

**DAR AL ARKAN**  
**REAL ESTATE DEVELOPMENT COMPANY**

*Saudi Shareholding Company*  
**Riyadh – Kingdom of Saudi Arabia**

**AUDITORS' REPORT**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2006**

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY**  
***Saudi Shareholding Company***  
**Riyadh – Kingdom of Saudi Arabia**

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To :

THE SHAREHOLDERS

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY

Saudi Shareholding Company

Riyadh – Kingdom of Saudi Arabia

**Subject: Auditors' Report**

**SCOPE OF AUDIT:** We have audited the accompanying balance sheet of DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY - SAUDI SHAREHOLDING COMPANY – as at 31 December 2006 and the statements of income, cash flows and shareholders' equity for the year then ended together with the accompanying notes from (1) to (26) which form an integral part of these statements. These financial statements have been prepared by the company's management in accordance with Article No. 123 of the Saudi Companies' Regulation, and submitted to us along with the entire information requested. We conducted our audit in accordance with generally accepted auditing standards, which included examination of the accounting records and other audit procedures as we deemed necessary to enable us in establishing a reasonable basis for expressing our opinion on the financial statements.

**CLEAN OPINION:** In our opinion, the financial statements referred to above taken as a whole:

- Present fairly, the financial position of DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY - SAUDI SHAREHOLDING COMPANY – as at 31 December 2006, and the results of its operations, and its cash flows for the year then ended, in the light of the presentation and disclosures of information contained in the financial statements and in conformity with the generally accepted accounting principles appropriate to the company's circumstances.
- Comply with the requirements of the Saudi Companies Regulation and the Company's Articles of Association in regard to the preparation and presentation of the financial statements .

**Date:** 15 Muharram 1428 H.  
03 February 2007 G.

Signature:

Abdulqadir A. Al-Wohaib  
(License No. 48)



DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
*Saudi Shareholding Company*  
Riyadh – Kingdom of Saudi Arabia

BALANCE SHEET AS AT 31 DECEMBER 2006

EXHIBIT A

	Note	2006 SR.	2005 SR
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	( 3 )	183,645,137	525,619,212
Accounts receivable, net	( 4 )	480,658,726	437,851,469
Short term investments	( 5 )	77,000,000	121,024,965
Projects under construction	( 6 )	7,935,867,500	7,592,910,724
Developed lands	( 7 )	2,530,783,255	1,795,668,274
Prepaid expenses and others	( 8 )	215,521,365	78,591,167
Due from related parties	( 9 )	2,524,824	--
<b>Total current assets</b>		<b>11,426,000,807</b>	<b>10,551,665,811</b>
<b>Non-Current Assets</b>			
Land		9,545,400	--
Long term investments	( 5 )	87,510,000	135,000,000
Fixed assets, net	( 10 )	156,019,732	133,524,637
Deferred charges, net	( 11 )	2,512,164	3,611,672
<b>Total non-current assets</b>		<b>255,587,296</b>	<b>272,136,309</b>
<b>TOTAL ASSETS</b>		<b>11,681,588,103</b>	<b>10,823,802,120</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Murabaha	( 12 )	414,023,661	--
Projects' shareholders	( 13 )	34,530,092	83,826,071
Accounts payable	( 14 )	45,179,040	94,871,324
Accrued expenses and others	( 15 )	572,097,067	225,476,985
Due to related party	( 16 )	929,964	--
<b>Total current liabilities</b>		<b>1,066,759,824</b>	<b>404,174,380</b>
<b>Non-Current Liabilities</b>			
Provision for end-of-service benefits	( 17 )	3,152,478	1,902,056
<b>Total non - current liabilities</b>		<b>3,152,478</b>	<b>1,902,056</b>
<b>Shareholders' Equity</b>			
Capital	( 18 )	5,400,000,000	5,400,000,000
Statutory reserve	( 19 )	3,242,253,763	3,242,253,763
Retained earnings		1,969,422,038	1,775,471,921
<b>Total shareholders' equity - Exhibit D</b>		<b>10,611,675,801</b>	<b>10,417,725,684</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>11,681,588,103</b>	<b>10,823,802,120</b>

**THE ACCOMPANYING NOTES FROM ( 1 ) TO ( 26 ) CONSTITUTE AN INTEGRAL  
PART OF THESE FINANCIAL STATEMENTS**

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
*Saudi Shareholding Company*  
Riyadh – Kingdom of Saudi Arabia

