



Dar Al-Arkan

Real Estate Development Company

Board of Directors Report

and

**The Annual Consolidated Financial
Statements**

For the Year Ending

31 December 2010

Table of Contents

0	Chairman Message.....	4
1	The Company's activities	5
	1.1 The Company's Subsidiaries.....	5
	1.1.1 Dar Al-Arkan Properties Company	5
	1.1.2 Dar Al-Arkan Projects Company	5
	1.1.3 Dar Al-Arkan Investment Company.....	5
	1.1.4 Dar Al-Arkan Sukuk Company.....	5
	1.1.5 Al-Arkan Sukuk Company.....	5
	1.1.6 Investments Defined by the Rules of CMA as Subsidiary Companies.....	5
	1.2 Description of the Company's Activities	5
	1.2.1 Real Estate Development:.....	6
	1.2.2 Property Management:.....	6
	1.2.3 Investment Activities:.....	6
2	Saudi Economy Overview	7
	2.1 Saudi Real Estate Sector Overview	7
	2.1.1 Historical Overview of the Saudi Real Estate Sector	8
	2.1.2 Housing Information and Indications of Kingdom Population.....	10
	2.1.3 Housing Demands in KSA	11
	2.1.4 KSA Mortgage Law Overview.....	12
	2.1.5 Positive Market Sentiment.....	13
	2.1.6 Uniqueness of the KSA Real Estate Market.....	14
	2.2 About the Company's Business Model	15
3	Main Project Accomplishments in 2010	17
	3.1 Al Qasr Project.....	17
	3.2 Al Qasr Mall Project.....	17
	3.3 Shams ArRiyadh Project	17
	3.4 Al Tilal Project.....	17
	3.5 Shams Al Arous Project	17
	3.6 Qasr Khozam Area Development Project.....	18
4	Major Strategic Decisions During the Year:	19
	4.1 Financing.....	19
	4.2 Fixed-to-floating Profit Rate Swap Agreement	19
5	The Strategy	19
6	The financial result.....	21
	6.1 The Income Statement Comparison for the Years 2006 to 2010	21
	6.2 The Balance Sheet Comparison for the Years 2006 to 2010	22
	6.3 Financial Ratios	23
	6.4 Results of Operations	24
	6.4.1 Revenues	24
	6.4.2 Cost of Revenue	24
	6.4.3 Selling, General, and Administrative Expenses	24
	6.4.4 Financing Charges	25
	6.4.5 Net Income	25
	6.5 Liquidity and Capital Resources	25
	6.5.1 Cash Flows	25
	6.5.2 Projects and Investment Expenditures	25

7	Dividend Policy	25
8	The Company's Financing Program	26
	8.1 Financing Strategy	26
	8.2 Trend of the Weighted Average of Total Financing Cost from 2007 to 2010:	26
	8.3 Indebtedness	27
	8.3.1 Repaid Debts During 2010	27
	8.3.2 Outstanding Debts at the End of 2010	27
9	Related Party Transactions	28
10	Risks Pertaining to the Company's Activities	28
11	Management and Administration	29
	11.1 Board of Directors	29
	11.2 Attendance Record of Board of Directors' Meetings During 2010:	30
	11.3 Remunerations Paid to the Board Members	30
	11.4 Board of Directors' Committees	30
	11.5 Remunerations and Indemnities Paid to Board Members and Top Executives	32
	11.6 Description of Any Interest of Board Directors and Top Senior Executives and Occurring Changes During 2010.	33
12	Corporate Governance	34
13	Internal Audit and Effectiveness of the Company's Internal Control Procedures	34
	13.1 Internal Control:	34
	13.2 The Internal Audit	34
14	Investor Relations	35
15	Corporate Social Responsibility	35
16	Human Resources	35
17	Statement of Regular Payments Due During 2010 with Brief Description of Items and Types of Payment	35
18	Appendix (a) Audited Consolidated Financial Statements	35

Board of Directors Report for the fiscal year ending 31/12/2010

To: Messrs/ Shareholders of Dar Al Arkan Real Estate Development Company Chairman Message

The Board of Directors of Dar Al-Arkan Real Estate Development Company “the Company” is pleased to submit its report on the performance of its operation and financial result for the year 2010.

Despite the continued repercussions of the financial crisis which extended to overshadow most of the world with varying degrees including the Gulf state countries during 2010, the Company was able to maintain profitability, timely honoring its financial obligations, achieving 3% growth rate on its shareholder equity, and paying dividend amount of SR 1,080 million, which represents 10% on capital as a dividend yield for the year 2009 distributed during 2010.

The Company succeeded in meeting its borrowing obligations, either by, timely payment of its borrowing costs due and payable on Sukuks' and Murabaha finance facilities or by prompt repayment of all its debts matured during 2010. In March, the Company repaid an amount of SR 2.25bn, the issuance value of its first Sukuk raised in the year 2007. In addition, we also have repaid an amount of SR50mn towards the first installment due on a long term Islamic Murabaha availed from a local bank. The continued success in timely repayment of all due debt without default or restructuring demonstrates the Company's commitment and ability to meet its borrowing obligations on time. During the year the Company also invested an amount of SR2.4bn to its current operating projects and real-estate investments. These accomplishments significantly contributed to enhance the trust on the Company's financial and managerial ability, proven success of its strategy, business model and funding programs year after year. The Company also managed to reinvest an amount of SR2.4bn in its current projects and other Saudi real-estate investments throughout the year.

Total revenue reached SR 4,142 million, compared to SR 5,464 million in 2009, representing a decrease of 24%. Revenues were mainly generated from land trading and residential unit sales. Cost of revenue stood at SR 2,378 million in 2010, or 57% of total revenue, compared to SR 2,957 million, or 54% of total revenue in 2009. Net income was SR 1,456 million for 2010 and SR 2,123 million for 2009. Earnings per Share for 2010 were SR 1.35 and SR 1.97 in 2009 representing a decrease of 31.4 %. Despite the decline in revenue and net profit during the year 2010 compared 2009, Profit margins remained at good levels.

At the operational level, the Company continued in the development of its current projects, Al Qasr, Al Qasr Mall, Shams ArRiyadh, Shams Al-Arouse, and Qasr Khozam. Each project will be discussed separately in the subsequent sections of this report. Furthermore, the Company continued to expand its business activities to include property management by retaining, as rental properties, certain commercial and residential units on its Master-Planned Communities. By retaining such units, management intends to create an income generating portfolio of rental properties that will help establish a more steady income stream and also to benefit from any potential appreciation in the value of such properties.

On the funding side, given the unique investment model the Company's follows in the Saudi real estate market and the corresponding intensive funding needs, the Company's funding strategy relies on a mix of funding sources for its projects and investments; first its own financial resources (cash flow generated from operations), and the second is external long term and medium term financing solutions which are in line with the various real estate products' life cycle. Within the context of executing this strategy and also to an extension of its Islamic Sukuk issuance program in the international and domestic debt markets, the Company succeeded in finalizing its fourth issuance of Islamic Sukuk in the international markets in February 2010, for the amount of SR 1.7 Billion.

The Company always seeks to improve its operations and implement its business model in a way that maximizes and protects the rights of shareholders and tap into the best investment opportunities available.

I'd like to conclude by extending my thanks to the respected members of the Board of Directors, respected senior management, respected Shareholders, and all our employees whose cooperation, dedication and meticulous performance had an appreciable role in support of the Company's success to be a main player in the real-estate sector in the Kingdom. God bless.

1 The Company's Activities

Dar Al Arkan Real Estate Development Company, is a Saudi Joint Stock Company started its business in 1994 under Commercial Registration No. 1010160195 and converted to a joint stock company in 2005 under Ministerial decree number 1021 dated 10/06/1426 H, corresponding to 17/07/2005 G. The Company operates solely in the Kingdom of Saudi Arabia and its main activity is real estate development. The Company established a number of companies with limited liability in order to facilitate the achievement of its strategic objectives.

1.1 The Company's Subsidiaries

1.1.1 Dar Al-Arkan Properties Company

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

1.1.2 Dar Al-Arkan Projects Company

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).

1.1.3 Dar Al-Arkan Investment Company

Dar Al-Arkan Investment Company is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010247585, dated 28/3/1429 H (corresponding to 5/4/2008 G). It operates in purchase and acquisition, lease of real estate investments.

1.1.4 Dar Al-Arkan Sukuk Company

Dar Al-Arkan Sukuk Company is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010256421, dated 16/9/1429 H (corresponding to 16/9/2008 G). It operates in Real Estate investments and development.

1.1.5 Al-Arkan Sukuk Company

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

1.1.6 Investments Defined by the Rules of CMA as Subsidiary Companies

Unicorn Capital Saudi Arabia (UCSA) - The Company owns a stake of 34% of Unicorn Capital Saudi Arabia "UCSA". UCSA is licensed by the Saudi Arabia's Capital Markets Authority to deal as principal and agent (except for the implementation of marginal deals), underwriting, management, arrangement and financial advisory services, Unicorn Capital Saudi Arabia is a closed Joint Stock Company, registered in Riyadh under commercial registration No. 1010264915 dated 27/3/1430 AH (corresponding to 3/24/2009).

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

1.2 Description of the Company's Activities

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

1.2.1 Real Estate Development:

This segment concentrates on the sale of residential and commercial properties as well as the sale of land to investors and developers. During the fiscal year 2010 the sale of residential and commercial units accounted for SR 377 million, that is 9.1% of the Company's total revenues compared to SR 519 million, 9.5% in 2009. The earnings from the sale of land, on the other hand, added SR 3,765 million accounting for 90.9% of the Company's

total revenues in 2010 compared to a value of SR 4,945 million (90.5%) of 2009 revenues.

1.2.2 **Property Management:**

This segment consists of investment properties that generate rental income. Its main activity is the development and acquisitions of commercial and residential real estate. It provides the management, operation and maintenance of residential and commercial buildings and public facilities. The property management revenues are derived from rental income generated by investment properties, as well as income earned from the management, operation and maintenance of residential and commercial buildings and public facilities. During 2010 there was no significant revenues had been generated from property management

1.2.3 **Investment Activities:**

This segment focus on making strategic investments in companies that management believes is complementary to Dar Al-Arkan's real estate development operations. During 2010 such investments had no significant impact on the Company's net profits where the contribution of these investment activities accounted for less than 1% of net profit.

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

2 Saudi Economy Overview

KSA is the MENA Region Economic Heavy Weight

KSA is the largest economy in the MENA region with significant oil reserves and sovereign wealth

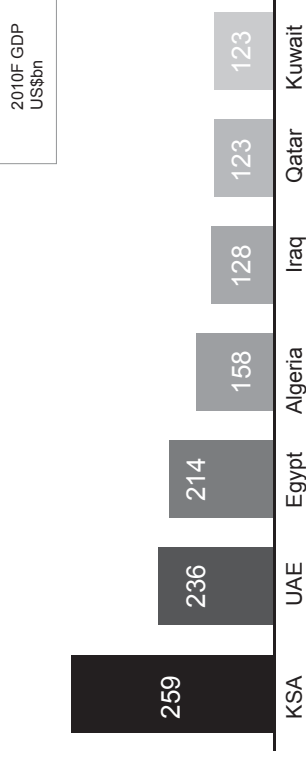
Macro Snapshot(1)



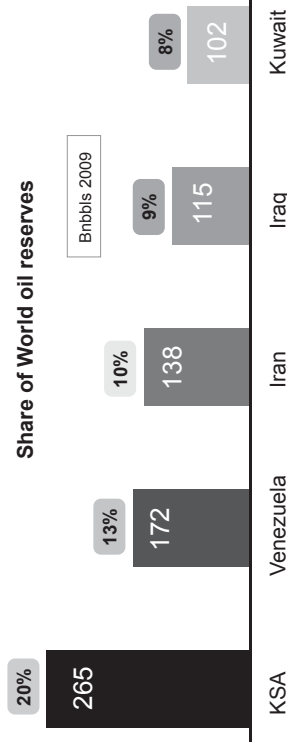
	2009	2010E	2011F
Nominal GDP (US\$bn)	367	438	476
(Banks Deposits (US\$bn)	257	252	NA
Real GDP Growth	0.6%	3.8%	3.9%
(Population (m	26.3	27.1	27.9
(\$GDP per head (US	22,574	22,850	23,513
Inflation	5.1%	5.4%	6.3%
(Current Account (US\$bn	23	70	68
(Int. Reserves (US\$bn	410	463	506
Deposit Rate	0.6%	0.5%	0.8%

- KSA is the only G20 country in the MENA region
- Ranked 11th in the World Bank's "Ease of Doing Business" Index 2011

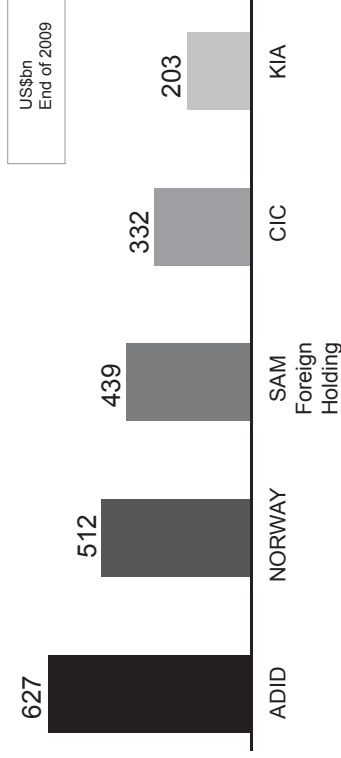
Largest economy in the MENA region(2)



With the largest oil reserves(3)



3rd largest SWF worldwide(4)



1- Economist Intelligence Unit
2- Global Insights
3- BP Statistical Review 2010
4- SWF Institute.

