التقرير السنوي 2007

الشركة العربية العقارية
Al-Arabiya Real Estate Company

31 عاما

من النجاح المتواصل

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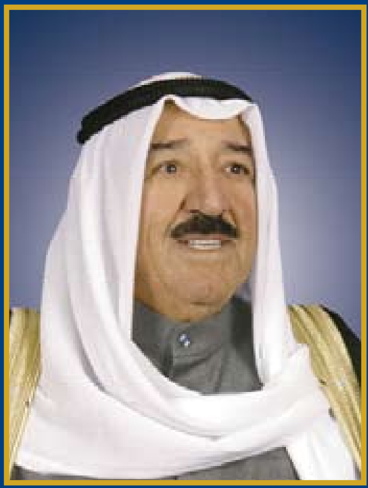
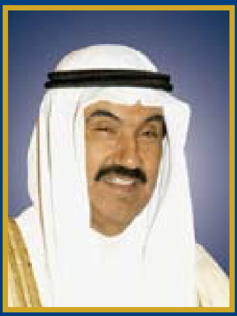
بسم الله الرحمن الرحيم



His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of The State of Kuwait

His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince of The State of Kuwait



His Highness
Sheikh Naser Al-Mohammad Al-Ahmad Al-Sabah
The Prime Minister of The State of Kuwait

العربية®

الشركة العربية العقارية

Al-Arabiya Real Estate Company

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BOARD MEMBERS

Emad Jawad Bukhamseen
Chairman & Managing Director

Adnan Abdulnabei Al-Mussa
Vice Chairman

Dr. Anwar Ali Al-Naqei
Board Member

Tawfeeq Shamlan Al-Bahar
Board Member

Abdulla Abdul Samad Maarafi
Board Member

EXECUTIVE MANAGEMENT

Dr. Haidar Hasan Al-Juma
Board Advisor

Mufeed M. A. Abdal
General Manager

Richard Dagher
Division Manager
Finance / Legal / Administration

George Bekhit
Division Manager - Operation

Eng. Ragia M. El-Menoufi
Technical Department Manager

Mohammad R. Al-Shawwa
Marketing Manager

CHAIRMAN'S & MANAGING DIRECTOR MESSAGE

In the Name of God, Most Compassionate, Most Merciful

Dear Messrs. Shareholders,

It is my pleasure to welcome you in my name and in the name of the members of the board of directors of Al-Arabia Real Estate Company in reviewing and discussing with you the most important achievements reached through the year ending on December 31st 2007.

The year 2007 had passed while Al-Arabia Real Estate Company continuously consolidating its position in the national real estate market through achieving a lot of real estate and investment achievements. Furthermore, the ambitions of the company expended to occupy a distinguished position in the regional real estate market through selecting important projects and developments throughout the Gulf and Middle East countries.

While taking firm steps, The Company progressed in establishing its position locally and regionally through strategic planning previously drawn up and that may be summarized in the main aspects, as follows:

1. To establish in view of developing the operational income of the company through:
   · Managing the company's operational assets that are subject to expansion.
   · Pursuing the performance and physical operations targets of the under-construction projects.
   · The acquisition of new projects through possessing inside or outside the State of Kuwait.
2. Setting up the development strategies as a five year plan for the company's activities in respect to creating opportunities in real estate sector, while considering the growth increment ratio in the sector both on the local and the regional markets. Accordingly, the financial and human resources strategies will be in parallel paths to the aimed growth.
3. To re-structure the real estate and investment assets of the company within the orientation of varying the investment and the risks distribution.
4. To re-structure the financing sources on the cost basis and to reinforce the profitability margins.

The organizational structure of the company shall be developed according to the general goals of the management, in addition to the portrayal of the strategies, the policies and the organizational regulation of all the companies' activities.

First: Achievements on the Local level:

As for the company's achievements on the local level, kindly find below the results of the under-construction projects; perhaps, the qualitative step of the projects nature initiated by the company and which reflects the expected profit and the operational profit rate as follows, is of the most important aspects of these projects:

Project	Expected annual revenue	Commencing on
Al-Arabiya Towerr	KD 2,000,000	May 2008
Al-Farwaniyah Towerr	KD 400,000	May 2008
Holiday In Hotel "Second Phase"	KD 900,000	May 2008
Crystal Tour	KD 3,000,000	February 2010

The operational revenues of year 2007 reached the amount of Dinars 3,256,211, while the result of the operational revenues expected for year 2008 is Dinars 3,300,000; thus the operational revenues shall double for year 2007.

Eqarat Dot Com International Company:

The marketing plan of the Al-Arabiya is being actually activated through its contribution in the establishment of Eqarat Dot Com International Company with a share of 70% of the capital by Kuwaiti Dinars 300,000 so that it supports the company's activities in the national and gulf real estate market.

Second: Achievements on the regional level:

The past year witnessed a noticeable diversification in the company's investments on all local, regional and the middle east levels, which realizes the company's ambition and establishes its policy represented by the necessity of the regional expansion in new countries throughout the area, in execution of the Board of Directors policy by continuing the development of the operational performance of the company, and this by joining mega investment projects and by creating regional real estate and commercial alliances in order to firmly establish the company's bases in various investment environments to form bases for regional locations and a firmly established existence in a number of Arab countries that enjoy a political stability and promising investment opportunities supported by commercial laws.

Establishing the Bait Al-A'amal real estate company S.C.C. (Eqarat Dot Com) (Oman)

On 20.05.2007, Al-Arabiya Real Estate Company contributed in the establishment of a company in the Sultanate of Oman under the name of "Bait Al-A'amal real estate Company (Eqarat Dot Com) Oman S.C.C."

The authorized fully paid capital of the company reached the amount of Omani Riyals 300,000, with a partnership rate of 30% of the capital, along with a group of the strategic participations such as the Emirates based Eqarat Dot Com Real Estate Company, and Balushi Investment L.L.C.

The Company's activity is within the real estate and tourist investments, as well as projects development inside and outside the State of Kuwait, especially inside the Sultanate of Oman. In addition, the company's activity basis is the undertaking of direct and indirect marketing of all kinds of real estate projects.

Establishing the Arabian Gulf Gate Investment Company S.C.C. in Oman.

On 24.11.2007, the Al-Arabia Real Estate Company contributed in the establishment of a company in the Sultanate of Oman under the name of "Arabian Gulf Gate Investment Company" whose fully paid authorized capital was fixed at OR 150,000 with an equal partnership share of 33,33% of the capital.

The Arabian Gulf Investment Company took possession of a plot of land in Al Suday Area in the Sultanate of Oman, on which shall be built Al Riyad Project; the project shall be announced in September 2008. In addition, a number of 90 units have been effectively sold and the Company's management decided to stop the sale in order to amend and increase the unit's prices.

Establishment of Sharam Dreams for Real Estate Development (Egypt)

On 18.02.2007, the Al-Arabia Real Estate Company won in the auction of Al-Ahli Bank of Egypt the Shendler plot of land. As a result thereof, Sharam Dreams for Real Estate Development was established and its authorized capital was fixed at one billion Egyptian Pounds, while its paid capital was fixed at 100 million Egyptian Pounds. The share of the Al-Arabia Real Estate Company of the paid up capital is 25%.