STATEMENT OF INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2006

**EXHIBIT B**

	Note	2006 SR.	2005 SR.
Revenues		4,352,587,354	4,196,817,392
Cost of revenues		(2,229,875,697)	(2,167,173,804)
<b>Gross income</b>	( 20 )	<b>2,122,711,657</b>	<b>2,029,643,588</b>
<b>Principal activities expenses :</b>			
Sales & marketing expenses	( 21 )	(15,658,479)	(15,205,879)
General and administrative expenses	( 22 )	(24,887,542)	(23,621,644)
Participation expenses		(13,309,914)	(121,514,216)
Depreciation of fixed assets		(17,256,035)	(13,253,161)
Amortization of deferred charges		(1,099,508)	(1,099,508)
<b>Net income from principal activities</b>		<b>2,050,500,179</b>	<b>1,854,949,180</b>
<b>Results of other activities :</b>			
Net Other income		33,666,923	66,790,519
<b>Net income before Zakat Provision</b>		<b>2,084,167,102</b>	<b>1,921,739,699</b>
Zakat provision for the year	( 23 )	(270,216,985)	(146,267,778)
<b>Net income for the year - Exhibit D</b>		<b>1,813,950,117</b>	<b>1,775,471,921</b>

*THE ACCOMPANYING NOTES FROM ( 1 ) TO ( 26 ) CONSTITUTE AN INTEGRAL  
PART OF THESE FINANCIAL STATEMENTS*

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
*Saudi Shareholding Company*

Riyadh – Kingdom of Saudi Arabia

STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 31 DECEMBER 2006

EXHIBIT C

	2006	2005
	SR	SR
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	1,813,950,117	1,775,471,921
<b>Adjustments for:</b>		
Depreciation of fixed assets	17,256,035	13,253,161
Amortization of deferred charges	1,099,508	1,099,508
End-of-service benefits allocated to expenses	1,375,040	1,257,467
Provision for doubtful accounts	350,521	3,750,421
<b>Changes in Operating Assets and Liabilities</b>		
(Increase) / decrease in accounts receivable, net	(43,157,778)	67,681,752
(Increase) in developed lands	(735,114,981)	(545,307,983)
(Increase) in project under construction	(342,956,776)	(3,867,550,769)
(Increase) in prepaid expenses & others	(136,930,198)	(29,190,729)
Net transaction with related party	(1,594,860)	--
(Decrease) in projects' shareholders	(49,295,979)	(346,119,837)
(Decrease) / Increase in accounts payables	(49,692,284)	13,660,388
Increase in accrued expenses & others	346,620,082	168,439,027
End - of - service benefits paid	(124,618)	(169,243)
<b>Net cash from (used in) operating activities</b>	<b>821,783,829</b>	<b>(2,743,724,916)</b>
<b>Cash Flows From Investing Activities</b>		
Lands	(9,545,400)	--
Purchase of fixed assets	(39,751,130)	(66,425,900)
Intangible assets	--	114,241
Investments	91,514,965	111,528,497
<b>Net cash from investing activities</b>	<b>42,218,435</b>	<b>45,216,838</b>
<b>Cash Flows From Financing Activities</b>		
Murabaha and notes payable	414,023,661	(25,146,380)
Statutory reserve	--	3,098,374,410
General reserve	--	(1,041,025,641)
Treasury stock	--	2,418,302,445
Dividends	(1,620,000,000)	(1,291,914,174)
<b>Net cash (used in) / from financing activities</b>	<b>(1,205,976,339)</b>	<b>3,158,590,660</b>
<b>(Decrease) Increase in cash and cash equivalents</b>	<b>(341,974,075)</b>	<b>460,082,582</b>
Cash and cash equivalents, beginning of the year	525,619,212	65,536,630
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR - EXHIBIT A</b>	<b>183,645,137</b>	<b>525,619,212</b>

*THE ACCOMPANYING NOTES FROM (1) TO (26) CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS*

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
*Saudi Shareholding Company*  
Riyadh – Kingdom of Saudi Arabia