2.1 Saudi Real Estate Sector Overview

2.1.1 Historical Overview of the Saudi Real Estate Sector

Pre the 1960s, the real estate structure of the Kingdom was characterized with a concentration of population in rural areas and scattered tribal territories rather than in urban areas. At the time, population of current major cities was merely in the thousands.

During 1960s, the Kingdom produced oil as a large-scale commodity, followed by an adoption of development plans where the government of King Faisal launched the first five-year development plan. Since then the Kingdom began an urbanization era where more rural inhabitants started to migrate towards urban centers where health, education and infrastructure services were made available thanks to the development plans.




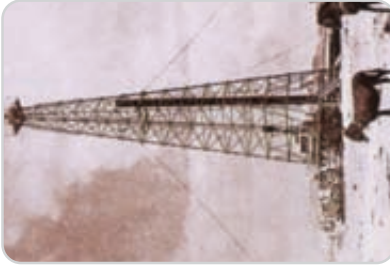



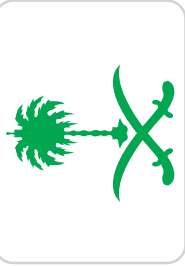


The 1970s witnessed waves of migrating rural and tribal population towards the urban centers where big cities grew. During this decade a baby boom was also experienced where the average family size reached 6.5 members, accompanied by an oil boom raising the family income and pushing the government to expand its development plans. Such development plans included undergoing urban and regional planning, improvement of living conditions in cities and villages furnished with services and facilities, land granting plans, establishment of the Real Estate Development Fund (REDF) to lend interest-free loans for construction of houses contingent on land ownership. During 1980s, with the setbacks in international oil prices and the increasing population growth which pushed up demand for houses, the REDF became no longer capable of meeting all loan applications. This led to narrowing of opportunities in the real estate market, especially for the low and middle-income categories in the market. By the end of 2009 more than 650,000 loan applications were on a waiting list at REDF.

In 1990s the government began to encourage the private sector to engage into the real estate sector shifting its role as a provider to a regulator and facilitator for the works of the private sector and limiting its grants to the low-income category of loan seekers by supporting the functioning of REDF. On the other hand, small-scale real estate developers emerged involving in the business of land development and residential projects.

In the decade of 2000s a gap between supply and demand grew in the real estate sector as producers failed to meet the increasing demand for housing. Under this situation the Ministry of Economy and Planning, in collaboration with the concerned government agencies and consultancy firms, began to prepare a housing strategy to diagnose the nature of the current and future housing demand, determine its size, and establish the appropriate mechanisms to meet this demand, particularly of the targeted categories. Also the government started to prepare the mortgage legislation packages, which is expected to be passed very soon. As well as the emergence of comprehensive urban development and master plans trend.

KSA Real Estate History

The KSA real estate history relates the story of a country urbanizing at exponential growth

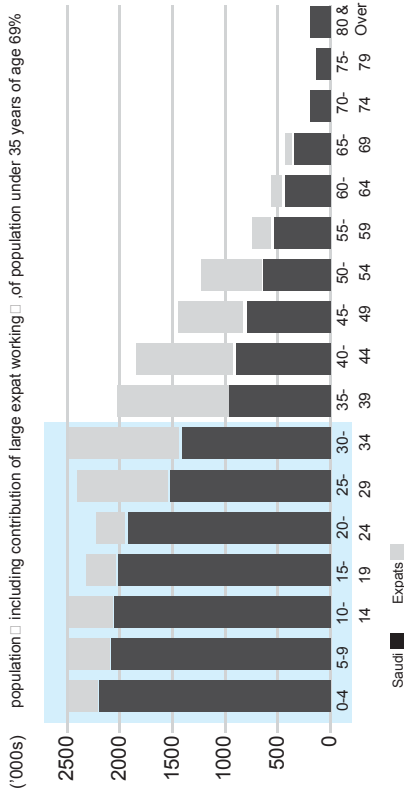
Pre 1960s	1960s	1970s	1980s	1990s	2000s
<ul style="list-style-type: none"> ■ Small and highly scattered population ■ Lower urbanization   	<ul style="list-style-type: none"> ■ High oil production ■ Basic living conditions ■ Improved through availability of: <ul style="list-style-type: none"> ■ Health Care ■ Education ■ Infrastructure ■ Main cities attracted the scattered population 	<ul style="list-style-type: none"> ■ The KSA baby boom ■ Average household size 6.5 ■ King Faisal introduced the first Five-year Development Plan ■ Mass migration to major cities ■ Government wealth plans: <ul style="list-style-type: none"> ■ Land grants ■ Interest-free loans (US\$80,000) (through REDF) contingent on land ownership  	<ul style="list-style-type: none"> ■ Oil price shock ■ Increasing housing demand ■ REDF not able to meet demand (currently, more than 650,000 applications in the waiting list) 	<ul style="list-style-type: none"> ■ Government supported Private sector ■ Government to act as regulator and facilitator as opposed to provider 	<ul style="list-style-type: none"> ■ Small-scale real estate developers emerged ■ Land development trend  

2.1.2 Housing Information and Indications of Kingdom Population

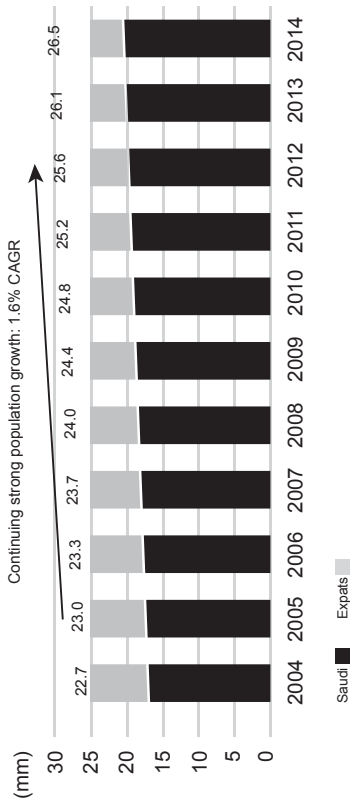
A Favourable Demographic Make-up

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

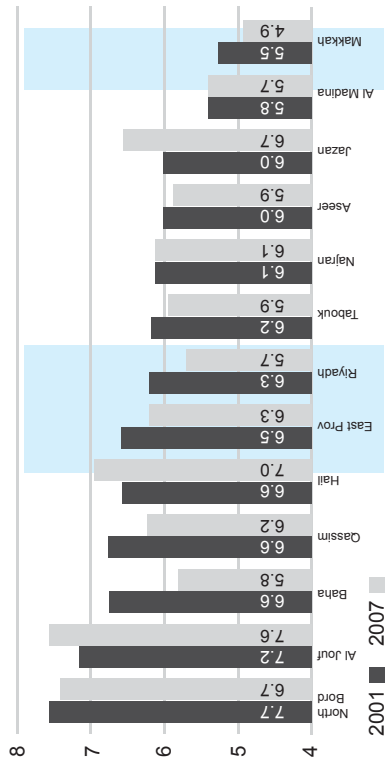
Population Distribution by Age Group (1)



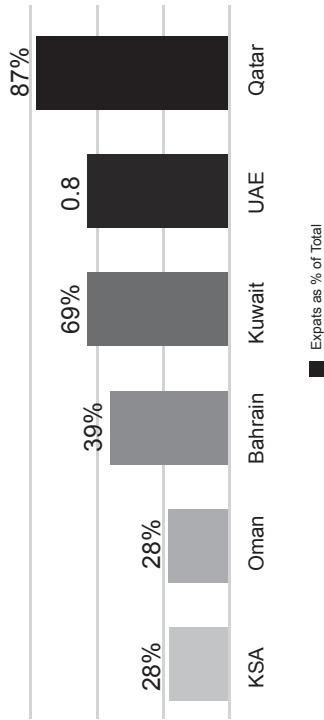
Population Growth Forecast (2)



Declining Household Size(3) Supporting Increased Demand



Expats as % of Total Population (2009) (4)

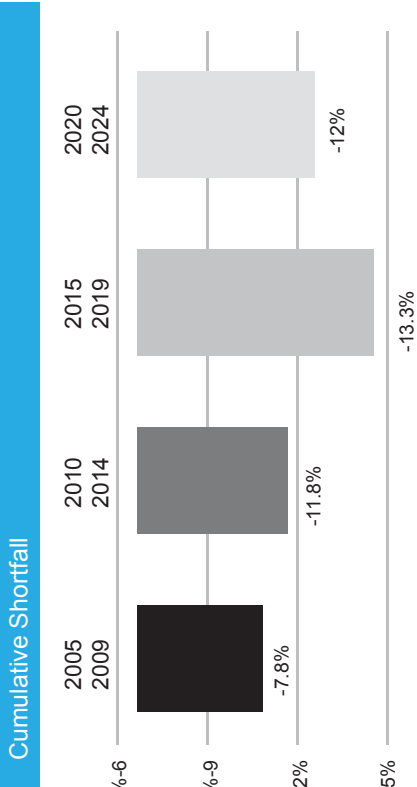
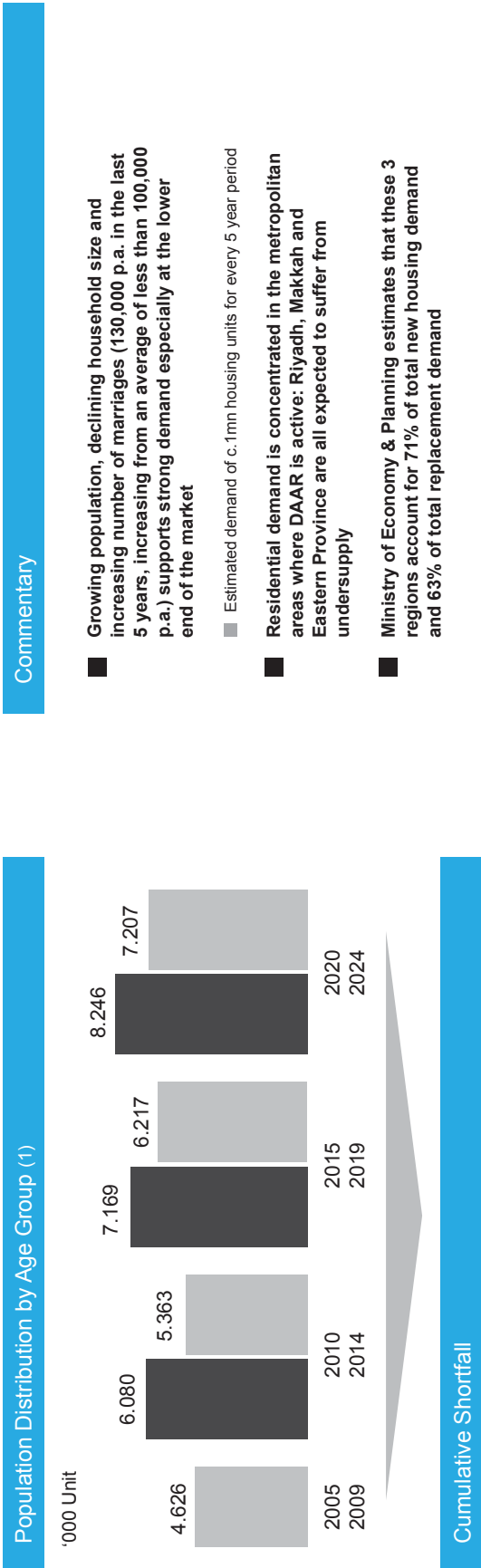


1- Central Department of Statistics and Information, Ministry of Economy and Planning, Mid-2008 Estimates
2- Central Department of Statistics & Information, MEP 8th Development Plan; IMF, World Economic Outlook Database
3- Central Department of Statistics & Information, Survey 2007, 2001.
4- World Bank, Migration & Remittances Factbook 2011.