Establishment of Landmark Real Estate and Tourism Investment Company "Residence Park" (Egypt)

On 12.12.2007, Al-Arabia Real Estate Company won in the auction of Al-Murooj project in the Sixth of October City, and as a result thereof, an Egyptian shareholding company was established under the name of Landmark Real Estate and Tourism Investment "Residence Park" land with an authorized capital of 120 million Egyptian Pounds", of which the Al-Arabia Real Estate Company owns 20% of its shares; the design concept of the project was effectively developed and the project participated in the real estate exhibition held in Kuwait, the land of exhibitions in Meshirif, from March 5th to 7th 2008 and 70 residential units have been reserved.

Establishment of Al-Arabia Real Estate Investment Company (Egypt)

Al-Arabia Real Estate Company contributed in the establishment of Al-Arabia Real Estate Investment Company in the Arab Republic of Egypt with an issued capital of EP 200,000,000 (Egyptian Pounds 200 million) and a paid capital of EP 20,000,000 (Egyptian Pounds 20 million), of which the Al-Arabia Real Estate Company is 10% of the Company's capital.

Lagoons Project:

One of the most important projects obtained by Al-Arabia Real Estate Company is the Lagoons Project Land in the Emirate of Dubai where this possession is considered a quantitative leap in the volume and nature of investment projects outside the State of Kuwait. The plot of land amount is around 100 million Kuwaiti Dinars and the expected amount of the project development exceeds 1200 million dollars.

The Al-Arabia Real Estate Company mobilized all its capabilities for the project's success, as it has also joined strategic partners that provide financing and development sources. The economic and marketing feasibility study of the project revealed important revenues for the investors, which enables the company to grow and to pursue its strategic plan.

Result:

The executive steps of the strategy of the Company Board of Directors and the noticeable developments that occurred on most of their conditions had the most important effects on the financial results by the end of 2007, since the company realized, during this period, profits that reached Dinars 5,654,837, whereas the total revenues of the company reached KD 10,158,448 while the expenses thereof reached KD 4,503,611.

In addition, most of the company's results are still reflecting positive and good results, especially in respect of:

Details	Amounts in Million KD 2007	Amounts in Million KD 2006	Increase rate
Assets	122,7	108,2	12,9%
Shareholders rights	77,1	71,3	8,1%
Under-development lands	32,8	24,4	34,4%
Real estate investments	8,4	16,2	-48%

Dear Shareholders,

In this brief meeting, I would like to express, in the name of all of you, my thanks and gratitude to the all the employees of Al-Arabia Real Estate Company for the fruitful efforts they have deployed throughout the past period to develop the capacities and abilities of your company to contribute in the sustainable growth processes and the activation of the national economy; in addition, we shall not forget all the governmental and non-governmental bodies that helped us during the last period, hoping that both you and they succeed within the instructions of His Highness Our Dearest Prince Sheikh Sabah Al Ahmad Al Jaber Al Sabah and His Heir Apparent His Highness Sheikh Nawaf Al Ahmad Al Sabah, may God protect them, as well as our wise Government presided over by His Highness Sheikh Nasser Al Mohammed Al Ahmad Al Sabah, may God protect him.

Emad Jawad Bukhamseen

Chairman and Managing Director

ANNUAL FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2007

Arab Real Estate Company K.S.C.C.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the Financial Statements

We have audited the accompanying financial statements of Arab Real Estate Company K.S.C.C. (the "Company"), which comprise the balance sheet as at 31 December 2007 and the related statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed below, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The financial information of Rotana Hotel Al Sharjah (United Arab Emirates) included in these financial statements are based on its management accounts and have not been audited. Its total assets are KD 507,140 as of 31 December 2007 and net profit is KD 720,229 for the year then ended (31 December 2006: KD 614,191 and KD 908,603 respectively).

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial information referred to in the preceding paragraph been audited, the financial statements present fairly, in all material respects the financial position of the Company as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Company, and the financial statements, together with the contents of the report of the Board of Directors, are in accordance therewith. We further report that we obtained the information that we required for the purpose of our audit; and that the financial statements incorporate all information that is required by Commercial Companies Law of 1960, as amended, and by the Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Company's Articles of Association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the Company or on its financial position, except that the Company holds certain investments in shares in contradiction to its objectives.

Bader A. Al-Wazzan
Licence No. ١٢A
PricewaterhouseCoopers

Nasser Abdullah Al Muqait
Licence No. ٩A
Al Ahli Bureau

Kuwait, 10 March 2008

Arab Real Estate Company K.S.C.C.

BALANCE SHEET

as at 31 December 2007

(All amounts in Kuwaiti Dinars unless otherwise stated)

	Note	2007	2006
ASSETS			
Non- current assets			
Property, plant and equipment	4	12,594,170	13,217,631
Properties under development	5	32,847,754	24,419,186
Advance payments for purchase of lands		10,652,347	4,399,675
Investment properties	6	8,439,238	16,193,959
Investment in associates	7	22,609,203	21,144,335
Investment in an unconsolidated subsidiary	8	210,000	-
Available for sale investments	9	6,190,143	5,024,157
		93,542,855	84,398,943
Current assets			
Properties and lands held for trading	10	127,638	1,077,746
Inventories		24,641	26,396
Trade and other receivables	11	6,669,286	3,163,140
Investments at fair value through profit or loss	12	21,295,356	19,348,125
Cash and cash equivalents		1,087,757	702,337
		29,204,678	24,317,744
Total assets		122,747,533	108,716,687
EQUITY AND LIABILITIES			
Equity			
Share capital	13	46,244,443	46,244,443
Share premium		5,614,733	5,614,733
Treasury shares	14	(1,228,585)	(1,228,585)
Gain on sale of treasury shares		934,353	934,353
Statutory reserve	15	3,939,477	3,356,964
Voluntary reserve	16	3,939,477	3,356,964
Company's share in an associate's reserves		282,981	220,536
Retained earnings		17,316,731	12,826,920
		77,043,610	71,326,328
Non-current liabilities			
Bonds	17	-	20,000,000
Loans and bank facilities	18	7,000,000	5,903,077
Post employment benefits		165,617	179,818
		7,165,617	26,082,895
Current liabilities			
Trade and other payables	19	4,083,152	6,310,547
Loans and bank facilities	18	14,455,154	4,996,917
Bonds	17	20,000,000	-
		38,538,306	11,307,464
Total liabilities		45,703,923	37,390,359
Total equity and liabilities		122,747,533	108,716,687

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

Emad Jawad Bukhamseen
Chairman and Managing Director

Adnan AbdulNabi Al Mousa
Deputy Chairman

Arab Real Estate Company K.S.C.C.