STATEMENT OF SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2006

EXHIBIT D

	Capital SR.	Statutory Reserve SR.	General Reserve SR.	Treasury stock SR.	Retained Earnings SR.	Total SR.
Shareholders Equity as of 1 January 2005- Exhibit "A"	5,400,000,000	143,879,353	1,041,025,641	(2,418,302,445)	1,291,914,174	5,458,516,723
Share premium	--	--	1,933,333,259	--	--	1,933,333,259
Transfer from General reserve to statutory reserve	--	2,974,358,900	(2,974,358,900)	--	--	--
Profit on sale of treasury stock	--	124,015,510	--	--	--	124,015,510
Dividends	--	--	--	--	(1,291,914,174)	(1,291,914,174)
Treasury stock sold	--	--	--	2,418,302,445	--	2,418,302,445
Net Income for the year - Exhibit B	--	--	--	--	1,775,471,921	1,775,471,921
Shareholders Equity as of 31 December 2005- Exhibit "A"	5,400,000,000	3,242,253,763	--	--	1,775,471,921	10,417,725,684
Dividends	--	--	--	--	(1,620,000,000)	(1,620,000,000)
Net income for the year - Exhibit B	--	--	--	--	1,813,950,117	1,813,950,117
Shareholders equity as of 31 December 2006 - Exhibit A	5,400,000,000	3,242,253,763	--	--	1,969,422,038	10,611,675,801

*THE ACCOMPANYING NOTES FROM (1) TO (26) CONSTITUTE AN INTEGRAL  
PART OF THESE FINANCIAL STATEMENTS*

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY  
*Saudi Shareholding Company*  
Riyadh – Kingdom of Saudi Arabia

**NOTES TO THE FINANCIAL STATEMENTS**

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**1- STATUS AND ACTIVITIES:**

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY – Saudi Shareholding Company (referred to hereinafter as the “**Company**”) operates under the Commercial Registration No. 1010160195 dated 16/4/1421H, issued in Riyadh .

The Company operates in the field of purchasing and possessing real estate and lands, constructing buildings for the purpose of investing thereof by renting or selling in favor of the company.

The Company operates in general construction of residential and commercial buildings (construction, maintenance, demolition and reconstruction ), wholesale and retail in sanitary materials, plumbing, electrical, paints, construction materials, office equipment and motor vehicles either in cash or by installment payments.

The legal status of the Company was changed from a limited liability by shares to shareholding company on 21/5/1425 H, corresponding to 28/6/2005.

**2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles of the Kingdom of Saudi Arabia, The significant accounting policies applied in the preparation of these financial statements are as follows:

**a) Accounting Convention:**

These financial statements have been prepared under the historical cost convention using accrual basis and going concern concept.

**b) Cash and Cash Equivalents:**

For the purpose of preparing the cash flows statement, cash and cash equivalents include cash on hand and unrestricted current accounts with banks.

**c) Accounts Receivable:**

Accounts receivable are stated in the accompanying balance sheet at their estimated net realizable value after deducting the related provision for doubtful accounts ( if any ), The provision for doubtful accounts is estimated based on analysis of the collectible balances of the accounts receivable at the end of the year.



**d) Investments:**

This item represents investments in other companies' projects against determined percentage of the profit of these projects as per contracts.

**e) Fixed Assets:**

Fixed assets are stated at cost net of accumulated depreciation thereof up to the date of the financial statements. Depreciation is computed using the straight – line method over their estimated useful lives as per the following annual rates of depreciation:

Buildings	3%
Vehicles	25%
Furniture and fixtures	20-25%
Electrical appliances	20-25%
Leasehold improvements	5-20%
Prefabricated houses	25%
Tools	20%
Signboards	20%

**f) Deferred charges:**

The company amortizes deferred charges using the straight-line method over five years.

**g) Provision for End-of-Service Benefits:**

Provision for end-of-service benefits is calculated and provided for in accordance with Saudi Labor Regulation.

**h) Zakat Provision:**

Zakat is measured and recognized in the statement of income for each financial period pursuant to Zakat Regulation in the Kingdom of Saudi Arabia. The provision for Zakat is settled in the financial year in which the final assessment of Zakat is issued. Variances between the amount of provision for Zakat and the final assessment are recognized in the statement of income as changes in accounting estimates and included in the financial period on which the final assessment of Zakat is issued.

**i) Revenue Recognition:**

Revenue is generally recognized upon selling the projects and relinquishing their ownership which concurrently coincide with the issuance of sales contracts.