2.1.3 Housing Demands in KSA

Leading to Significant Demand-Supply Forecasts

Ongoing supply shortfall forecast in residential units



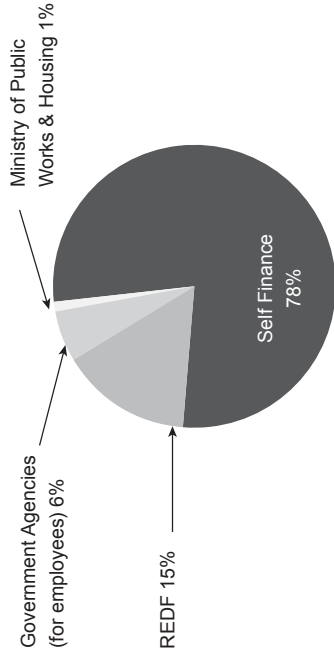
Source: "Housing Requirements", Ministry of Economy & Planning

2.1.4 KSA Mortgage Law Overview

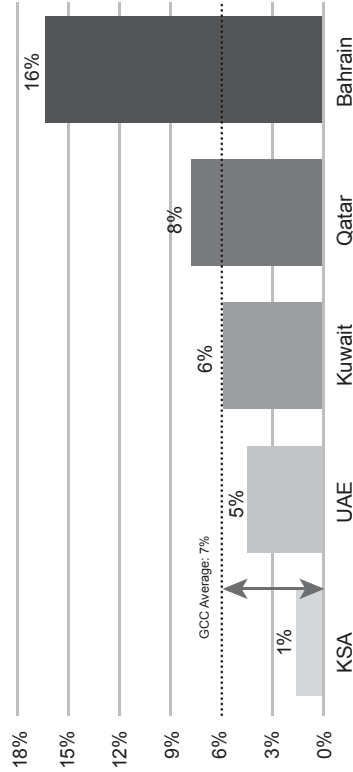
KSA Mortgage Market is in its Infancy

Market demand still suppressed by limited mortgage availability in the Kingdom

Financing of Housing Units



(%) Mortgage to GDP



Commentary

- Government's Real Estate Development Fund (REDF) is the main provider of home financing
- REDF is not able to meet demand (650,000 applications in waiting list as of end 2009, up from 450,000 in 2006)
- Majority of home buyers self finance – this also leads to a lack of ready-to-occupy units. As a result home buyers purchase land with basic infrastructure and either self develop or appoint small contractors
- The new mortgage law will serve as a key catalyst driving demand for real estate and is expected to be announced in 2011
- Mortgage market expected to reach US\$23.1bn, within 3 years of the law being enacted, an increase from 1% to 4.4% of GDP
- Potential to increase personal leverage available with consumer loan to deposit stands at 28%, as of Q3 2010 (2)
- A recent amendment to the real estate and investment law now allows foreign residents to own properties in the Kingdom
- Local companies are reportedly providing mortgages to expatriates(3)
- The expected legislation will address:
 - Lending limit restrictions (longer tenors/higher limits)
 - Lenders recourse (ability to prosecute delinquent borrowers)
 - Foreign ownership
- The Shoura Council passed a mortgage law almost a year ago; the same has been returned back to the Council for final review, after which Council of Ministers will discuss it and forward to the King for passing of the law

DAAR has historically been closely involved in providing guidance to KSA authorities given its long experience with Kingdom Installment Company first and recently via its 15% investment in Saudi Home Loans Company

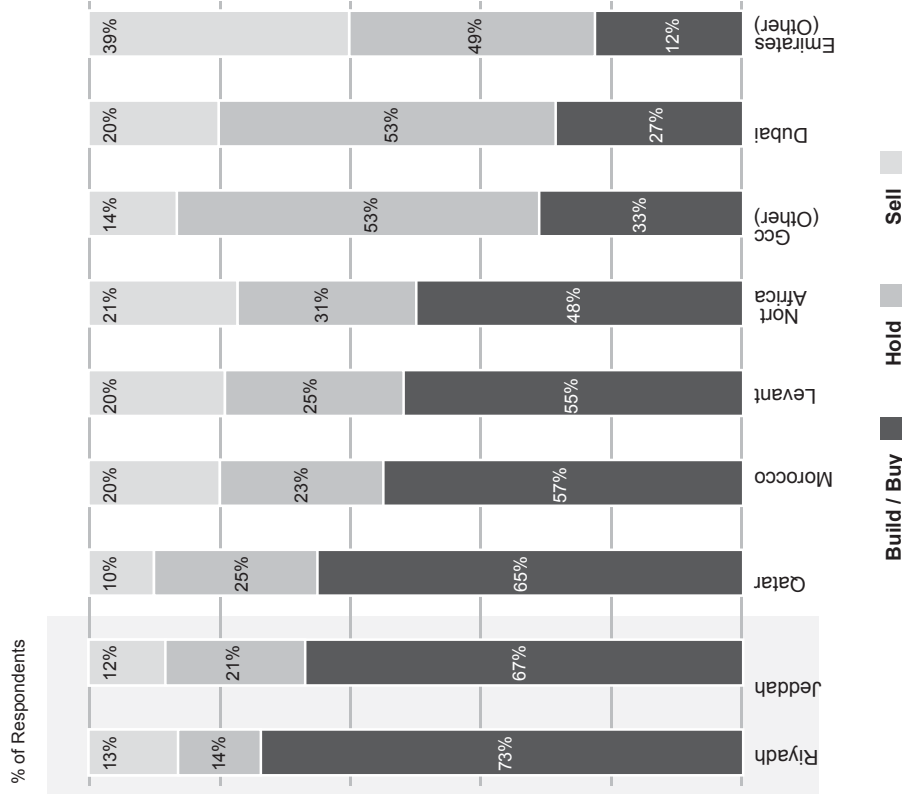
Source:
1- Ministry of Economy & Planning
2- Sama annual report
3- Press reports

2.1.5 Positive Market Sentiment

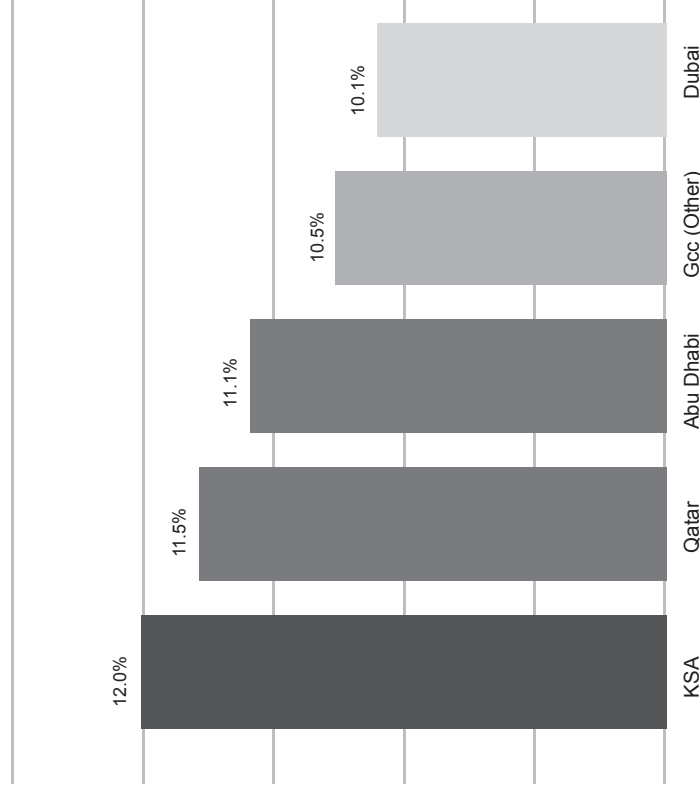
Positive Market Sentiment

Real estate investors with a regional focus are most upbeat on the KSA market

Middle East Real Estate Investor Intentions



Middle East Real Estate Yield Expectations



Source: Jones Lang LaSalle Real Estate Investor Sentiment Surveys, October 2010

2.1.6 Uniqueness of the KSA Real Estate Market

Uniqueness of the KSA Real Estate Market

The KSA real estate exhibits significant structural differences when compared to other the real estate markets in the MENA region:

Market Structure Factors

Foreign ownership

- Unlike other GCC countries (UAE, Bahrain, Qatar) real estate foreign ownership is not allowed in KSA
- Consequently less 'hot money' in the sector and less volatility caused by speculative capital flows
- Investment decisions driven more by local investor sentiment and by real demand from a growing number of KSA households

Financing structure

- Newcomers to the market face intensive capital needs given lack of financing options:
 - Limited appetite within domestic banks to finance real estate projects
 - Limited mortgage availability
 - Limited pre-sale opportunities

Market Structure

- Limited number of large scale developers; market is dominated by small developers / contractors
- Supply side consequently constrained – oversupply seen in other regional real estate markets does not exist in the KSA market

Investor Behavioral Factors

Store of Wealth

- Driven by stable long term returns over the past 40 years; real estate is seen as a stable asset class for Saudi investors
- Limited investor sophistication and investment alternatives means preference for hard assets over financial market securities; [particularly given historic limitations of local equities]

Sharia Compliance

- Investor preference for Sharia compliant investment products, illustrated by a large percentage of non-interest bearing deposits in the KSA banking system (66%)(1)
- Real estate is the main alternative for investors seeking steady returns that are Sharia compliant

Limited Leverage

- Real estate assets held for investment (whether land or developed properties) typically not levered, particularly residential assets
- Limited need to sell in bear markets resulting in lower price volatility

The KSA real estate market benefits from unique structural factors compared to other real estate markets in the MENA region

2.2 About the Company's Business Model

The Company is engaging an unconventional unique business model in the Saudi real estate market based on the idea of "creating the value and capturing it" and not leaving it to others in a market of large-scale economies. Hence, the Company invests billions of Riyals in any project until it satisfies that condition of creating a value and acquiring it, where the Company ensures that the raw land of the project is bought at a lower price that increases with the development of the land by provision of services, completion of infrastructure, construction of buildings and the comprehensive development of a unique urban community. This development model dominates all company projects which are implemented in big cities where the purchasing power is capable of absorbing the Company's costly projects.

The Company's current model conceptually goes beyond the mere trading in lands and selling of real estate products. It also aims to the augmentation of company's assets and profits through time relying on self-financing (reinvestment of cash yields from its operations) as well as on external lending sources.

Islamic borrowings constitutes a main financial source that enables the Company to expand its investments, redouble production cycles and reduce their duration, which in its turn will boost profitability and enhance the return on shareholder equity.

In fact, the Company has succeeded to finance its projects by all means of funding from internal and external sources and getting the utmost of its investment model in the present and future. The Company began with trading in raw land, then developing that land by providing for infrastructure, then developing raw land assigned for the construction of houses, till reaching the stage of master- planned communities' developments.

Dar Al Arkan Snapshot

The largest real estate developer in Saudi Arabia with operations spanning three main sectors

Overview

- Dar Al Arkan purchases undeveloped land in major urban centres at attractive terms on a large scale, developing the infrastructure and selling the developed land at a significant premium
- Land development consists of:
 - A land bank focused on the main major cities around the kingdom.
 - Qasr Khozam, a JV with the municipality of Jeddah to redevelop c.4mn m2 of the city of Jeddah over 2010-2015. Dar Al Arkan's involvement is limited to the land development phase
- The land bank is principally located in Jeddah and Riyadh with the rest being in Dammam, Al Madina and Mecca

Land Development

- Arkan is best positioned to service the mid market (priced from c.US\$100,000 – 500,000) segment in KSA
- Four major projects under development:
 - **Al Qasr** (including retail): Riyadh based; 254 villas, 2,800 apartments of which 225 units remain unsold.
 - **Al Tilal**: Medina based; 499 villas of which 48 villas remained unsold
 - **Shams Ar Riyadh**: Riyadh based; 2,694 villas expected to be completed by 2015
 - **Shams Al Arous**: Jeddah based; mixed use residential project with 10,000 units expected to be completed by 2016

Residential Development

- Dar Al Arkan is developing an investment portfolio by retaining some of its properties for future rental income
- Investment portfolio will primarily include retaining retail space and certain residential properties for its own portfolio
- Currently the Investment portfolio includes residential and commercial (retail and office) assets for rent at Al Qasr

Investment Portfolio

Shifting Market Trends

- Dar al Arkan has historically focused on high margin land sales given its large land bank
- Shifting market dynamics and the need for residential units is driving Dar al Arkan to focus on residential developments as well as building an investment portfolio
- Driven by the stable nature of the investment portfolio cash flows, Dar Al Arkan will seek to significantly increase its share of recurring revenues from rental properties

Source: Dar Al Arkan

3 Main Project Accomplishments in 2010

3.1 Al Qasr Project

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

The completed residential units in the project are being sold, where, by the end of 2010, 1,508 of these units (including 1,369 apartments and 139 villas), out of 1,733, were sold, constituting 87% of the totality of units set for sale. The majority of the remaining units (115 villas and 110 apartments) are planned to be sold during 2011.

On the other hand, the Company has retained some residential units as rental properties including 1,318 apartments with a net rental space of 158 square meters of each apartment. In addition to all of the commercial space on the ground levels of apartment buildings that overlooks the project's main streets, and office building. This is part of the Company's strategy to have a portfolio of income-generating assets. Leasing of those units began during 2010 with an expectation of high proceeds earned from these rental properties during 2011 onwards.