STATEMENT OF INCOME

for the year ended as at 31 December 2007

(All amounts in Kuwaiti Dinars unless otherwise stated)

	Note	2007	2006
Net income from properties		1,468,152	1,551,933
Net income from hotels		1,457,004	1,261,122
Gain on \ (Losses from) disposal of investment properties		3,518,973	(234,209)
Gain on sale of Properties and lands held for trading		571,900	-
Gain from investments at fair value through profit or loss	20	934,654	4,642,677
Other operating income		331,055	365,473
General and administrative expenses		(294,135)	(395,163)
Staff costs	21	(786,441)	(645,510)
Depreciation and amortization		(1,192,520)	(1,036,683)
Impairment of properties under development		-	(201,287)
Operating profit		6,008,642	5,308,353
Company's share of associates' results		1,580,518	(294,291)
Loss on sale of a subsidiary		-	(238,420)
Gain on sale of an associate		-	51,670
Gain on sale of available for sale investments		296,192	1,270,739
Impairment of available for sale investments		-	(125,479)
Finance costs		(2,038,476)	(2,210,492)
Foreign currency exchange		(21,748)	(24,852)
Board of Directors' remuneration		(25,000)	(25,000)
Contribution to Kuwait Foundation for the Advancement of Sciences	22	(36,621)	(33,635)
National Labour Support Tax		(106,115)	(93,431)
Zakat		(2,555)	-
Net profit for the year		5,654,837	3,585,162
Earnings per share (fils)	23	12.42	7.88

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

Arab Real Estate Company K.S.C.C.

STATEMENT OF CHANGES IN EQUITY

for the year ended as at 31 December 2007

(All amounts in Kuwaiti Dinars unless otherwise stated)

	Share Capital	Share premium	Treasury Shares	Gain on sale of treasury shares	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Company's share in an associate's reserves	Retained earnings	Total
Balance as at 1 January 2006, as previously reported	38,537,036	2,146,400	(814,025)	1,021,353	2,983,241	2,983,241	(2,663)	8,279	13,975,931	60,838,793
Prior year adjustments (note 24)	-	-	-	-	-	-	-	-	(154,166)	(154,166)
Balance as at 1 January 2006 (restated)	38,537,036	2,146,400	(814,025)	1,021,353	2,983,241	2,983,241	(2,663)	8,279	13,821,765	60,684,627
Company's share in an associate's reserves	-	-	-	-	-	-	-	211,090	-	211,090
Sale of an associate	-	-	-	-	-	-	2,663	1,167	-	3,830
Net profit recognized directly in equity	-	-	-	-	-	-	2,663	212,257	-	214,920
Net profit for the year	-	-	-	-	-	-	-	-	3,585,162	3,585,162
Total recognized profit for the year	-	-	-	-	-	-	2,663	212,257	3,585,162	3,800,082
Bonus shares at 5%	1,926,852	-	-	-	-	-	-	-	(1,926,852)	-
Capital increase	5,780,555	3,468,333	-	-	-	-	-	-	-	9,248,888
Cash dividends at 5%	-	-	-	-	-	-	-	-	(1,905,709)	(1,905,709)
Purchase of treasury shares	-	-	(798,680)	-	-	-	-	-	-	(798,680)
Sale of treasury shares	-	-	384,120	(87,000)	-	-	-	-	-	297,120
Transfers to reserves	-	-	-	-	373,723	373,723	-	-	(747,446)	-
Balance as at 31 December 2006	46,244,443	5,614,733	(1,228,585)	934,353	3,356,964	3,356,964	-	220,536	12,826,920	71,326,328
Balance as at 1 January 2007	46,244,443	5,614,733	(1,228,585)	934,353	3,356,964	3,356,964	-	220,536	12,826,920	71,326,328
Company's share in an associate's reserves	-	-	-	-	-	-	-	62,445	-	62,445
Net profit recognized directly in equity	-	-	-	-	-	-	-	62,445	-	62,445
Net profit for the year	-	-	-	-	-	-	-	-	5,654,837	5,654,837
Total recognized profit for the year	-	-	-	-	-	-	-	62,445	5,654,837	5,717,282
Transfers to reserves	-	-	-	-	582,513	582,513	-	-	(1,165,026)	-
Balance as at 31 December 2007	46,244,443	5,614,733	(1,228,585)	934,353	3,939,477	3,939,477	-	282,981	17,316,731	77,043,610

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

Arab Real Estate Company K.S.C.C.

STATEMENT OF CASH FLOWS

for the year ended as at 31 December 2007

(All amounts in Kuwaiti Dinars unless otherwise stated)

	2007	2006
Cash flows from operating activities		
Cash generated from operating activities (Note 28)	7,189,567	6,360,449
Finance costs paid	(2,206,935)	(2,210,492)
Net cash generated from operating activities	4,982,632	4,149,957
Cash flows from investing activities		
Acquisition of property, plant and equipment	(185,800)	(315,492)
Acquisition of properties under development	(9,709,677)	(5,136,178)
Advance payments for purchase of lands	(10,652,347)	(3,515,265)
Acquisition of investment properties	(139,861)	(4,635,978)
Proceeds from sale of investment properties	6,456,989	-
Paid to gain associate Company	(657,235)	-
Paid to gain subsidiary Company	(210,000)	-
Proceeds from sale of an associate	-	457,550
Acquisition of available for sale investments	(1,461,186)	(860,000)
Proceeds from sale of available for sale investments	591,392	763,944
Dividends income received	835,330	661,889
Net cash used in investing activities	(15,132,395)	(12,579,530)
Cash flows from financing activities		
Proceeds from capital increase	-	9,248,888
Purchase of treasury shares	-	(798,680)
Proceeds from sale of treasury shares	-	297,120
Net proceeds from loans	10,555,160	1,585,827
Cash dividends paid	(19,977)	(1,734,879)
Net cash generated from financing activities	10,535,183	8,598,276
Net increase/ (decrease) in cash and cash equivalents	385,420	168,703
Cash and cash equivalents at the beginning of the year	702,337	533,634
Cash and cash equivalents at the end of the year	1,087,757	702,337

The accompanying notes form an integral part of these financial statements

Arab Real Estate Company K.S.C.C.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended as at 31 December 2007

(All amounts in Kuwaiti Dinars unless otherwise stated)

1. Incorporation and activities

Arab Real Estate Company is a Kuwaiti Shareholding Company (Closed) incorporated in the State of Kuwait on 21 June 1976 and is listed in the Kuwait Stock Exchange. The Company's registered head office is located at Al-Sharq, Ahmed Al-Jaber Street, Emad Commercial Center, Kuwait.

The Company is primarily engaged in the following activities:

- Carrying out various real estate commercial activities such as purchase and sale of investments in land and properties and managing properties for others.
- Undertaking various construction activities and sub activities thereto in favor of the Company or other parties in the public and private sectors including separate houses, buildings and housing complexes.
- Undertaking contracting activities and trading in all materials related to construction or required for it.
- Set up commercial markets and tourism, sport and entertainment facilities.
- The Company may have interest or participate with entities that carry out similar activities or those that can assist the Company in achieving its objectives inside Kuwait and abroad and it may purchase or affiliate these entities.
- Managing real estate portfolios for the Company only and investment in the shares and projects of other companies whose activities are similar to the Company's activities.
- Establishing and managing real estate investment funds only.
- Owning local and international shares and bonds of companies whose activities are similar to the Company's activities.
- Constructing, acquiring and managing hotels and all tourism activities.
- All maintenance activities including maintenance and performing civil, mechanical, electrical, elevators, plumping, phone and air conditioning activities to guarantee maintaining buildings and their safety and undertaking contracting related to above activities for the properties owned by the Company only.
- Preparing studies and providing consultancy in all types of investment properties sector and undertaking, managing and utilizing all types of properties provided that the required terms are met counterparties.
- Use the available financial surplus of the Company for investment in financial and real estates portfolios managed by specialized companies.
- Purchase and sale of the shares of companies whose activities are similar and integral to the Company's activities.

