, end of the period</b>	<u><b>14,772</b></u>	<u><b>13,817</b></u>

**18. SHARE CAPITAL**

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2011 (CONTINUED)

19. EARNINGS PER SHARE

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

	30 September 2011 (Unaudited) SR 000	30 September 2010 (Unaudited) SR 000
<i>Earnings</i>		
For the purpose of basic earnings per share:		
Income for the period from operating activities	935,189	1,267,530
Net income for the period	<u>798,330</u>	<u>1,125,275</u>
<i>Number of shares</i>		
	<u>Number</u>	<u>Number</u>
Weighted average number of ordinary shares For the purpose of basic earnings per share	<u>1,080,000,000</u>	<u>1,080,000,000</u>

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

20. COMMITMENTS

As at 30 September 2011, the Group and its subsidiaries have commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 201 million (2010: SR 458.08 million).

21. 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.

22. COMPARATIVE FIGURES

Certain comparative figures of 2010 have been reclassified to conform to the presentation adopted in the current period.