3.2 Al Qasr Mall Project

Adjacent to Al Qasr residential and commercial project along Al-Suwaidi Main Street, the Company is currently executing its first commercial mall on a land area of 65,000 square meters and a lease space of 78,000 square meters. The mall consists of four levels, a parking zone in the basement. The tenant mix will include department and retail stores, cafes, restaurants, fun zone, a hypermarket, and retail and wholesale stores. The Company plans to retain the mall as investment rental property. By the end of 2010, 84% of the construction was accomplished. Completion and inauguration is scheduled during the second half of 2011. Commencement of signing lease contracts of the commercial space is expected in the beginning of 2011. In this context, it is worth mentioning that the Company has signed a leasing agreement for the hypermarket leasable area with the Saudi Hypermarkets Co. (Carrefour).

3.3 Shams ArRiyadh Project

The project occupies a land area of 5 million square meters north of Riyadh accommodating a blend of 2,694 villas with a variety of designs. The project also includes 481,000 square meters of developed land for commercial use with a built up area of 3 million square meters with 10 to 25-storey buildings.

The development operations at Shams ArRiyadh began as early as the end of 2008, where construction of infrastructure works went on during 2009 and 2010. But due to the delay in installing water and other utility services to the project, the vertical construction was rescheduled upon availability of all services. Utility services are scheduled to begin in 2012 and completed by the end of 2013. This is part of the financial engineering of the project by making the best utilization of company's cash.

Meanwhile, work is ahead to complete the development of infrastructure at the project which will go hand-in-hand with the vertical construction for the different project phases. The commencement of the first phase of building 500 villas is expected during 2011.

The project holds an investment value of SR 5.8 billion, with 28% of works completed at the end of 2010.

3.4 Al Tilal Project

The project is located in southern Madinah, falling within Alharam zone boundaries, 7 km from the Prophet Holy Mosque. The master-planned project extends over an area of 2.2 million square meters, consisting of 499 villas built on an area of 170,000 square meters. The rest of the project area constitutes a developed land. The construction of villas was 100% completed by the end of 2009. Till the end of 2010, 451 villas were sold and the remaining 48 units are planned to be sold during 2011.

3.5 Shams Al Arous Project

The project is located east of Jeddah extending eastwards along Palestine Street over an area of 3 million square

meters of land assigned for a master-planned community. It will include more than 10,000 residential units equipped with all public facilities providing for a unique living experience. It is planned to be an enchanting place with resorts and leisure areas, public and amusement parks. In addition to that, there will be shopping and office centers, restaurants, schools and mosques.

During the first quarter of 2010, some improvements on the master plan were proposed by the Company and discussed with the Municipality of Jeddah. These improvements add value to the investment in the project. The Company obtained permission from the Municipality to link the project with Palestine Street (a famous commercial street in Jeddah). Work on a 52 meter wide and 4 km long road was immediately started. By the end of 2010, the link road was completed. Furthermore, permission was obtained from authorities to raise the building area constructed for most of the project by 100%, thus increasing the licensed building construction levels to 7 stories high. As for the remaining part of the project, obtaining similar licensing is in process.

The project is scheduled to be completed within a time span of 5 years. Construction works for the first phase are expected to start during 2011 for the building of 2,000 residential units. The total investment value in the project is estimated at SR 7.5 billion with the first phase consuming SR 1.5 billion of that amount. The Company has not yet decided about the commercial and residential units to be retained for lease as the matter is still under study.

3.6 Qasr Khozam Area Development Project

Qasr Khozam project is the largest rejuvenation project for scattered developments in Jeddah city and the first Public and Private Partnership (PPP) project of its kind. The project will enable the Company to contribute to the attainment of growth objectives where Qasr Khozam will offer a stable, healthy and safe living environment, while blending tradition and culture. This monumental undertaking is destined to strengthen social bonds and raise the standards of living in Jeddah and its surrounding vicinities. The project accommodates several strategic landmarks including the ancient Qasr Khozam and the headquarters of the Islamic Development Bank as a financial center in the heart of the project. Also, a government-owned land assigned for the construction of a permanent headquarters for the Organization of the Islamic Conference.

The project is strategically located in the south east zone of Jeddah central downtown district, within easy reach of Jeddah port and Al Balad district, covering an area of 4.0 million square meters of land. These scattered properties need to be demolished and the project objective is to develop the land basic infrastructure according to world class highest quality standards. The estimated cost of the project is SR 12 billion. For the implementation of the project "Khozam Estate Development Company", a limited liability company, was established as a joint venture between Dar Al Arkan (51%) and Jeddah Municipality (49%) represented by Jeddah Development and Urban Regeneration Company. By virtue of this partnership many phases of the project were processed including technical and legal formalities for the preparation of evaluation sheets and screening lists, detailed and topographical survey of the estates (100% completion), full updating of geographical data, collection and receiving of deeds for 65% of properties in the area. Khozam Company, on the other hand, has prepared and submitted the sheets and screening lists for the properties to be developed, waiting to receive the evaluation lists prepared and approved by the competent authorities.

At the level of the master plan and the technical studies for the infrastructure works, a specialized consultancy firm has been assigned to undertake the designing of the project's infrastructure. Furthermore, preliminary meetings were held with all concerned parties (Jeddah Municipality, Saudi Electricity Company, and National Water Company) to discern the technical requirements that coincide with the criteria held by those concerned parties so as to determine the designing standards accordingly. Initial approval was obtained from the Ministry of Municipal and Rural Affairs whereby the project master plan was initially approved by Jeddah Municipality and the approved master plan was received by Khozam Dev. Co. on 30/03/2010.

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

4 Major Strategic Decisions During the Year:

4.1 Financing

To ensure sustainable growth, projects expansion and operations through medium and long term financing solutions fully compliant with the Shariah Law, on 18th February 2010 the Company successfully closed its fourth issuance of Islamic Sukuk denominated in US Dollar at a value of SR 1.7 billion (USD 450 million) with five-year maturity due for repayment in Feb. 2015 issued with an annual Coupon rate of 10.75% fixed, and payable on half-year basis. Amid the global financial crisis and its aftermath and repeated failure of big business groups in the region to meet their commitments towards investors, caused the financing cost witnesses a drastic rise in unsecured debt market which pushed the cost of the Company's fourth Sukuk issuance to a higher level comparative to the cost of previous issuances. Nonetheless, the average of total financing cost on the Company remained at a normal rate of 5% during 2010 with an expectation of a modest rise to 5.4% in 2011.

By and large, this issuance of Sukuk is to be considered the first 144A bond issued by a Saudi firm, and the only issuance closed by a private company in the Middle East given the failure of major businesses in other countries to meet their commitments towards creditors.

The Company's Board of Directors had approved the issuance of the fourth Sukuk as mandated by the resolution taken by the ordinary meeting of the general assembly held on 13/10/2008. It is worth mentioning that the success of the Company to close the fourth issuance of its Islamic Sukuk amid the aftermath of the recent global financial crisis and the lack of availability of local banks credit reveals the trust in company's credibility among investors and business community.

4.2 Fixed-to-Floating Profit Rate Swap Agreement

In view of the Company's strategy to slash financing cost and, subsequently, improving the return on shareholders' equity, the Company has concluded a Shariah-compliant fixed-to-floating profit rate swap agreement, in June 2010, to the extent of 50% of its recently issued fourth Sukuk issuance amounting to SR 1.7 billion placed to the international capital markets in 2010.

This profit rate swap agreement will reduce the coupon profit rate on SR 844 million from the issuance fixed coupon rate of 10.75% to 3 months SAIBOR+7.95% which helped the Company to reduce the average financing cost during the year 2010 to 9.6% and also slashing the overall average cost of borrowings for the year 2010 from 5.25% to 5%.

This transaction comes in line with the Company's strategy to reduce its cost of financing by benefiting from the current available lower rates, and, at the same time, maintains its right to annul this agreement whenever SAIBOR rate rises to levels considered by the Company as unfair to the benefits of its shareholders and its prospective strategy.

However, the Company continues to closely monitor the occurrences in the local and international capital markets and interacts to the market by seeking best financing options for its projects and also to boost its credibility position in support of its financial strategy for expansion and investments.

5 The Strategy

The Company's strategy aims to diversify its operational and investments activities to reduce the investment risks and secure regular and renewable sources of revenues that will improve return to shareholders.

During the year 2010, the Company continued the execution of its developments by providing affordable quality housing for the middle income class as well as managing its projects pipeline in terms of announcement, launch, production and marketing in order to support the Company's future growth. The Company focused in implementing its strategy as a master-planned community developer and multi-project company. The Company concurrently engaged with different projects whereby ensures each of such projects being at a certain phase at a given time; "concept, study, designing, licensing, launching, completion of master plans, qualifying and confirming of contractors, implementation, and selling."

The Company has begun to expand its business by including property management by retaining, as rental properties, certain commercial and residential units on its master-planned communities. By retaining such units, management intends to create an income generating portfolio of rental properties to establish a more steady revenue stream and also to benefit the Company from any potential appreciation in the value of such properties.

The Company continued to make strategic investments in businesses complementing real estate development operations and management intends to continue to consider strategic investments in the future.

The management will continue to refine and enhance the way of allocating capital guided by its strategy, whilst considering current market opportunities. We will also leverage our Master-planned communities' development, Real-estate related investment, and property management skills to achieve our future growth. Our future pipeline of future projects will require increasing our production scales, capability and reliability.

Business Strategy: Retain Market Leadership Position

Dar Al Arkan has formulated a clear strategy that will allow it to maintain its leading position in the KSA market

Dar al Arkan Focus

Drivers

Housing developments and master planned residential communities in targeted areas for development in the major cities of the kingdom



Strong market knowledge ; fragmented and under-supplied residential market and strong urbanisation trend

Target middle income housing segment



Largest and fastest growing segment in KSA

Build a portfolio of rental properties to diversify into more recurrent earnings



More stable cash flows and higher yields as a result of diversification into rental portfolio

Cost efficiency



Partnership with Turner International enabled transfer of technology – significant competitive advantage

Land and residential projects will go “hand in hand” to allow for greater flexibility and sustainable growth

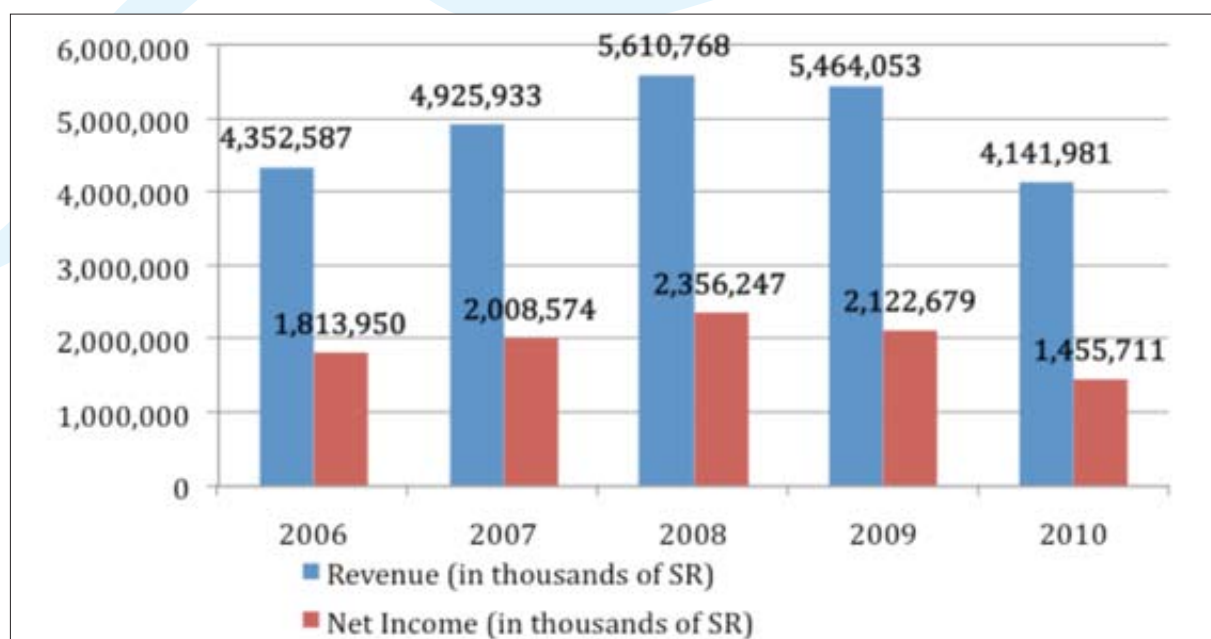
6 The Financial Results

Included in this report, in Appendix I, are the consolidated financial statements for the year ending 31/12/2010 and the two Public Accounting firms reports on the Company accounts - Bakr Abulkhair and Associates and Deloitte & Touche (Talal Abu-Ghazaleh and Associates). The Board of Directors undertakes that the books of accounts have been maintained properly and there is no departure from the accounting standards issued by the Saudi Organization for Certified Public Accountants – SOCPA.