Certain investments of the Company are not in accordance with the stated activities of thereof - (Notes 7, 9 and 12).

The financial information, for the year ended 31 December 2007, of Rotana Hotel Al Sharjah (United Arab Emirates included in these financial statements are based on its management accounts and have not been audited or reviewed. Its total assets is KD 507,140 as of 31 December 2007 and net profits are KD 720,229 for the year then ended (31 December 2006: KD 614,191 and KD 908,603 respectively)

These financial statements were approved for issue by the Board of Directors of the Company on 10 March 2008. The General Assembly of shareholders has the authority to amend these financial statements after issuance.

Arab Real Estate Company K.S.C.C.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended as at 31 December 2007

(All amounts in Kuwaiti Dinars unless otherwise stated)

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis or preparation

These financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS). These financial statements are prepared under the historical cost basis, as modified the fair value of investment at fair value through profit or loss and available for sale investments.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note (30).

During the year, certain IFRS and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) have been issued.

Standards, amendments and interpretations effective in 2007

- IFRS (7) Financial Instruments: Disclosures, which requires the Company to make additional disclosures on the financial instruments, however, it will not have an impact on the classification and the valuation of the Company's financial instruments.
- IAS (1) Presentation of Financial Statements (revised): "Capital Disclosure" which requires additional disclosures on share capital management.
- IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Company's financial statements.

Standards, amendments and interpretations effective in 2007 but not relevant

- IFRIC 8, 'Scope of IFRS 2';
- IFRS (4) 'Insurance contracts';
- IFRIC (7) 'Applying the restatement approach under IAS (29) Financial reporting in hyperinflationary economies'.
- IFRIC (9) 'Re-assessment of embedded derivatives'

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

- IFRIC (11) 'IFRS (2) – Group and treasury share transactions', applicable for annual periods beginning on or after 1 March 2007.
- IAS (23) (Amendment), 'Borrowing costs' (effective from 1 January 2009).
- IFRS (8) 'Operating segments' (effective from 1 January 2009).

Arab Real Estate Company K.S.C.C.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended as at 31 December 2007

(All amounts in Kuwaiti Dinars unless otherwise stated)

2. Significant Accounting Policies - Continued

2.2 Foreign currency translation

The functional currency of the Company is the Kuwaiti Dinar. Foreign currency transactions are translated at the rates of exchange prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange prevailing at the balance sheet date. Resultant gains or losses are taken to the statement of income.

2.3 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight line basis over the estimated useful lives. The Company's management periodically reviews the useful lives of property and equipment. Any resultant changes are recognized in the statement of income on a retroactive basis.

The useful lives of property and equipment are estimated as follows:

	Estimated useful lives (Years)
Hotel buildings	20
Hotel furniture and fixtures	10
Company furniture and fixtures	4
Vehicles	3

Gains or losses from sale of property and equipment are recorded in the statement of income, as the difference between the selling price and net book value of such assets at the sale date.

2.4 Land and properties under development

Lands and properties under development are stated at cost including development costs. At completion of development process, they are either classified as investment properties, lands and properties held for trading, or properties and equipment for the Company's self-occupation, depending on the management's intention regarding the future use of these lands and properties.

2.5 Investment properties

Investment properties held by the Company for capital appreciation or renting out to others are recorded under non-current assets. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on investment properties on a straight line basis over their estimated useful lives.

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Impairment losses are recognized in the statement of income for the period in which they arise.

Arab Real Estate Company K.S.C.C.

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2.7 Investment in associates

Associated companies are those entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights indicate that the significant influence exist.

Investments in associates are accounted for by the equity method of accounting. The investment is initially recorded at cost. The investment balance includes any goodwill less impairment loss (if any).

The Company's share of its associates' post acquisition profits or losses is recognized in the statement of income, and its share of post acquisition movements in reserve is recognized in equity.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

The goodwill arising from acquisition of an associate is recognized in the investment in associates. Goodwill is tested annually for impairment and recorded at cost less impairment losses.

2.8 Financial instruments - recognition and de-recognition, classification and measurement

In the normal course of business, the Company uses financial instruments, principally cash and cash equivalents, investment at fair value through profit or loss, available for sale investments, trade and other receivables, trade and other payables, bonds, loans and bank facilities.

Recognition and de-recognition

A financial asset or a financial liability is recognized when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized at the settlement date, on which the Company receive or deliver the asset.

A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset expire, or when the Company has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Classification

The Company determines the appropriate classification of its financial assets on the purchase date based on the purpose of acquisition. The Company classifies financial assets as "investments at fair value through profit or loss", "available for sale" and "loans and receivables". All financial liabilities are classified as financial liabilities "other than at fair value through profit or loss".

All financial assets are initially measured at fair value (plus transaction costs if not classified in the financial instruments at fair value through profit or loss).

Investments at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset held for trading are those assets acquired principally for the purpose of selling in the short term.

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2. Significant Accounting Policies - Continued

The financial assets designated at fair value though profit or loss at inception are classified in this category if managed and their performance is evaluated and internally reported on a fair value basis in accordance with documented strategic risk management or investment strategy.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

The Company's loans and receivables comprise trade and other receivables, and cash and cash equivalents.

Available for sale

These are non-derivative financial assets that are either designated in this category or not included in any of the above categories, and are principally, those acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit rates.

They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date

Measurement

All financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of income. Subsequently financial investments at fair value through profit and loss, and available for sale investments are measured at fair value, while loans and receivables are measured at amortized costs.

Unrealized gains and losses arising from changes in the fair value of the financial investments at fair value through profit or loss are included in the statement of income.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss, while translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity.

In case of sale or impairment of the value of available for sale investments, the accumulated balance of these changes in the fair value in equity is transferred to the statement of income.

Fair value

The fair value of quoted investments is based on quoted closing bid prices. If the market for a financial asset is not active or the financial instrument is unquoted, fair value is derived from recent arm's length transactions, discounted cash flow analysis, other valuation techniques commonly used by market participants or determined with reference to market values of similar instruments. The fair value of financial instruments carried at amortized cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments. As for equity investments, whose fair values cannot be reliably determined, the investment is carried at cost less impairment provisions.

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Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative losses-measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that financial asset previously recognized in the profit or loss transferred from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income.

A provision is made for impairment of loans and receivables if there is an objective evidence that the Company would not be able to collect all the amounts receivable. The amount of provision is the difference between the book value and the realizable value, being the present value of the expected future cash flows discounted at the effective interest rate. Impairment losses are taken to the statement of income.

2.9 Lands and properties held for trading

Lands and properties acquired for sale are classified as lands and properties held for trading and carried at the lower of cost and net realizable value. The net realizable value is the estimated selling price less the costs estimated to complete sale.

2.10 Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined on the average cost basis. Net realizable value is the estimated selling price less the estimated cost of completion.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, and time deposits that mature within three months from the date of placement.