**j) General, Administrative & Marketing Expenses:**

General, administrative and marketing expenses are measured and recognized as a period cost at the time when such expenses are incurred. Expenses benefiting more than one financial period are allocated over such periods using their historical cost.

**k) Foreign Currency Transactions:**

Transactions in foreign currencies are converted into Saudi Riyals at rates of exchange ruling at the date of these transactions. Asset and liabilities at the balance sheet date are converted into Saudi Riyals at rates of exchange prevailing at the balance sheet date. Gains or losses resulting from the variation in exchange rates are taken currently to statement of income.

**3- CASH AND CASH EQUIVALENTS:**

The details of this item are as follows:

	<u>2006</u> SR.	<u>2005</u> SR.
Cash on hand	179,188	326,516
Checking accounts with local banks in Saudi Riyals	183,465,949	525,292,696
<b>Total – Exhibit A</b>	<u>183,645,137</u>	<u>525,619,212</u>

**4- ACCOUNTS RECEIVABLE, NET :**

The details of this item are as follows:

	<u>2006</u> SR.	<u>2005</u> SR.
Accounts receivable	484,759,668	441,601,890
Provision for doubtful accounts	(4,100,942)	(3,750,421)
<b>Accounts receivable, net – Exhibit A</b>	<u>480,658,726</u>	<u>437,851,469</u>

**5- INVESTMENTS:**

This item represents the company's participation in financing investment projects of other companies according to authenticated contracts for achieving gains on the share of those companies' profits through these projects during financial periods ranging from one year "short-term" and two years "long-tem".

**6- PROJECTS UNDER CONSTRUCTION:**

The details of this item are as follows:

	<u>2006</u> SR.	<u>2005</u> SR.
Villas	2,445,552,380	2,290,658,951
Lands	5,490,315,120	5,302,251,773
<b>Total – Exhibit A</b>	<u>7,935,867,500</u>	<u>7,592,910,724</u>

**7- DEVELOPED LANDS:**

This item represents lands owned by the company developed for the purpose of resale.

**8- PREPAID EXPENSES & OTHERS:**

The details of this item are as follows:

	<u>2006</u> SR.	<u>2005</u> SR.
Prepaid expenses	2,535,249	1,376,582
Margin on letters of guarantee - note 24	376,292	250,000
Murabaha expenses	4,703,277	--
Refundable deposits	14,576,452	--
Employees advances and imprests	3,395,659	3,031,613
Advance payments	178,600,000	62,441,498
Others	11,334,436	11,491,474
<b>Total – Exhibit A</b>	<u>215,521,365</u>	<u>78,591,167</u>

**9- DUE FROM RELATED PARTY:**

This item represents the balance of operating transactions, with Kingdom Installment Company as of 31 December 2006.

**10- FIXED ASSETS, NET:**

a) The details of fixed assets costs, accumulated depreciation thereof and related net book value are as follows:

	Buildings	Vehicles	Furniture and fixtures	Electrical appliances	Leasehold improvements	Prefabricated houses	Tools	Signboards	Total
	SR.	SR.	SR.	SR.	SR.	SR.	SR.	SR.	SR.
<b>cost</b>									
Balance at 1/1/2006	91,000,450	8,321,684	12,697,415	10,276,574	11,714,245	7,950,733	4,082,995	4,831,000	150,875,096
Additions	33,600,000	911,100	3,152,437	75,597	420,415	668,475	187,458	735,648	39,751,130
<b>Balance at 31/12/2006</b>	<b>124,600,450</b>	<b>9,232,784</b>	<b>15,849,852</b>	<b>10,352,171</b>	<b>12,134,660</b>	<b>8,619,208</b>	<b>4,270,453</b>	<b>5,566,648</b>	<b>190,626,226</b>
<b>Accumulated depreciation</b>									
Balance at 1/1/2006	5,030,754	2,216,424	2,042,623	2,149,713	2,079,173	1,292,029	1,353,537	1,186,206	17,350,459
Additions	2,851,497	2,067,061	3,268,933	2,209,020	1,948,004	2,265,440	949,678	1,696,402	17,256,035
<b>Balance at 31/12/2006</b>	<b>7,882,251</b>	<b>4,283,485</b>	<b>5,311,556</b>	<b>4,358,733</b>	<b>4,027,177</b>	<b>3,557,469</b>	<b>2,303,215</b>	<b>2,882,608</b>	<b>34,606,494</b>
<b>Net book value</b>									
<b>31/12/2006 - Exhibit A</b>	<b>116,718,199</b>	<b>4,949,299</b>	<b>10,538,296</b>	<b>5,993,438</b>	<b>8,107,483</b>	<b>5,061,739</b>	<b>1,967,238</b>	<b>2,684,040</b>	<b>156,019,732</b>
<b>Net book value</b>									
<b>31/12/2005 - Exhibit A</b>	<b>85,969,696</b>	<b>6,105,260</b>	<b>10,654,792</b>	<b>8,126,861</b>	<b>9,635,072</b>	<b>6,658,704</b>	<b>2,729,458</b>	<b>3,644,794</b>	<b>133,524,637</b>