6.1 The Income Statement Comparison for the Years 2006 to 2010

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

Item (in thousands of SR)	2010	2009	2008	2007	2006
Revenues	4,141,981	5,464,053	5,610,768	4,925,933	4,352,587
Cost of revenues	2,377,724-	-2,956,916	-2,765,587	-2,517,925	-2,229,875
Gross Profit	1,764,257	2,507,137	2,845,181	2,408,008	2,122,712
Principal activities expenses	-146,599	-186,292	-199,555	-137,913	-72,211
Net income from principal activities	1,617,658	2,320,845	2,645,626	2,270,095	2,050,500
Financing expense	-214,311	-146,230	-245,850	-278,079	-
Net Other Income	79,364	-1,936	16,894	45,149	33,667
Net Income before Zakat provisions	1,482,711	2,172,679	2,416,670	2,037,165	2,084,167
Zakat provisions	-27,000	-50,000	- 60,423	-28,591	-270,217
Net Income	1,455,711	2,122,679	2,356,247	2,008,574	1,813,950
Earnings Per Share	1.35	1.97	2.18	1.86	1.68



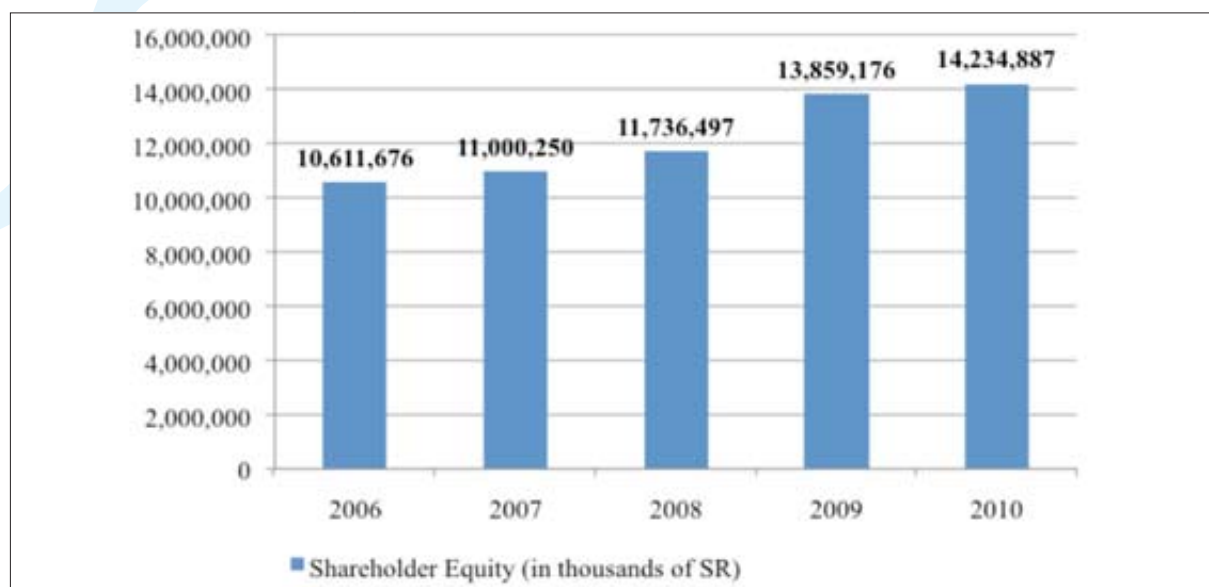
Total Revenue and Net Income changes 2006 to 2010

6.2 The Balance Sheet Comparison for the Years 2006 to 2010

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

6.2.1.0.1	Item (in thousands of SR)	2010	2009	2008	2007	2006
Assets						
	Current Asset	3,868,815	4,268,981	4,727,599	7,238,189	11,426,001
	Non-current Asset	19,389,020	19,232,496	15,316,591	10,975,542	90,022
	Fixed Asset	91,026	102,933	119,790	160,596	165,565
	Total Asset	23,348,861	23,501,477	20,163,980	18,374,327	11,681,588
Liabilities						
	Current Liabilities	2,157,558	3,793,853	2,419,594	1,369,602	1,066,760
	Non-Current Liabilities	6,691,675	5,583,707	6,007,889	6,004,475	3,152
	Total Liabilities	8,849,233	9,377,560	8,427,483	7,374,077	1,069,912
Shareholders' Equity						
	Capital	10,800,000	10,800,000	7,200,000	5,400,000	5,400,000
	Statutory reserve	607,768	462,268	3,600,000	3,242,254	3,242,254
	Retained earnings	2,827,119	2,596,908	936,497	2,357,996	1,969,422
	Total shareholders' Equity	14,499,628	13,859,176	11,736,497	11,000,250	10,611,676
	Total Liabilities and shareholders' Equity	23,348,861	23,501,477	20,163,980	18,374,327	11,681,588
	Book value per share*	13.43	12.83	16.30	20.37	19.65

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



Shareholders equity changes from 2006 to 2010

6.3 Financial Ratios



Repayment of Sukuk 1 in 2010 has reduced current liabilities, thus improving the ratio significantly.



Repayment of debt higher than debt raised, resulted in drop in total liabilities, improving the asset cover marginally.



Repayment of Sukuk 1 and continued profitability during 2010 resulted in marginal improvement percentage of equity to total liabilities.



The drop in volumes and gross margin on land sales during 2010 is marginally lower than what was recorded in 2009.



The drop in volumes and gross margin on land sales and residential units sales during 2010 resulted in marginally lower net margin compared with what was recorded in 2009.



The Company continued profitability during 2010 marginally improved the percentages of retained earnings and statutory reserve compared to equity capital.

6.4 Results of Operations

The following table compares the results of operations for 2010 and 2009.

Item (in thousands of SR)	2010	2009	Change (+or -)	Change%
Revenues	4,141,981	5,464,053	-1,322,072	-24.20%
Cost of revenues	-2,377,724	-2,956,916	-579,192	-19.59%
Gross Profit	1,764,257	2,507,137	-742,880	-29.63%
Principle activities expenses	-146,599	-186,292	-39,693	-21.31%
Net income from principle activities	1,617,658	2,320,845	-703,187	-30.30%
Financing charges	-214,311	-146,230	68,081	46.56%
Net Income before Zakat provisions	1,482,711	2,172,679	-689,968	-31.76%
Zakat provisions	-27,000	-50,000	-23,000	-46.00%
Net Income	1,455,711	2,122,679	-666,968	-31.42%
Earnings Per Share	1.35	1.97	-0.62	-31.47%

6.4.1 Revenues

Total revenues were SR 4,142 million in 2010, compared to SR 5,464 million in 2009, representing a decrease of 24%. The decrease is mainly due to 27.5% and 23.9% decrease in residential properties sales and land sales respectively, which mainly attributable to fewer residential units availability coupled with softening of demand witnessed in land sales during 2010.

Revenues from the sale of residential properties were SR 377 million in 2010, a 27.5% decrease from the SR 519 million for 2009. The revenue decrease is mainly due to the lower number of units sold in 2010 which stood at 450 units compared to the 974 units sold in 2009 as we had fewer units available in 2010. The average selling price per unit during 2010 reached SAR 837,069 compared with 533,184 during 2009; an increase of 57%, this increase is related to the types of units sold. In 2010 most of the units available were villas, whilst in 2009; we still had a significant amount of apartments being delivered.

Revenues from the sale of land were SR 3,765 million in 2010 compared to SR 4,944 million in 2009, representing a 23.9% decrease. This decrease is mainly due to the number of square meters sold as 6.6 million of square meters were sold in 2010, compared to 8.5 million in 2009. The average selling price per square meter during 2010 was SAR 567 compared to SAR 582 during 2009, a decrease of 2.5%. This decrease is a result of lower selling price generated on land sales due to the geographical locations.

The sale of land to developers and investors is influenced by series of factors, including the overall economy of the kingdom. These factors could delay the timing of the sales of land as we assess these on a return on investment basis. It was difficult to determine whether these factors will have an impact on the sale of land.

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

6.4.2 Cost of Revenue

Cost of revenue reached SR 2,378 million in 2010, or 57.4% of total revenues, compared to SR 2,957 million, or 54.1% of total revenues, in 2009. The increase, as a percentage of total revenues, is mainly due to the lower profit margin generated by the sale of land and residential units in 2010, which is attributable to the geographical locations of properties sold.

6.4.3 Selling, General, and Administrative Expenses

Selling, general, and administrative expenses were SR 106 million in 2010, compared to SR 146 million in 2009. The SR 40 million decreases is attributable to lower marketing and advertising costs, in addition to lower payroll-

related costs due to the change in employee mix. Company's earlier investments in the employee training and educational programs significantly helped to replace and cover some positions with its current local or regional workforce instead of high cost bearing western workforce.

6.4.4 Financing Charges

Net financing charges were SR 214 million in 2010, compared to SR 148 million in 2009. The 47% increase is due to the higher level of the weighted average effective commission rate on Local Murabahas or the year 2010 which stood at 4.3% compared with 3.7% during 2009. In addition to the latest Sukuk issuance "Sukuk 4" Borrowing cost.

6.4.5 Net Income

As a result of the above, net income was SR 1,456 million for 2010 and SR 2,123 million for 2009, or SR 1.35 and SR 1.97 per share, respectively.

6.5 Liquidity and Capital Resources

As of December 31, 2010, we had cash and cash equivalents of SR 1,189 million.

6.5.1 Cash Flows

The following table sets out the Company's cash flows for the financial periods 2009 and 2010:

(in millions of Saudi Riyals)	2010	2009
Funds from Operating Activities	1,211	3,246
Funds from (used in) Investing Activities	(561)	(2,729)
Funds from (used in) Financing Activities	(1,685)	990

Net cash flow generated from operations stood at SR 1,211 million in 2010 compared to SR 3,246 million in 2009. The negative variance is mostly related to lower revenue generated during 2010.

The Company's investments in both Project in progress and other Investments has lead to an overall use of cash in investing activities of SR 561 million in 2010. The negative cash flow from financing activities resulted from, repayment of debt higher than debt raised during the year, with a net change of SR 584 million, in addition to SR 1,080 million in dividends declared for the financial year of 2009, which distributed during 2010.

6.5.2 Projects and Investment Expenditures

Our projects expenditure priorities include the deployment of residential and commercial master-planned communities as well as investment in land development projects. We spent 2,427 SR million in project and investment expenditures in 2010.

The amount and timing of projects expenditures may be affected by a number of risks. We believe that our projects expenditure requirements can be met through a combination of cash generated from operations, project financing, and bank loans from a variety of sources.

7 Dividend Policy

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

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

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

During 2010, the general assembly decided in its meeting held 23/06/2010 to pay cash dividends for the year of 2009 totaling SR 1,080 million, which is one Riyal per share, to those shareholders registered in the Company's records at TADAWL at the end of the trading day of the assembly meeting. The dividend value was paid out of the retained earning balance as of the end of 2009.

8 The Company's Financing Program

8.1 Financing Strategy

The Company's financing strategy, initiated in 2006, is oriented towards medium and long term financing that complies with company's production cycle of variable real estate projects which yields its proceeds after 3 to 5 years. This strategy materialized in the issuance of a series of local and international Shariah-compliant Sukuk where 3 international and one local issuance of these bonds were placed. The finance raised from these Sukuk came to SR 8.4 billion. The first issuance was covered by the repayment of SR 2.25 billion in March 2010 with an outstanding amount of SR 6.15 billion still held for financing Company's projects.

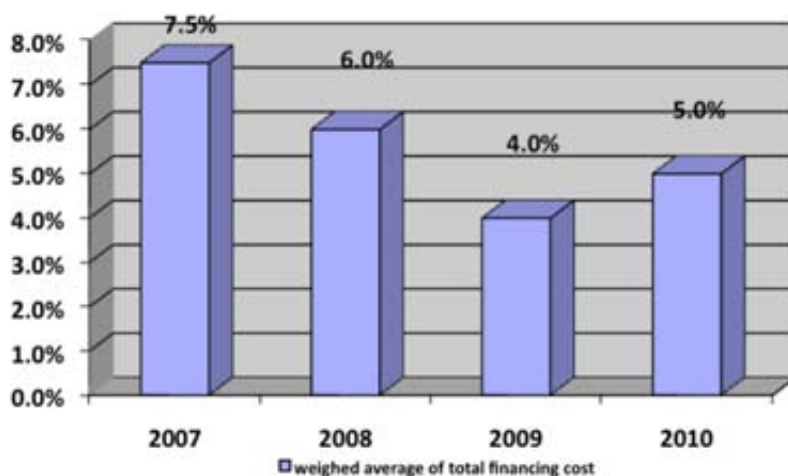
For working capital purposes the Company sought medium and short term financing by borrowing renewable Islamic Murabaha loans from some local banks incurring SR 2.7 billion debts along the period from 2006 to 2010. SR 1.1 billion of this debt was repaid with an outstanding amount of SR 1.6 billion.

Therefore, the ratio of long-term financing (issuance of Sukuk) to the total finance raised by the Company is 76% approx. whereas medium and short term finance stands only for 24% approx, hence, attaining the objective of the Company's strategy aiming to improve the returns on its shareholders' equity and boost Company's sustainable growth and its expanding projects by low-cost medium and long term financing appropriate for its production cycle. The funds raised by that means were evidently used in Company's projects and investments through the last four years.