2.12 Treasury Shares

The cost of the Company's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends and rights issues. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.13 Post employment benefits

The Company is liable under Kuwaiti Labor Law, to make payments to the employees for post employment benefits through defined benefits plan. Such payment is made on a lump sum basis at the end of an employee's service. This liability is unfunded and has been computed as the amount payable as a result of involuntary termination of the Company's employees on the balance sheet date. The Company expects this method to produce a reliable approximation of the present value of this obligation.

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2. Significant Accounting Policies - Continued

2.14 Provisions for liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle this obligation and a reliable estimate of the amount can be made.

2.15 Revenue recognition

- Gains and losses from sale of financial investment, investment properties, and lands and properties held for trading are recognized in the statement of income at completion of sale.
- Income from renting investment properties are recognized on an accrual basis.
- Dividends are recognized when the right to receive such payments is established.
- Interest income is recognized on a time proportion basis.

2.16 Accounting for leases

Where the Company is the lessor

Assets leased for others under operating leases, other than investment properties, are included in property and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognized on a straight-line basis over the lease term.

Where the Company is the lessee

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

2.17 Finance costs

Finance costs that are directly attributable to the acquisition of a qualifying asset are capitalized as part of the cost of that asset. Capitalization of borrowing costs is suspended during the long terms in which there is an obstacle against the actual development. Capitalization is discontinued when all the activities necessary to bring the asset to it intended operating use are completed. Other borrowing costs are recognized as expenses in the period in which they have been incurred.

3. Risks Management

3.1 Financial instruments

The Company has classified its financial assets and liabilities as of 31 December 2007 and 2006 as follows:

- Available for sale investments which include investments in shares (Note 9).
- Investments at fair value through profit or loss which include investments in shares (Note 12).
- Loans and receivables, which include trade and other receivables (Note 11), and cash and cash equivalents.
- Financial liabilities, which include Bonds (Note 17), loans and bank facilities (Note 18), and trade and other payables (Note 19)

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3.2 Financial risks

The Company's business activities expose it to certain financial risks such as market risk, credit risk and liquidity risk. The Company's financial risks exposures are managed and monitored by the Company's senior management. The most significant financial risks to which the Company is exposed to are as follows:-

Market risks

Market risk is the risk of loss resulting from fluctuations in the fair value or the future cash flows of financial instrument as a result of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

The Company's senior management monitors and manages its market risks by regular oversight of the market's circumstances and the change in foreign exchange and interest rates, and market prices.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to foreign currency risks resulted mainly from the Company's dealings in financial instruments denominated in foreign currencies. Foreign currency risks result from the future transactions on financial instruments in foreign currency as reflected in the financial statements. The Company is exposed to this risk as a result of dealing in financial instruments in US Dollar. Financial assets in foreign currencies are as of 31 December are as follows:

	2007	2006
US Dollar	5,879,443	4,084,158
Other currencies	667,312	393

Financial liabilities in foreign currencies are as of 31 December are as follows:

	2007	2006
US Dollar	203,272	59,262
Other currencies	27,298	-

At 31 December 2007 and 2006, if the currency had weakened/strengthened by 10% against the US Dollar and other currencies, with all other variables held constant, profit for the year (before Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), and Zakat) would have been higher/lower as follows:

	2007	2006
US Dollar	555,823	372,970
Other currencies	28,029	39
	583,852	373,009

3. Risks Management - Continued

These increase or decrease is mainly due to foreign exchange gains/losses on translation of balances in US Dollar and other currencies in cash and cash equivalent, investments at fair value through profit or loss, and trade and other receivables. The Company tracks and manages its foreign currency exposure by monitoring the changes in foreign currencies exchange rates on regular basis to assess their effects on the financial statements and take the necessary action.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Since the Company has no significant interest bearing assets, the Company's financial assets are substantially independent of changes in market interest rates. The Company is exposed to this risk as it holds the following financial liabilities:

- Bonds (note 17).
- Loans and bank facilities (Note 18).

Financial liabilities issued at fixed interest rate expose the Company to fair value interest rate risk arises from changes in interest rates. Financial liabilities issued at variable interest rates expose the Company to cash flow interest rate risks. At 31 December 2007 and 2006, if interest rates at that date been 1% higher, with all other variables held constant, profit for the year (before KFAS, NLST, and Zakat) would have been lower mainly as a result of higher interest expense on issued bonds and bank facilities, by approximately KD 364,000. (approximately KD 330,000 - 2006). The Company management monitors interest rate risk by regular tracking of market interest rates.

Price risk

It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Company is exposed to fluctuation risks of its equity financial assets as the Company owns investments classified in the balance sheet as investments available for sale and at fair value through profit or loss.

The Company's investments classified as available for sale as at 31 December 2007 and 2006 are not quoted. While its investments classified as investments at fair value through profit or loss are quoted. The Company's management monitors and manages these risks through:

- Tracking the market conditions and trends.
- Invests with companies that have good financial positions that generate high operating income and dividends.

The Company's management expects that the effect on profit (before KFAS, NLST, and Zakat) as a result of a change in the fair value of equity instruments at fair value through profit or loss due to a 5% increase/ decrease in equity indices (with all other variables held constant) is increase/ decrease in the net profit for the year ended 31 December as follows:

	Effect on statement of income	
Market index	**2007**	**2006**
Kuwait Stock Exchange	835,000	778,000
Cairo Stock Exchange	229,000	189,000
	1,064,000	967,000

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Profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Receivables, and cash and cash equivalents are considered the most of the assets exposed to credit risk. The Company mitigates this risk by:-

- Dealing with high net worth and reputable customers.
- Dealing with highly credit rated financial institutions.

The Company's management believes that the maximum exposure to credit risk as at 31 December is as follows:-

	2007	2006
Trade and other receivables (Note 11)	6,669,286	3,163,140
Cash and cash equivalents	1,087,757	702,337
	7,757,043	3,865,477

Liquidity risks

It is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk management mainly includes maintaining sufficient cash and high liquid financial instruments and the availability of funding resources to meet the Company's liquidity requirements. The table below analyses the maturities of the Company's financial liabilities:

	31 December 2007				
	During one year	More than one year and Less than two years	More than two years and Less than five years	More than five years	Total
Bonds (Note 17)	21,349,000	-	-	-	21,349,000
Bank facilities (Note 18)	15,130,619	622,500	3,236,757	7,835,507	26,825,383
Trade and other payables (Note 19)	4,083,152	-	-	-	4,083,152
	40,562,771	622,500	3,236,757	7,835,507	52,257,535

	31 December 2006				
	During one year	More than one year and Less than two years	More than two years and Less than five years	More than five years	Total
Bonds (Note 17)	1,324,000	21,349,000	-	-	22,673,000
Bank facilities (Note 18)	4,996,917	2,142,588	3,760,489	-	10,899,994
Trade and other payables (Note 19)	6,310,547	-	-	-	6,310,547
	12,631,464	23,491,588	3,760,489	-	39,883,541

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3. Risks Management - Continued

The Company monitors the liquidity reserve based on the expected cash flows. Presented below is the expected liquidity reserve as at 31 December 2007:

	2008
Cash and cash equivalents at beginning of the period	1,087,757
Unused loans and bank facilities	9,000,000
Operating proceeds	8,800,000
Operating outflows	(3,000,000)
Repayments of debt and dividends	(3,500,000)
	12,387,757

3.3 Capital risk management:

The Company objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company also monitors the share capital based on the gearing ratio, (the debt ratios to equity ratio). The debt ratios to equity ratios as at 31 December was as flows:-

	Kuwaiti Dinars	
	2007	2006
Total loans and banks facilities (Note 18)	21,455,154	10,899,994
Bonds (Note 17)	20,000,000	20,000,000
Less : Cash and Cash equivalents	(1,087,757)	(702,337)
Net debt	40,367,397	30,197,657
Total equity	77,043,610	71,326,328
Total capital	117,411,007	101,523,985
Gearing ratio	34.38%	29.74%

The decrease in the gearing ratio during 2007 is mainly due to increase in net debts with a percentage higher than the percentage of increase in total capital.