**11- DEFERRED CHARGES, NET:**

Deferred charges are stated at net amount after deducting the provision for amortization as follows:

	<u>2006</u>	<u>2005</u>
	SR.	SR.
Deferred charges	5,497,540	5,497,540
Amortization	(2,985,376)	(1,885,868)
<b>Deferred charges, net - Exhibit A</b>	<u>2,512,164</u>	<u>3,611,672</u>

**12- MURABAHA :**

This item represents Islamic Murabaha with local banks as of 31 December 2006

**13- PROJECTS' SHAREHOLDERS:**

This item represents the amount of participation by shareholders for the purpose of projects' development.

**14 – ACCOUNTS PAYABLE:**

The details of this item are as follows:

	<u>2006</u>	<u>2005</u>
	SR.	SR.
Contractors	39,220,281	88,806,002
Suppliers	5,958,759	6,065,322
<b>Total – Exhibit A</b>	<u>45,179,040</u>	<u>94,871,324</u>

**15- ACCRUED EXPENSES AND OTHERS:**

The details of this item are as follows:

	<u>2006</u>	<u>2005</u>
	SR.	SR.
Accrued expenses	3,494,326	3,736,646
Murabaha expenses	14,275,557	--
Zakat provision – note (23)	445,337,471	175,120,486
Advances from customers	105,705,868	42,298,175
Others	3,283,845	4,321,678
<b>Total – Exhibit A</b>	<u>572,097,067</u>	<u>225,476,985</u>

**16- DUE TO RELATED PARTY :**

This item represents the balance of operating transactions with Manazel Building and Construction Company as of 31 December 2006 .

**17- PROVISION FOR END-OF-SERVICE BENEFITS:**

The details of this account are as follows:

	<u>2006</u>	<u>2005</u>
	SR.	SR.
Balance, beginning of the year	1,902,056	813,832
Allocated to expenses	1,375,040	1,257,467
Settlement during the year	(124,618)	(169,243)
<b>Balance , end of the year – Exhibit A</b>	<u>3,152,478</u>	<u>1,902,056</u>

**18- CAPITAL:**

The Company's capital is SR. 5,400,000,000 divided into 540,000,000 equal shares of SR 10 each and all are ordinary shares.

**19- PROFITS & RESERVES:**

The company distributes the annual net profit after deducting the general expenses and costs as follows:

- Zakat duties deductions.
- According to the article (176) of the Companies' Regulation, the Company retains 10% of net income against statutory reserve. The deductions can be stopped by the company when this reserve reaches one half of the capital.
- Initial payment to the shareholders equals 5% of paid up capital from the remaining profit.
- 10% of net profit devoted as a reward to the board of directors and the remaining to the shareholders as an additional share of profit. The Board's members relinquished their reward for the years ended 31 December 2005 & 2006.
- The Company's Board of Directors recommend to furnish to the Extraordinary General Meeting to approve the amendment on article 21 of the Company's Articles of Incorporation by cancellation of the Board of Directors' reward.

**20- GROSS INCOME:**

Description	Revenues	Cost	Gross Income	
			2006	2005
	SR.	SR.	SR.	SR.
Lands	3,201,836,030	(1,627,894,665)	1,573,941,365	1,559,195,855
Villas	1,150,751,324	(601,981,032)	548,770,292	470,447,733
<b>Total</b>	<u>4,352,587,354</u>	<u>(2,229,875,697)</u>		
<b>Gross income-Exhibit "B"</b>			<u>2,122,711,657</u>	<u>2,029,643,588</u>

**21- SALES AND MARKETING EXPENSES :**

The details of this item are as follows:

	<u>2006</u>	<u>2005</u>
	SR.	SR.
Salaries and wages	4,140,915	3,450,548
Advertising	7,054,569	7,550,462
Meetings and exhibitions	2,627,600	2,562,833
Incentives and bonuses	1,640,897	1,510,254
Others	194,498	131,782
<b>Total – Exhibit B</b>	<u>15,658,479</u>	<u>15,205,879</u>

**22- GENERAL AND ADMINISTRATIVE EXPENSES:**

The details of this item are as follows:

	<u>2006</u>	<u>2005</u>
	SR.	SR.
Salaries and wages	14,073,157	11,289,658
End of service benefits	1,375,040	1,257,467
Incentives and bonuses	1,080,214	950,423
Subscription fees	837,953	740,214
Printings & stationery	865,214	850,148
Social insurance	843,667	730,405
Repairs and maintenance	490,218	340,103
Fuel	468,838	450,657
Insurance	1,088,663	954,875
Consulting and training	1,250,438	550,547
Provision for doubtful accounts	350,521	3,750,421
Cleaning and entertainment	321,811	230,257
Water, electricity and telephone	862,594	650,874
Others	979,214	875,595
<b>Total – Exhibit B</b>	<u>24,887,542</u>	<u>23,621,644</u>

## 23- ZAKAT:

a) The component elements of Zakat base are as follows:

	<u>2006</u> SR.	<u>2005</u> SR.
<b>Funds subject to Zakat</b>		
Capital and reserve, beginning of the year	8,642,253,763	5,543,879,353
General reserve at beginning of the year	--	1,041,025,641
Provisions at beginning of the year ,net	180,648,345	29,497,297
Adjusted net income – Note (23/b)	2,091,982,255	1,932,358,517
Net retained earnings, beginning of the year	155,471,921	--
<b>Total funds subject to Zakat</b>	<u>11,070,356,284</u>	<u>8,546,760,808</u>
<b>Deductible funds</b>		
Total funds deducted from Zakat base	261,676,888	2,696,049,684
<b>Zakat base</b>	<u>10,808,679,396</u>	<u>5,850,711,124</u>
<b>Zakat provision – Exhibit B</b>	<u>270,216,985</u>	<u>146,267,778</u>

b) Adjusted net income :

	<u>2006</u> SR.	<u>2005</u> SR.
Net income for the year – Exhibit B	2,084,167,102	1,921,739,699
Provisions	1,725,561	5,007,888
Fixed assets computation Differences	6,089,592	5,610,930
<b>Adjusted net income – Note 23/a</b>	<u>2,091,982,255</u>	<u>1,932,358,517</u>

c) The details of the provision for Zakat during the year are as follows:

	<u>2006</u> SR.	<u>2005</u> SR.
Provision Balance, beginning of the year	175,120,486	28,852,708
Provision for Zakat for current year	270,216,985	146,267,778
<b>Zakat provision- note (15)</b>	<u>445,337,471</u>	<u>175,120,486</u>



## 24- CONTINGENT LIABILITIES:

As of the date of the balance sheet, the company is liable for an amount of SR. 1,505,168 against letters of guarantee. The bank retained an amount of SR. 376,292 as margin thereon – note no. (8).

## 25- FINANCIAL INSTRUMENTS :

The company's financial assets and liabilities consist of cash and bank balances, short-term and long-term investments, accounts receivable, murbaha, accounts payable, project participants and accrued liabilities the accounting policies for financial assets and liabilities have been stated in note no (2).

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates . The management is closely tracking the fluctuation in foreign currencies exchange rates.

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Short and long-term investments are not linked with the change in exchange rates.

### Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets that potentially subject the company to concentration of credit risk consist principally of current accounts at banks and accounts receivable. Cash is deposited at banks of solid reputation. Credit risks on accounts receivable is limited.

The company manages credit risk with respect to receivables by monitoring in accordance with the company's defined policies and procedures.

### Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to fair value.

Liquidity requirements are monitored on a daily basis and the management ensures that sufficient funds are available to meet any future commitments.

**Fair value of financial instruments.**

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction . Difference can therefore arise between the book values under the historical cost method and fair value estimates.

The management believes that no such material risk as indicated above can be incurred.

**26- GENERAL:**

- a) The comparative figures have been reclassified to conform to the current year's presentation.
- b) The figures in the financial statements are rounded to the nearest Saudi Ryial.