Currently the Company's financing strategy will focus on non-recourse financing, which emphasis on raising project finance for developments going forward, build a portfolio of rental properties and raise asset level financing and access to domestic and international capital markets

8.2 Trend of the Weighted Average of Total Financing Cost From 2007 to 2010:

The average financing cost during the years 2007, 2008, 2009 and 2010 was 7.5%, 6%, 4%, and 5% respectively. This cost decreased from 7.5% in 2007 to an average 5% in 2010; a negative change of 2.5%, which represents a decline of 33%.



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

Generally, the ratio of the outstanding net financed does not exceed 34% of the value of company's assets which are valued at SR 23.3 billion at the end of 2010. In accordance with the undertakings given to the Company's Sukuk holders that the proportion of the total debt must not exceed a rate of 65% of the total assets of the Company, which means the Company's has an ample ability to obtain additional funding if needed.

8.3 Indebtedness

The Company emphasizes that all its financial transactions are Shariah-compliant as evident in its financing policy. So, all financing solutions used by the Company inside and outside the Kingdom are Shariah-compliant. The following is a description of the repaid and outstanding borrowing debts at the end of 2010.

8.3.1 Repaid Debt During 2010

In Saudi Riyal	2010	Maturity date	Profit margin
a) First Sukuk issuance	2,250,000,000	March 2010	LIBOR*+2%

*LIBOR means the rate of financing cost between the British banks

a) Issuance of Sukuk I

This first issuance of Islamic bonds was made in March 2007 to a value of SR 2,250,000,000 (USD 600 million) issued by Dar Al Arkan International Sukuk Company, which matured in March 2010 and repaid from the cash balance generated by the Company's operations.

8.3.2 Outstanding Debt at the End of 2010

During the year 2010 the Company raised SR 1,716 million to finance the construction of residential and commercial buildings and working capital. The total of outstanding debts was SR 7,770 million as on 31 Dec. 2010 compared to SR 8,355 million on 31 Dec. 2009. Out of that amount, SR 5,438 million stands for international Islamic Sukuk dominated in US dollar, SR 750 million as local Islamic Sukuk issued in Saudi Riyal, and SR 1,581 as short and medium term Islamic Murabaha finance borrowed from some of the local banks.

The following table illustrating outstanding finance as at the end of 2010

In Saudi Riyal	2010	Maturity date	Annual profit margin
b) Renewable short-term Islamic bank facility	400,000,000	2011	Ranging from SAIBOR**+2% to SAIBOR+3.75%
c) Long-term Islamic bank facility	900,000,000	2011/2014	Ranging from SAIBOR+3% to SAIBOR+3.5%
d) Islamic bank borrowing - construction Facility	400,000,000	2012	SAIBOR+2.25%
e) Sukuk Issuance2 -2012 (international)	3,750,000,000	2012	SAIBOR+2.25%
f) Sukuk issuance3 -2014 (local)	750,000,000	2014	SAIBOR+4%
g) Sukuk issuance4- 2015 (international)	1,687,500,000	2015	10.75% fixed***

* LIBOR means the rate of financing cost between the British banks

**SAIBOR rate stands for the rate of financing cost between Saudi banks

***Profit margin was reduced in favor of 50% of this issuance to a SIBOR rate for 3 months, in addition to 7.95%

b) Renewable Short-term Islamic Bank Facility

This facility was raised at local banks and matures at different dates during 2011. These financing patterns are renewed annually.

c) Long-term Islamic Bank Facility

This facility was raised at local banks, consisting of SR 500 maturing in 2011, whereas the other fund is being amortized along 4 years starting in 2010 with 8 equal installments repaid on a half-year basis. During 2010 SR 50 million of this fund was repaid, so, the outstanding amount of the fund stood for SR 350 million by the end of the year.

d) Islamic Bank Borrowing - Construction Facility

This facility has a maximum credit line of SR 400 million, which was raised for the construction of a specific asset, of which SR 332.8 million was withdrawn till the end of 2010, is backed by the asset itself and matures for repayment in 2012 with a financing cost of SAIBOR+2.25%.

e) Issuance of Sukuk II- 2012 (International)

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. The coupon periodic distribution is payable on a quarterly basis.

f) Issuance of Sukuk III – 2014 (Local)

This represents an Islamic Sukuk issued by the Group in April 2009 for the amount of SR 750 million at SIBOR plus profit margin of 4%, maturing in 2014. The coupon periodic distribution is payable on a quarterly basis.

g) Issuance of Sukuk IV- 2015 (International)

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% (Fixed) and maturing in 2015. The coupon periodic distribution is payable on a semi-annual basis.

9 Related Party Transactions

The Company admits that during the year 2010 it had no significant transactions with related companies or any of its employees or directors, whilst it sold residential units to individuals, who sought financing from some of these related parties, where these parties pay to the Company on behalf of the buyers. The total amount mature for repayment by these related parties is SR 1.4 million as on 31 Dec. 2010.

However, during 2010, the Company has indirectly entered into transactions with related parties having common joint board members or shareholders in the Company, where Unicorn Capital Saudi Arabia (UCSA) together with, Goldman Sachs and Deutsch Bank jointly undertook the management and arrangement of the fourth issuance of Company's Sukuk made in Feb. 2010. The fees/contribution, if any, of UCSA to the issuance was paid or disbursed by Goldman Sachs as the sole mandated settlement manager of the transaction from whom the Company received the net financing amount after deduction of issuance-related expenses including commission, discount and administrative expenses. The commission amount (1.25%) is to be divided between the three banks among themselves. So, the Company has not made any direct payment to UCSA.

10 Risks Pertaining to the Company's Activities

- Substantial capital investment. The Company's growth objectives will require ongoing investments, the availability of which cannot be certain.

- The Company is dependent on the growth of the Saudi economy. Any long term deterioration could have an adverse effect of the Company's growth
- The Company relies on third party contractors. Any failure from these third parties to deliver could result in delays and reduced profitability.
- The total estimated costs of the Company's development projects may be subject to unanticipated increases in cost of construction materials and labor.

11 Management and Administration

11.1 Board of Directors

An eleven-member Board of Directors runs the Company, of whom two are executive, four are non-executive and five are independent members. The Board shall hold regular quarterly meetings on the invitation of the Chairman, as well as in each case the Board consider an urgent need for such meeting. The Board held 4 meetings during 2010 and the members' attendance is as shown below:

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

Membership of the previous Board members: Majid Bin Bader Al-Refai and Ayman Bin Abdullah Boodi were terminated by the end of the Board session on 23/06/2010. The two members didn't attend any meeting throughout the year 2010. The members: Saud Bin Abdul Aziz Al Gusaiyer and Abdul Rahman Bin Abdul Aziz Al Hossain – the representative of GOSI – were elected subject to the approval of the general assembly held on 23/06/2010.

11.2 Attendance Record of Board of Directors' Meetings During 2010

Member Name	First Meeting 09/01/2010	Second Meeting 18/05/2010	Third Meeting 04/07/2010	Fourth Meeting 07/11/2010
Yousuf Abdullah Al Shelash	Attended	Attended	Attended	Attended
Abdullatif Bin Abdullah Al Shelash	Attended	Attended	Attended	Attended
Hathloul Bin Saleh Al Hathloul	Attended	Attended	Attended	Attended
Khalid Bin Abdullah Al Shelash	Attended	Attended	Attended	Attended
Tariq Bin Mohamed Al Jarallah	Attended	Attended	Attended	Attended
Abdul Aziz Bin Abdullah Al Shelash	Attended	Attended	Attended	Attended
Majid Romi Al-Romi	Attended	Excused	Attended	Attended
Abdul Kareem Bin Hamad Al Babbain	Attended	Attended	Attended	Attended
Majed Bin Abdul Rahman Al Qasim	Attended	Attended	Attended	Attended
Saud Bin Abdul Aziz Al Gusaiyer	Unrecorded	Unrecorded	Attended	Attended
Abdul Rahman Bin Abdul Aziz Al Hossain	Unrecorded	Unrecorded	Attended	Attended

11.3 Remunerations Paid to the Board Members

The Company's Article of Association confers a payment of an annual remuneration of SR 200,000 to Board members for each fiscal year. Till the end of the year 2010 the determined remuneration was not paid for the year 2009 or 2010.

11.4 Board of Directors' Committees

First – the Executive Committee, Consisting of:

- | | | |
|----|------------------------------------|---------------------------|
| 1- | Yousuf Abdullah Al Shelash | Chairman of the Committee |
| 2- | Abdullatif Bin Abdullah Al Shelash | Member |
| 3- | Tariq Bin Mohamed Al Jarallah | Member |
| 4- | Saud Bin Abdul Aziz Al Gusaiyer | Member |

The Committee Responsibilities and Meetings

Prepare transparent organizational arrangements to grasp the level of company's growth, specify short-term strategic objectives and priorities, review general manager's reports pertaining to performance and commitments, review, evaluate and study investment requests in conjunction with the Investment Committee. Ensure sufficiency of human resources required for the attainment of company's short-term strategic objectives and assessment of their performance. Take decisions within Board's policy to ensure achievement of financial and other objectives established by the Board. Determine appropriate criteria for remunerating middle and lower management. Settle conflicts of interest between company's departments. Monitor departments' performance to assure commitment to announced policies. Periodically review each department's expectations. The Committee held 14 meetings during the year 2010.

Second – Audit Committee, Consists of:

- | | | |
|----|-----------------------------------|---------------------------|
| 1- | Tariq Bin Mohamed Al Jarallah | Chairman of the Committee |
| 2- | Abdul Kareem Bin Hamad Al Babbain | Member |
| 3- | Majed Bin Abdul Rahman Al Qasim | Member |

The Committee Responsibilities and Meetings

Monitors processes of risk management and functioning of company's internal control systems. Reviews and recommends quarterly and annual financial statements of the Company for approval. Undertakes processes pertaining to disclosure and reviews internal audit reports to ensure the internal control effectiveness. Monitors compliance with quality control processes; ensures economic viability of funding sources and compliance to Shariah. Reports to Board of any significant control failure or weaknesses identified. The Committee held 6 meetings during the year 2010.

Third – Nominations and Remuneration Committee Consists of:

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

The Committee Responsibilities and Meetings

Nominates qualified candidates for Board membership. Periodically reviews the requirement of Board members for appropriate skills. Recommends changes/modifications to Board structure and nomination procedures. Reports on weaknesses and recommends remedies. Ensures members' independence and absence of any conflict of interests if the member is another company's board member. Develops clear policies and criteria for Board members' rewards. The Committee held 4 meetings during the year 2010.

Fourth – Investment Committee Consists of:

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

The Committee Responsibilities and Meetings

Recognize the general real estate policies, principles, objectives, rules, indications and purposes and approve company's strategy by means of a long-term plan, establish policies and processes of sale, purchase and development of real estates. Help the Board to perform its duties pertaining to investment activities, review and approval of long-term real estate strategy, study potential acquisition and sale operations, recommend on government legislations relevant to real estate. Determine the objectives of investment and monitor management compliance. Timely review investment performance, create strategic substitutes and look after their application. Study risk management policies and information concerning investment management. Supervise the selection and appointment of external investment managers. Oversee investment and ensure its compliance to the established policies and customers' interests. Encourage and facilitate investment opportunities available for the Company. The Committee held 4 meetings during the year 2010.