In order to maintain the capital structure that achieve the Company's objectives and matches it future expansion and maintain in the meantime the gearing ratio at the minimum, during 2006, the Company increased its capital by:

- Issue of bonus shares of 5% of the paid up capital (19,268,518 shares) equal to 5 shares for every 100 shares.
- Issue of 57,805,554 shares of 100 fils per share (with a total par value of KD 5,780,555) at a premium of 60 fils each (totaling KD 3,468,333).

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4. Property, plant and equipment

	Rotana Hotel building (Sharjah)	Holiday Inn Hotel building (Kuwait)	Hotel furniture and fixtures	Company furniture and fixtures	Vehicles	Total
As of 1 January 2006						
Cost	3,823,761	8,870,000	1,941,225	113,256	56,000	14,804,242
Accumulated depreciation	(908,849)	(60,022)	(707,396)	(104,485)	(12,320)	(1,793,072)
Net book value	2,914,912	8,809,978	1,233,829	8,771	43,680	13,011,170
Year ended 31 December 2006						
Opening net book amount	2,914,912	8,809,978	1,233,829	8,771	43,680	13,011,170
Additions	-	178,265	51,201	66,666	19,360	315,492
Transferred from Projects under Development	-	683,721	-	-	-	683,721
Net Disposals	-	-	-	-	(14,040)	(14,040)
Depreciation charge	(158,111)	(403,266)	(196,584)	(5,549)	(15,202)	(778,712)
Net book value as of 31 December 2006	**2,756,801**	**9,268,698**	**1,088,446**	**69,888**	**33,798**	**13,217,631**
As of 1 January 2007						
Cost	3,823,761	9,731,986	1,992,426	179,922	57,360	15,785,455
Accumulated depreciation	(1,066,960)	(463,288)	(903,980)	(110,034)	(23,562)	(2,567,824)
Net book value	2,756,801	9,268,698	1,088,446	69,888	33,798	13,217,631
Year ended 31 December 2007						
Opening net book amount	2,756,801	9,268,698	1,088,446	69,888	33,798	13,217,631
Additions	-	57,816	101,243	26,741	-	185,800
Depreciation charge	(193,612)	(404,881)	(169,654)	(22,185)	(18,929)	(809,261)
Net book value as of 31 December 2007	**2,563,189**	**8,921,633**	**1,020,035**	**74,444**	**14,869**	**12,594,170**

The Holiday Inn building (Kuwait), with a book value of KD 8,921,633 as at 31 December 2007 (KD 9,268,698 - 31 December 2006) is pledged in favor of a local bank against loans and bank facilities (Note 18).

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5. Properties under development

	2007	2006
Balance at the beginning of the year	24,419,186	11,156,141
Additions	9,709,677	5,136,178
Transferred from investment properties	-	770,000
Transferred from lands and properties held for trading	-	8,269,963
Transferred to property, plant and equipment	-	(683,721)
Transferred to investment properties (note 5)	(1,281,109)	(28,088)
Impairment	-	(201,287)
Balance at the end of the year	32,847,754	24,419,186

Certain properties under development amounting to KD 20,723,267as at 31 December 2007 (KD 5,405,962 - 31 December 2006) are mortgaged in favor of a local Bank against loans and bank facilities (Note 18). Furthermore, certain properties under development amounting to KD 8,123,300 as at 31 December 2007 (KD 5,893,899 - 31 December 2006) are mortgaged in favor of a local investment company against issued bonds during year 2003 (Note 17).

6. Investment properties

	Lands	Buildings	Total
Cost			
As at 1 January 2007	8,682,588	8,755,603	17,438,191
Additions during the year *	-	48,454	48,454
Disposals during the year	(5,333,328)	(3,786,129)	(9,119,457)
Transferred from properties under development (note 5)	664,825	616,284	1,281,109
As at 31 December 2007	4,014,085	5,634,212	9,648,297
Depreciation as at 1 January 2007	-	1,244,232	1,244,232
Depreciation for the year	-	383,259	383,259
Disposals during the year	-	(418,432)	(418,432)
Accumulated depreciation as at 31 December 2007	-	1,209,059	1,209,059
Net as at 31 December 2007	4,014,085	4,425,153	8,439,238
Net as at 31 December 2006	8,682,588	7,511,371	16,193,959

- Certain investment properties with a carrying amount of KD 2,461,044 as at 31 December 2007 (KD 1,012,799 - 31 December 2006) are pledged in favor of local bank against loans and bank facilities (Note 18).
- Certain investment properties with a carrying amount of KD 3,055,782 as at 31 December 2007 (KD 3,177,146 - 31 December 2006) are pledged in favor of local investment company against bonds issued during year 2003 (Note 17).
- The fair value of investment properties is KD 9,150,000 as at 31 December 2007 (31 December 2006: KD 21,200,000).

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7. Investment in associates

	Share percentage	2007	2006
Kuwait National Cinema Company (K.S.C.C)	17.22%	21,974,199	21,144,335
Sharm Dreams for Real State Development (An Egyptian Joint Stock Company)	25%	635,004	-
		22,609,203	21,144,335

- The Company's share in Kuwait National Cinema Company is 17.22% as at 31 December 2007 (17.19% as at 31 December 2006) and is classified as an associate according to significant representation in Board of Directors of the associate company.
- Following are the movements of the investment in associates during the year

	2007	2006
Investments balance as at 1 January	21,144,335	22,291,475
Paid for acquisition of an associate	657,235	-
Disposal of an associate	-	(402,050)
Company's share in the result of associates	1,580,518	1,476,847
Dividends received from an associate	(835,330)	(661,889)
Company's share in associates reserves	62,445	211,090
Impairment	-	(1,771,138)
Balance as at 31 December	22,609,203	21,144,335

- The total assets and liabilities of Kuwait National Cinema Company as at 31 December 2007 and its revenue and net profit for the year then ended are: KD 65,892,351, KD 20,498,329, KD 20,512,623, and KD 9,081,457 respectively (2006: KD 51,231,059, KD 9,585,741, KD 17,386,521, and KD 8,256,120 respectively).
- Sharm Dreams for Real State Development was incorporated in July 2007 and has not started its operation yet. Up to the date of the preparation of these financial statements, there are no financial statements available for this associate.
- Investment in associates includes goodwill of KD 6,618,263 as at 31 December 2007 (KD 6,618,263 as at 31 December 2006).
- The market value of investment in Kuwait National Cinema Company amounted to KD 16,149,713 as at 31 December 2007 (KD 13,899,666 - 31 December 2006).
- The Company's investment in Kuwait National Cinema Company includes mortgaged shares against issued bonds with carrying amount of KD 19,908,000 as at 31 December 2007 (KD 19,167,268 - 31 December 2006) (Note 17).
- Investments in associates are not in accordance with the Company's activities.