11.5 Remunerations and Indemnities Paid to Board Members and Top Executives

The following table shows the remuneration and compensation paid to Board members and top five senior executives who received the highest bonuses and compensation from the Company during 2010 (in Saudi Riyal):

Description	Executive Board members	Non-executive/ independent Board members	Senior executives (including general manager and CFO)
Salaries and compensation	-	-	4,526,000
Allowances	-	-	1,303,000
Periodic and annual bonuses	-	-	170,000
Incentive plans	-	-	-

11.6 Description of Any Interest of Board Directors and Top Senior Executives and Occurring Changes During 2010.

Name	capacity	No. of shares in the beginning of the year	Ownership percentage in the beginning of the year	Net variance in the No. of shares during the year	Total shares at the end of the year	Total ownership percentage at the end of the year	Nature of ownership
Yousuf Abdullah Al Shelash	Chairman	83,989,083	7.78%	0	83,989,083	7.78%	Direct
Hathloul Bin Saleh Al Hathloul	Board member	4,303,636	0.40%	(220,833)	4,082,803	0.38%	Indirect: 10% from the ownership of private company
	Board member	74,656,963	6.91%	0	74,656,963	6.91%	Direct
	Board member	98,352,745	9.11%	0	98,352,745	9.11%	Direct
Khalid Bin Abdullah Al Shelash	Board member	6,992,495	0.65%	(348,025)	6,644,470	0.62%	Indirect: 16% from the ownership of private company
		3,783	0.00%	(2,826)	957	0.00%	Owned by first-class relatives
Majed Bin Abdul Rahman Al Qasim	Board member	57,859,147	5.36%	0	57,859,147	5.36%	Direct
		639,154	0.06%	0	639,154	0.06%	Owned by first-class relatives
Tariq Bin Mohamed Al Jarallah	Board member	32,151,915	2.98%	6,476,600	38,628,515	3.58%	Direct
		20,403,507	1.89%	(470,098)	19,933,409	1.85%	Indirect: 48% from ownership of a private company
		29,309,546	2.71%	11,648,821	40,958,367	3.79%	Direct
Abdul Aziz Bin Abdullah Al Shelash	Board member	10,414,290	0.96%	(239,946)	10,174,344	0.94%	Indirect: 24.5% from ownership of a private company
		19,700,963	1.82%	4,297,689	23,998,652	2.22%	Direct
Majid Romi Al-Romi	Board member	11,689,509	1.08%	(269,327)	11,420,182	1.06%	Indirect: 27.5% from ownership of a private company
Abdullatif Bin Abdullah Al Shelash	Board member	17,589,706	1.63%	7,647,699	25,237,405	2.34%	Direct
Abdul Kareem Bin Hamad Al Babbain	Board member	7,029,090	0.65%	0	7,029,090	0.65%	Direct
Abdul Rahman Bin Abdul Aziz Al Hossain (in person)	Board member	0	0.00%	1,000	1,000	0.00%	Direct
		0	0.00%	19	19	0.00%	Owned by first-class relatives
Abdul Rahman Bin Abdul Aziz Al Hossain (as a representative of GOSI)	Board member	37,964,853	3.52%	5,815,604	43,780,457	4.05%	Owned by general organization for social insurance
Saud Bin Abdul Aziz Al Gusaiyer	Board member	0	0.00%	1,100	1,100	0.00%	direct
Ahmed Bin Saleh Al-Dehailan	CFO	500	0.00%	49,500	50,000	0.00%	direct
TOTAL		513,050,885	47.50%	34,386,977	547,437,862	50.70%	

12 Corporate Governance

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

During the year 2010 many policies that accommodate the basic principles of corporate governance have been adopted, approved and activated to ensure the shareholders' rights in terms of getting information, attending the annual general meeting, using their voting rights and equal treatment, as well as ensure disclosure transparency on the Company's activities and developments, maintaining the Board members and senior executives information, their election criteria, responsibilities and authorities.

Some policies were updated during the year and submitted to the Board for review including mandate policy, planning and preparation of sales budget policy, promotion and advertisement policy, corporate governance, distribution of profits policy, pandemic Flu preparedness policy, bidding committee covenant, risk management convention, and obedience and governance covenant.

Furthermore, during 2010, the Governance, Compliance and Commitment Committee were formed with the objective of helping the Board to oversee the functioning of company's management and leadership system. This committee will have a role in monitoring the management of operations and risks and improvement of performance. Moreover, the Company will review the Company's policy and make recommendations to the Board whenever necessary.

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

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

13 Internal Audit and Effectiveness of the Company's Internal Control Procedures

13.1 Internal Control

The Company has established an organizational structure with clear operating and reporting procedures, which assigns lines of responsibilities, authorization limits, and segregation of duties of its departments. It ensures the allocation of duties efficiently and according to the established policies.

During the year 2010, the Board has reviewed the effectiveness of the Company's systems of internal controls including financial, operational compliance and risk management systems. The Board undertakes that the systems of internal control are sound and effectively implemented.

13.2 The Internal Audit

The internal audit department reports to the Board of Directors directly. Its professional staff is certified by the International Institute of Internal Audit and working with the highest international auditing standards.

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

Internal audit helps the Company to achieve its goals by applying the methodology aimed to improve risk controls, review the internal control procedures effectiveness and enforce the corporate governance system. In addition, it ensures the application of laws, Company systems, regulations and Board decisions.

During the year 2010, the internal audit suggested some updates on the policies and procedures that aimed to give better monitoring of the expenses related to the projects' cost and internal control procedures at the finance department.

14 Investor Relations

Communication with shareholders, investors and the financial community are given high priority as an important part of the Company's strategy, and there is regular dialogue between the Company executives and its shareholders, local and international investors.

To enhance the effectiveness of communication with investor, analyst and financial community, and for the dissemination of accurate information about company's operations, the Company holds a series of periodical meetings with its investors and other stakeholders including shareholders, Sukuk-holders, financial analysts from local and international expertise offices covering company's news, aiming to ensure the effectiveness of regular communication and transparent disclosure that will be reflected in right understanding and fair evaluation of company's business.

Specialized personnel in the investor relations section support shareholders inquiry through a toll free number, e-mail and fax, as well as a recently developed interaction page on company's website that enables the investor, shareholder and analyst full access to company's information.

In support to investor right in decision making, the Company delivered invitations to all shareholders to attend the general assembly meetings, including announcements in the websites of the Saudi capital market (TADAWL), Company's website and daily newspapers, in addition to auto systems to ensure the soundness of recording and counting of votes and transparent segregation of results by a qualified staff to facilitate the running of general assembly operations as per applied rules and in the presence of competent authorities. In view of this, Company's shareholders were involved in voting in the seventh ordinary general assembly meeting held on 23 June 2010.

15 Corporate Social Responsibility

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

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

The Company has also given careful attention to tackling social problems by sponsoring many of the intellectual events that contribute to the analysis and diagnosis of these problems and proposing innovative solutions for them. In this respect the Company has contributed to the drawing of labor market strategy in the Kingdom in collaboration with the Ministry of Labor, revealing cooperation between the Company and government sector to reach a mutual understanding of the Saudi labor market reality and tackling of any challenges undergone to increase the awareness and attention to the local and international challenges and, therefore, adding a competitiveness merit to the national economy. In this regard, the intensive study of the Saudi labor market reality and exploration of its prospects is a principal information focus for the Company to forecast demand for houses, determine the purchasing power, and set out future production plans of its real estates.

The Company's sponsorship of the celebrations of Riyadh Municipality in Eid Al-Fitr stands as one of its prominent social contributions during the year. Furthermore, the made good efforts to improve the living conditions of its employees and their families as part of its social responsibility.

16 Human Resources

The Company gives special attention to the recruitment of competent and skillful human resources to create a work team capable of meeting the existing and future challenges. Based on that, the Company gives priority to the human element as a strategic investment and doesn't spare any effort to sustain and develop human capabilities and skills by:

- Participating in the events of Saudi universities and making agreements with them so as to train and recruit fresh graduates to fill vacancies and improve the rate of Saudisation in the Company.
- Attracting qualified candidates especially for the leading positions more needed in the light of expanding developments experienced by the Company which necessitate the employment of more advanced expertise particularly in the field of building and construction.
- Ongoing development of incentive plans for the benefit of company's employees by periodic review of allowances, sales commissions, material and moral merit incentives.
- Review and development of salaries and indemnities charts in consultation with specialized companies in this field in comparison with the functioning of major companies in the Saudi market for updating purposes.
- The benefits of the insurance policy were reviewed during 2010 recommending an increase of medical benefits through a network of distinct medical centers serving all employees and their families.
- An annual appraisal of the performance of all company employees was conducted during 2010 where goals to be attained in the next year were identified.

17 Statement of Regular Payments Due During 2010 with Brief Description of Items and Types of Payments

Item	2010 In Saudi Riyal	Description	Type of payment
Social Insurance	2,296,884	To be paid as per the rules of GOSI. Paid in full	Regular requirement
Government Charges	551,275	Charges for building licenses, subscription for Chamber of Commerce, fees for work permits, renewal of Iqamah and others. Paid in full	Regular requirement
Fines	0	Not any	-
TOTAL	2,848,159		

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

18 Appendix (a) Audited Consolidated Financial Statements



**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010**

INDEX

- Independent auditors' report
- Consolidated balance sheet
- Consolidated statement of income
- Consolidated statement of cash flows
- Consolidated statement of changes in equity
- Notes to the consolidated financial statements



INDEPENDENT AUDITORS' REPORT

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of Dar Al Arkan Real Estate Development Company (A Saudi joint stock company) (the "Company") as at December 31, 2010, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 22 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations which we required. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.


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

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Dar Al Arkan Real Estate Development Company as at December 31, 2010, and the consolidated results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the Company's bylaws as these relate to the preparation and presentation of the consolidated financial statements.

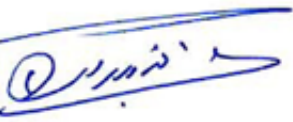
Deloitte & Touche
Bakr Abulkhair & Co.

Talal Abu-Ghazaleh & Co.


Bakr A. Abulkhair
Certified Public Accountant
License No. 101



8 Safar 1432
12 January 2011


Abdulqadir A. Al-Wohaib
Certified Public Accountant
License No. 48

	Notes		2009
ASSETS			SR 000
Current Assets			
Cash and cash equivalents		1,188,513	2,223,495
Accounts receivable	(5)	1,667,000	845,912
Prepaid expenses and others	(6)	556,391	232,806
Due from related parties	(7)	1,364	2,709
Projects in progress – short-term	(8 a)	184,660	677,431
Developed land – short-term		270,887	286,628
Total Current Assets		3,868,815	4,268,981
Non-Current Assets			
Projects in progress – long-term	(8 b)	8,648,818	8,591,036
Investments in land under development	(9)	4,731,660	3,683,391
Developed land – long-term		2,929,939	4,171,653
Investment properties		1,914,327	1,518,167
Investment in associates	(10)	1,162,360	1,162,360
Property and equipment	(11)	91,026	102,933
Deferred charges	(12)	1,916	2,956
Total Non-Current Assets		19,480,046	19,232,496
TOTAL ASSETS		23,348,861	23,501,477
LIABILITIES AND EQUITY			
Current Liabilities			
Islamic borrowings – current portion	(13)	1,000,000	2,687,760
Accounts payable	(15)	423,819	470,957
Accrued expenses and others	(16)	733,739	635,136
Total Current Liabilities		2,157,558	3,793,853
Non-Current Liabilities			
Islamic borrowings	(13)	6,679,076	5,571,669
Provision for end-of-service indemnities	(17)	12,599	12,038
Total Non-Current Liabilities		6,691,675	5,583,707
Shareholders' Equity			
Share capital	(18)	10,800,000	10,800,000
Statutory reserve		607,768	462,268
Retained earnings		2,827,119	2,596,908
Equity attributable to Dar Al Arkan shareholders		14,234,887	13,859,176
Non-controlling interests from Group subsidiaries		264,741	264,741
Total Equity		14,499,628	14,123,917
TOTAL LIABILITIES AND EQUITY		23,348,861	23,501,477



Managing Director



Chief Financial Officer

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

	Notes	2010	2009
		SR 000	SR 000
Revenues from operations		4,141,981	5,464,053
Cost of operations		(2,377,724)	(2,956,916)
Gross profit	(4)	1,764,257	2,507,137
Operating expenses:			
General, administrative, selling and marketing expenses		(106,452)	(145,678)
Depreciation		(14,260)	(17,531)
Amortisation of deferred charges	(12,13a)	(25,887)	(23,083)
Income for the year from operating activities		1,617,658	2,320,845
Other Income / (expenses) :			
Share of Income/(loss) from investment in associates		-	(4,640)
Islamic Murabaha charges		(59,890)	(59,078)
Islamic Sukuk charges		(154,421)	(87,152)
Other income		79,364	2,704
Income for the year before Zakat		1,482,711	2,172,679
Zakat provision	(16a)	(27,000)	(50,000)
Net income for the year		1,455,711	2,122,679
Earnings per share (in Saudi Riyal)	(19)		
From operating activities		1.50	2.15
From net income for the year		1.35	1.97



Managing Director



Chief Financial Officer

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

	2010	2009
	SR 000	SR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the year before zakat	1,482,711	2,172,679
Adjustment for:		
Depreciation	14,260	17,531
Amortisation of deferred charges	25,887	23,083
Provision for end-of-service indemnities	2,536	5,222
Share of loss from investment in associates	-	4,640
Changes in operating assets and liabilities		
Accounts receivable	(821,088)	102,735
Prepaid expenses and others	(25,812)	290,683
Due from related parties	1,345	54,333
Projects in progress – short-term	492,771	470,769
Developed land – short-term	15,741	(166,028)
Accounts payable	(47,138)	299,750
Accrued expenses and others	71,603	(28,251)
End-of- service indemnities paid	(1,975)	(1,073)
Net cash from operating activities	1,210,841	3,246,073
CASH FLOWS FROM INVESTING ACTIVITIES		
Projects in progress – long-term	(57,782)	(1,818,271)
Investments in land under development	(1,048,269)	44,089
Developed land – long-term	1,241,714	(1,193,416)
Advance payments to purchase land	(297,773)	1,213,146
Investment properties	(396,910)	(926,929)
Investment in associates	-	(47,000)
Purchase of property and equipment	(1,603)	(2,233)
Proceeds from disposal of property and equipment	-	1,559
Net cash used in investing activities	(560,623)	(2,729,055)
CASH FLOWS FROM FINANCING ACTIVITIES		
Islamic borrowings	(605,200)	725,261
Dividends	(1,080,000)	-
Non-controlling interests	-	264,741
Net cash (used in) / from financing activities	(1,685,200)	990,002
(Decrease)/ Increase in cash and cash equivalents	(1,034,982)	1,507,020
Cash and cash equivalents, beginning of the year	2,223,495	716,475
CASH AND CASH EQUIVALENTS, END OF THE YEAR	1,188,513	2,223,495



Managing Director



Chief Financial Officer

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

	Share Capital	Statutory Reserve	Retained Earnings	Equity attributable to Dar Al Arkan Shareholders
2009	SR 000	SR 000	SR 000	SR 000
Balance as at 1 January 2009	7,200,000	3,600,000	936,497	11,736,497
Capital increase through transfer from statutory reserve and retained earnings	3,600,000	(3,350,000)	(250,000)	-
Net income for the year	-	-	2,122,679	2,122,679
Transfer to statutory reserve	-	212,268	(212,268)	-
Balance as at 31 December 2009	10,800,000	462,268	2,596,908	13,859,176
2010				
Balance as at 1 January 2010	10,800,000	462,268	2,596,908	13,859,176
Dividends (note 20)	-	-	(1,080,000)	(1,080,000)
Net income for the year	-	-	1,455,711	1,455,711
Transfer to statutory reserve	-	145,500	(145,500)	-
Balance as at 31 December 2010	10,800,000	607,768	2,827,119	14,234,887



Managing Director



Chief Financial Officer

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

1. GENERAL INFORMATION:

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

2.2 ACCOUNTING CONVENTION

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

2.3 BASIS OF CONSOLIDATION

The consolidated financial statements of the Group incorporate the financial statements of the companies and enterprises controlled by the Group (its subsidiaries) made up to 31 December 2010.