8. Investment in an unconsolidated subsidiary

The balance represents the Company's share with 70% in Eqarat.Com Real Estate Company "subsidiary". The subsidiary's financial statements have not been consolidated in these financial statements as the subsidiary was incorporated in July 2007 and its financial statements are not available.

9. Available for sale investments

Movements of the available for sale investments are as follows:

	2007	2006
Balance as at 1 January	5,024,157	3,793,836
Additions	1,461,186	3,455,200
Disposals	(295,200)	(1,969,632)
Impairment	-	(255,247)
Balance as at 31 December	6,190,143	5,024,157

Balance of available for sale investments is represented in:

	2007	2006
Unquoted shares	6,613,653	5,611,602
Impairment	(423,510)	(587,445)
	6,190,143	5,024,157

Available for sale investments were carried at cost less impairment, as their fair values cannot be reliably determined

Available for sale Investments are denominated in the following currencies:

	2007	2006
Kuwaiti Diners	5,928,468	5,316,402
US Dollars	300,889	295,200
Other currencies	384,296	-
	6,613,653	5,611,602

Certain available for sale investments with a carrying value of KD 4,074,584 as at 31 December 2007 (KD 4,002,817 - 31 December 2006) are not in accordance with the Company's activities.

10. Properties and lands held for trading

	2007	2006
Cost as at 1 January	2,776,548	10,033,567
Additions during the year	19,216	1,012,944
Disposals	(969,324)	-
Transferred to properties under development	-	(8,269,963)
Cost as at 31 December	1,826,440	2,776,548
Provision for impairment	(1,698,802)	(1,698,802)
	127,638	1,077,746

Arab Real Estate Company K.S.C.C.

NOTES TO THE FINANCIAL STATEMENTS

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11.Trade and other receivables

	2007	2006
Trade receivables	466,188	450,633
Staff receivables	22,256	3,101
Receivables from sale of investment properties	5,763,009	-
Due from related parties	140,667	2,502,693
Advance payment for purchase of investments	97,407	6,000
Accrued revenue	35,670	27,770
Prepaid expenses	126,015	143,450
Other receivables	18,074	29,493
	6,669,286	3,163,140

- The carrying value of trade and other receivables approximates its fair value.
- The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.
- Trade and other receivables are denominated in the following currencies:

	2007	2006
Kuwaiti Diners	5,419,431	2,855,428
US Dollar	963,009	-
Other currencies	286,846	307,712
	6,669,286	3,163,140

12. Investments at fair value through profit or loss

	2007	2006
Local shares	16,708,692	15,559,283
Foreign shares	4,586,664	3,788,842
	21,295,356	19,348,125

- Investments at fair value through profit or loss as at 31 December 2007 include investments with a carrying amount of KD 5,267,354 (KD 833,495 - 31 December 2006) are mortgaged in favor of one of local banks against loans and bank facilities (Note 18).
- Investments at fair value through profit or loss as at 31 December 2007 includes investments with a carrying amount of KD 9,929,400 (KD 10,077,599 - 31 December 2006) are mortgaged against bonds, (Note 17).
- Investments at fair value through profit or loss amounting to KD 20,407,273 as at 31 December 2007 (KD 19,321,992 - 31 December 2006); are not in accordance with the Company's activities.

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13. Share capital

On 22 April 2006, Company's General Assembly approved the following:

- Issue of bonus shares of 5% of the paid up capital (19,268,518 shares) equal to 5 shares for every 100 shares.
- Issue of 57,805,554 shares of 100 fils per share (with a total par value of KD 5,780,555) at a premium of 60 fils each (totaling KD 3,468,333).

This increase was registered in the Commercial Register on 19 June 2006. Accordingly, Issued and paid up capital are as follows:

	2007	2006
Issued share capital	46,244,443	46,244,443
Number of shares (share)	462,444,433	462,444,433
Nominal value (fils)	100	100
Paid up capital	46,244,443	46,244,443

14. Treasury shares

	2007	2006
Number of shares (share)	7,200,109	7,200,109
Percentage to issued shares	1.56 %	1.56 %
Cost	1,228,585	1,228,585
Market value	1,051,216	1,008,015

15. Statutory reserve

In accordance with commercial Companies law of 1960, as amended and the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to the statutory reserve. The Company may resolve to discontinue such annual transfers when the statutory reserve reaches 50% of the paid up capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up capital to be made in years when accumulated profits are not sufficient for the payment of such dividend.

16. Voluntary reserve

As required by the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to the voluntary reserve. The General Assembly may resolve to discontinue such transfer based on a proposal by the board of directors. There is no restriction on distribution of voluntary reserve.

17. Bonds

The balance of KD 20,000,000 as at 31 December 2007 is represented in the bonds for public offering during 2003 allotted to two tranches; the first tranche amounted to KD 10,000,000 with a par value of KD 5,000 and fixed interest rate of 5.75% payable semiannually, and the second tranche amounted to KD 10,000,000 with a par value of KD 5,000 and floating interest rate of 1.75% over Central Bank of Kuwait discount rate payable semiannually. These bonds mature after 5 years from the issuance date.

Arab Real Estate Company K.S.C.C.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended as at 31 December 2007

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The bonds issued are guaranteed by:

	2007	2006
Properties under development (Note 5)	8,123,300	5,893,899
Investment properties (Note 6)	3,055,782	3,177,146
Investments in associates (Note 7)	19,908,000	19,167,268
Investments at fair value through profit or loss (Note 12)	9,929,400	10,077,599
	41,016,482	38,315,912

18. Loans and bank facilities

	2007	2006
Current portion		
Overdraft	14,455,154	-
Loans	-	4,996,917
	14,455,154	4,996,917
Non-current portion		
Loans	7,000,000	5,903,077
	21,455,154	10,899,994

Loans and bank facilities are granted by one of the local banks at annual interest rate of 3% to 4.2% over the Central Bank of Kuwait discount rate (2.75% to 3.25% - 31 December 2006).

The loans and bank facilities are guarantee by:

	2007	2006
Property, plant and equipment (Note 4)	8,921,633	9,268,698
Properties under development (Note 5)	20,723,267	5,405,962
Investment properties (Note 6)	2,461,044	1,012,799
Investments at fair value through profit or loss (Note 12)	5,267,354	833,495
	37,373,298	16,520,954

The maturities of loans and bank facilities are as follows:

	2007	2006
Less than 6 months	-	4,996,917
612- months	14,455,154	-
Current portion	14,455,154	4,996,917
15- years	1,500,000	5,903,077
More than 5 years	5,500,000	-
Non-current portion	7,000,000	5,903,077
Total loans and bank facilities	21,455,154	10,899,994

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(All amounts in Kuwaiti Dinars unless otherwise stated)

19. Trade and other payables

	2007	2006
Trade payables	1,273,674	995,587
	700,609	2,589,890
Issuance fees	731,669	751,646
Accrued expenses and leaves	438,422	619,344
Kuwait Foundation for the Advancement of Science	290,791	284,170
National Labor Support Tax	298,863	730,591
Zakat	2,555	-
Directors remunerations	25,000	50,000
Deferred revenue	144,225	202,123
Other payables	177,344	87,196
	4,083,152	6,310,547

20. Gain from investments at fair value through profit or loss

	2007	2006
Trading profit	4,427	159,547
Change in fair value	649,617	4,435,701
Cash dividends	280,610	47,429
	934,654	4,642,677

21. Staff Costs

	2007	2006
Wages and salaries	392,112	410,410
Staff indemnity and leaves	98,343	102,301
Others	295,986	132,799
	786,441	645,510
Number of staff (staff)	28	30

22. Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

	2007	2006
Total profit before deductions	5,825,128	3,737,228
Less:		
Company share in an associate results	(1,580,518)	-
Transferred to statutory reserve	(582,513)	(373,723)
	3,662,097	3,363,505
Contribution to KFAS (1%)	36,621	33,635

Arab Real Estate Company K.S.C.C.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended as at 31 December 2007

(All amounts in Kuwaiti Dinars unless otherwise stated)

23. Earnings per share

	2007	2006
Net profit for the year	5,654,837	3,585,162
Weight average number of outstanding shares (share)	455,244,324	455,244,324
Earnings per share (fils)	12.42	7.88

24. Prior year adjustments

During 2005, the Company capitalized pre-establishment costs of a hotel owned by the Company amounting to KD 154,166 under trade and other receivables instead of the statement of income. During 2006, the Company corrected this error and restated the comparative figures, which resulted in:

- Balance of trade and other receivables has been decreased by KD 154,166 as at 31 December 2005.
- Net profit for the year ended 31 December 2005 has been decreased by KD 154,166 and the retained earnings as at 31 December 2005 has been decreased by the same amount.
- Earnings per share for the year ended 31 December 2005 have been decreased by 0.39 fils.

25. Dividend

On 10 March 2008, the Board of Directors proposed the following dividends:

- Cash dividends of 7.5% of the share capital (7.5 fils for every share).
- Issue of bonus shares of 5 shares for every 100 shares.

The Board of Directors has not proposed any dividends for the year ended 31 December 2006.

Dividend is recorded when approved by the General Assembly of the shareholders.

26. Related party transactions

Parties are considered as related parties when they exercise significant influence over the other party including making financial and operating decisions. In the ordinary course of business, the Company has entered into various significant transactions with related parties (shareholders and the companies in which they own principal interests and the Company's senior management).

Details of the principal related party transactions are as follows:

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26. Related party transactions - Continued

	2007	2006
Statement of income		
Rental expenses	40,800	40,800
Gain from sale of available for sale investments	-	1,105,000
Loss from sale of a subsidiary	-	238,420
Key management compensation		
Salaries	114,000	132,000
Benefits	-	150,000
Others	8,287	9,300
Balance sheet		
Investment properties	-	4,500,000
Lands and properties held fro trading	-	964,755
Due from related parties	140,667	2,502,693
Due to related parties	700,609	2,589,890

27. Segment information

Segment information is presented in respect of the Company's activities. The primary form for the activities segments are based on the Company's management structure and internal reporting system.

Primary segment information:

The financial information about the commercial activity segments is as follows:

	Real Estate division		Hotel division		Total	
	2007	2006	2007	2006	2007	2006
Segment revenues	1,539,619	1,663,453	4,618,339	5,010,847	6,157,958	6,674,300
Segment costs	(71,467)	(111,520)	(3,161,335)	(3,749,725)	(3,232,802)	(3,861,245)
Segment results	1,468,152	1,551,933	1,457,004	1,261,122	2,925,156	2,813,055
Allocated revenue	4,090,873	-	-	-	4,090,873	-
Allocated expenses	(383,259)	(693,467)	(768,147)	(757,961)	(1,151,406)	(1,451,428)
Unallocated expenses					(3,352,205)	(4,107,024)
Unallocated revenues					3,142,419	6,330,559
Net profit					5,654,837	3,585,162

Geographical segments:

The Company operates its activities primarily in State of Kuwait. Some assets and liabilities are located middle-east countries. Total of such assets and liabilities are KD 13,702,376 and KD 507,140 respectively as at 31 December 2007 (31 December 2006: KD 7,441,468 and KD 319,398 respectively).

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NOTES TO THE FINANCIAL STATEMENTS

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28. Cash flow from operating activities

	2007	2006
Cash flows from operating activities		
Net profit for the year	5,654,837	3,585,162
Adjustments:		
Depreciation and amortization	1,192,520	1,036,683
Gain from sale of property, plant and equipment	-	(3,960)
Impairment of properties under development	-	201,287
(Gain) from sale / loss from disposal of investment properties	(3,518,973)	234,209
Company's share of associates' results	(1,580,518)	294,291
Gain on sale of an associate		(51,670)
Loss from sale of an unconsolidated subsidiary	-	238,420
Impairment of available for sale investments	-	125,479
Gain on sale of available for sale investments	(296,192)	(1,259,744)
Gain from investments at fair value through profit or loss	(934,654)	(4,642,677)
Finance costs	2,038,476	2,210,492
Operating profit before changes in working capital	2,555,496	1,967,972
Properties and lands held for trading	5,349,783	(1,012,944)
Inventories	1,755	4,920
Trade and other receivables	(13,756)	709,077
Due from related parties	472,745	4,965,000
Investments at fair value through profit or loss	(1,012,577	(712,244)
Post employment benefits	(14,201)	52,476
Trade and other payables	(149,678)	386,192
Net cash generated from operating activities	7,189,567	6,360,449

29. Contingent liabilities and capital commitments

	31 December 2007	31 December 2006
Uncalled capital of investments in associates	1,905,000	-
Letters of guarantee	690,000	6,518,200
Capital commitments for purchase of lands	90,000,000	3,558,848
Capital commitments for properties under development	22,000,000	7,300,000

30. Significant accounting judgments and estimates

In accordance with the accounting policies contained in IFRS and adopted by the Company, management has made the following judgments and estimations that may affect the carrying values of assets and liabilities.

Estimates and Judgments

Classification of investments

On acquisition of an investment, management has to decide whether it should be classified as carried at fair value through profit or loss, available for sale, or as loans and receivables. In making that judgment the Company considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the statement of income or directly in equity.

Impairment

At each balance sheet date, management assesses, whether there is any indication that available for sale investment may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

At each balance sheet date, management assesses, whether there is any indication that inventories, and property and equipment may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

Sources of estimation uncertainty

Fair values- unquoted securities investments

The valuation techniques for unquoted equity investments and identifiable assets, liabilities and contingent liabilities arising in a business combination make use of estimates such as future cash flows, discount factors, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

Accounts receivable

The Company reviews the doubtful debts in regular basis for impairment to be recognized in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the amount of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Useful life of property plant and equipment, and investment properties

The Company management determines the useful lives and the depreciation of the property and equipment, and investment properties. The management increase the depreciation cost when the estimated useful lives decrease less than before estimated. Management writes off or writes back the cost of old absolute or non strategic assets which are disposed or sold.

31. Comparative figures

Certain comparative figures are reclassified, when necessary, to conform to current period presentation.

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