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

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

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

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

Investments in associates

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

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

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

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

2.4 PROPERTY AND EQUIPMENT

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

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

Freehold buildings	3%
Plant and machinery	20%
Office equipment	20% - 25%
Leasehold improvements	5% - 20%
Vehicles	25%

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

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

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

2.5 INVESTMENT PROPERTIES

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

Buildings	3%
-----------	----

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

2.6 FINANCE CHARGES

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

2.7 FINANCIAL INSTRUMENTS

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

Accounts receivables

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

Cash and cash equivalents

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

Financial liabilities

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

Accounts payables

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

Commission rate swaps

Commission rate swaps are measured at fair value. Fair value is recorded as an asset when the fair value is positive and as a liability when the fair value is negative. The fair value is determined as per the market

quoted prices, cash flow discount and pricing methods, as appropriate.

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

2.8 IMPAIRMENT OF TANGIBLE ASSETS

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

2.9 REVENUE RECOGNITION

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

2.10 ZAKAT TAXATION

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

2.11 FOREIGN CURRENCIES

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

2.12 STATUTORY RESERVE

According to the article (176) of the Companies' Regulation, the Group retains 10% of net income against the statutory reserve. The Group may stop the deductions when this reserve reaches 50% of the share capital.

2.13 END OF SERVICE INDEMNITIES

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

2.14 RETIREMENT BENEFIT COSTS

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

2.15 LEASING

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

2.16 OPERATING EXPENSES

The Group follows accrual basis of accounting to record the operating expenses and recognised as expenses in the consolidated statement of income in the year in which they are incurred. Expenses that are deferred for more than one financial year are allocated to expenses over such periods using historical cost.

3. USE OF ESTIMATES

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management reporting purposes, management has organized the Group around three divisions which match its entity structure. These are in line with its strategic planning and business model and include DAR Projects, DAR Investments and DAR Properties. There are currently no revenue streams being recognized during the year from DAR Properties or DAR Investments, as such only one reportable segment is recognized as at 31 December 2010.

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 and sale of residential and commercial projects ("Sales of residential properties").

Information in respect of these products is presented below:

	2010 SR 000	2009 SR 000
REVENUES		
Sales of residential properties	376,681	519,321
Sales of land	3,765,300	4,944,732
Total	4,141,981	5,464,053
COST OF SALES		
Residential properties	330,289	398,313
Land	2,047,435	2,558,603
Total	2,377,724	2,956,916
GROSS PROFIT		
Residential properties	46,392	121,008
Land	1,717,865	2,386,129
Total	1,764,257	2,507,137

5. ACCOUNTS RECEIVABLE

	2010 SR 000	2009 SR 000
Customers	1,671,479	850,412
Provision for doubtful debtors	(4,479)	(4,500)
Total	1,667,000	845,912

6. PREPAID EXPENSES AND OTHERS

	2010 SR 000	2009 SR 000
Advance payments to purchase land	418,967	121,194
Advance payments to contractors	57,087	99,430
Advance payments to suppliers	5,323	3,032
Positive value of commission SWAP contract	27,769	-
Accrued income	22,987	-
Prepaid expenses	11,879	5,968
Employees' advances and receivables	2,194	3,148
Others	10,185	34
Total	556,391	232,806

7. RELATED PARTY TRANSACTIONS

During the year, the Group sold residential homes to individuals who sought financing from Saudi Home Loans, which is an associate to the Group. In these instances, Saudi Home Loans pays the consideration in respect of the residential property sale to the Group on behalf of the individual. There is no recourse to the Group if such lending by Saudi Home Loans results in a bad debt. The balance with Saudi Home Loans as at 31 December 2010 is SR 1,364 thousand (31 December 2009: SR 2,709 thousand).

For the year ended 31 December 2010 and the year ended 31 December 2009, the Group entered into transactions with non-associate related parties in aggregate amounts of SR nil (US \$ nil), SR 12.4 million (US \$ 3.3 million), respectively, for the transactions related to general financial advisory services provided to the Group.

8. PROJECTS IN PROGRESS

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

	2010 SR 000	2009 SR 000
Residential and commercial development	184,660	677,431
Total	184,660	677,431

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:

	2010 SR 000	2009 SR 000
Residential and commercial development	3,674,480	3,345,670
Land development projects	4,974,338	5,245,366
Total	8,648,818	8,591,036

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 year the Group's management capitalised Islamic Sukuk charges in the amount of SR 157.45 million (31 December 2009: 139.40 million) under projects in progress.

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. 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%.

11. PROPERTY AND EQUIPMENT

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

	Land and	Leasehold	Vehicles	Plant and	Office	Total
	Buildings	Improvements		Machinery	equipment	
	SR 000	SR 000	SR 000	SR 000	SR 000	
Cost						
Balance at 1 January, 2010	109,145	18,885	9,990	13,346	37,667	189,033
Additions for the year	-	152	-	44	1,407	1,603
Balance at 31 December 2010	109,145	19,037	9,990	13,390	39,074	190,636
Accumulated Depreciation						
Balance at 1 January, 2010	24,025	16,221	8,944	8,496	28,414	86,100
Depreciation for the year	3,017	1,849	960	3,147	4,537	13,510
Transfers / Disposals during the year	-	-	-	(491)	491	-
Balance at 31 December 2010	27,042	18,070	9,904	11,152	33,442	99,610
Net book value 31 December 2010	82,103	967	86	2,238	5,632	91,026
Net book value 31 December 2009	85,120	2,664	1,046	4,850	9,253	102,933

Included within land and buildings are land with an original cost of SR 9.50 million (31 December 2009: SR 9.50 million).

12. DEFERRED CHARGES

The movement during the year is as below:

	2010 SR 000	2009 SR 000
Balance, beginning of the year	2,956	2,550
Additions during the year	-	1,152
Amortisation charge for the year	(1,040)	(746)
Balance , end of the year	1,916	2,956

13. ISLAMIC BORROWINGS

	2010 SR 000	2009 SR 000
Islamic Sukuk – International	5,437,500	6,000,000
Islamic Sukuk – Local	750,000	750,000
Islamic Murabaha	1,582,793	1,604,742
	7,770,293	8,354,742
Less: Un-amortised transaction costs	(91,217)	(95,313)
Islamic borrowings – end of the year	7,679,076	8,259,429
Less: Islamic borrowings – current portion	(1,000,000)	(2,687,760)
Islamic borrowings - long-term	6,679,076	5,571,669

Repayable as follows:

	2010 SR 000	2009 SR 000
Within one year	1,000,000	2,700,000
In the second year	4,182,793	600,000
In the third to fifth years inclusive	2,587,500	5,054,742
	7,770,293	8,354,742

(a) *Islamic borrowings transaction costs:*

	2010 SR 000	2009 SR 000
Balance, beginning of the year	95,313	124,321
Additions during the year	46,480	28,797
Capitalisation during the year	(25,729)	(35,468)
Amortisation charge for the year	(24,847)	(22,337)
Balance, end of the year	91,217	95,313

Analysis of borrowings:

Islamic Sukuk – International

This represents SR 5.44 billion of Islamic Sukuk comprising:

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

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

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

Islamic Sukuk - Local

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

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2010.

Islamic Murabaha

This represents SR 1.7 billion Murabaha facilities from local commercial banks, in the form of Islamic Murabaha, letters of guarantee and letters of credit comprising:

- 1) An amount of SR 400 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus annual profit margin of 3%. The facility is being repaid in eight equal semi-annual payments starting 2010. As at 31 December 2010 an amount of SR 350 million is outstanding towards this facility.
- 2) Amounts of SR 400 million in the form of short-term Islamic Murabahas bearing finance charges at prevailing rates between the local banks plus annual profit margin ranging from 2% to 3.75%.
- 3) 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 3.50% and matures in 2011.
- 4) An amount of SR 400 million in the form of long-term Islamic Murabaha, which bears finance charges at prevailing rates between local banks plus an annual profit margin of 2.25% and matures in 2012. As at 31 December 2010, 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 31 December 2010.

The weighted average effective commission rate for the year ended 31 December 2010 is 4.3% (3.7% for 31 December 2009).

There were no defaults or breaches of loan terms during the current or preceding years.

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 positive fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards amounting to SR 27.77 million (USD 7.40 million) during the year ended 31 December 2010 (31 December 2009: Nil) is recognised in consolidated statement of income .

15. ACCOUNTS PAYABLE

The detail of the above account is as follows:

	2010 SR 000	2009 SR 000
Contractors	330,809	219,421
Suppliers	49,609	20,459
Advances from customers	164	225,000
Others	43,237	6,077
Total	423,819	470,957

16. ACCRUED EXPENSES AND OTHERS

	2010 SR 000	2009 SR 000
Zakat provision	587,074	560,074
Islamic Murabaha charges	15,669	20,764
Islamic Sukuk charges	75,341	32,295
Accrued expenses	17,862	10,506
Dividend payable	36,782	7,675
Others	1,011	3,822
Total	733,739	635,136

Zakat provision

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

	2010 SR 000	2009 SR 000
<u>Zakat base:</u>		
Share capital and statutory reserve – beginning of the year	11,527,009	10,800,000
Provisions – beginning of the year after deduction of amounts paid during the year	576,130	516,890
Adjusted net income for the year – Note 16/b	1,485,247	2,177,901
Retained earnings after dividends	1,516,908	936,497
Islamic Murabaha	954,750	900,000
Islamic Sukuk	4,500,000	6,000,000
Total Zakat base	20,560,044	21,331,288
Deductions:		
Total deduction after adjustment	(19,480,046)	(19,327,809)
Zakat base	1,079,998	2,003,479
Estimated Zakat provision for the year	27,000	50,000

b) Adjusted net income for the year:

	2010 SR 000	2009 SR 000
<u>Adjusted net income:</u>		
Income for the year before Zakat	1,482,711	2,172,679
Provisions	2,536	5,222
Adjusted net income	1,485,247	2,177,901

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

	2010 SR 000	2009 SR 000
Balance beginning of the year	560,074	510,074
Estimated Zakat for the current year	27,000	50,000
Estimated Zakat provision	587,074	560,074

d) The last Zakat certificate received by the Group was for the year ended 30/12/1423 H (corresponding to 4/3/2003 G).

17. PROVISION FOR END OF SERVICE INDEMNITIES

This item represents the balance of provision for end of service benefits as at 31 December 2010. During the year the Group's management charged an amount of SR 2.54 million (2009: SR 5.22 million) to expenses. The movement during the year is as below:

	2010 SR 000	2009 SR 000
Balance, beginning of the year	12,038	7,889
Charged to expenses during the year	2,536	5,222
Paid during the year	(1,975)	(1,073)
Balance, end of the year	12,599	12,038

18. SHARE CAPITAL

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

19. EARNINGS PER SHARE

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

	2010 SR 000	2009 SR 000
Earnings		
For the purpose of basic earnings per share:		
Income for the year from operating activities	1,617,658	2,320,845
Net income for the year	1,455,711	2,122,679
Number of shares	Number	Number
Weighted average number of ordinary shares		
For the purpose of basic earnings per share	1,080,000,000	1,080,000,000

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

20. DIVIDENDS

On 10 Rajab 1431H (corresponding to 23 June 2010), the shareholders' General Assembly held its ordinary meeting and approved the Board of Directors recommendation to distribute dividends of SR 1 per share to shareholders who were recorded in the shareholders register as of the date of the General Assembly meeting.

21. COMMITMENTS

As at 31 December 2010, 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 369 million (2009: SR 680 million).

22. COMPARATIVE FIGURES

Certain comparative figures of 2009 have been reclassified to conform to the presentation adopted in the current year.