



**Dar Al Arkan Real Estate Development Company**

**Board of Directors report**

**And**

**The Annual Consolidated Financial Statements**

**For the year ending**

**31/12/2008**

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## **The Board of Directors report**

Respected shareholders of Dar Al Arkan Real Estate Development Company  
Peace and mercy of Allah be upon you.

The Board of Directors of Dar Al-Arkan Real Estate Development Company is pleased to submit its report on the Company's performance and its results for the year 2008. The Company achieved during the year significant growth and delivered positive results to its shareholders by continually enhancing its operations, sustained customer satisfaction, and diligently implementing its strategy as a developer of master-planned communities and diversification of sources of income.

The 2008 overall performance was very positive as total revenues reached a new high of SR 5,610.8 million, compared to SR 4,925.9 million in 2007, representing an increase of 13.9%. Cost of revenue stood at SR 2,765.6 million in 2008, or 49% of total revenues, compared to SR 2,518 million, or 51% of total revenues in 2007. Net income was SR 2,356.2 million for 2008 and SR 2,008.6 million for 2007, or SR 3.27 and SR 2.79 earning per changed share respectively, representing an increase of 17.20%.

## **The Company's activities**

Dar Al Arkan Real Estate Development Company, is a Saudi Joint Stock Company founded 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 in 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. 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. The following disclosure, therefore, concentrates on one segment only, which is the sale of residential properties and land in one geographical segment only. The Board of Directors undertakes that there are no significant doubts on the Company's ability to continue as a going concern.

- 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. To support this segment, the company established Dar Al Arkan Projects Company, a wholly-owned subsidiary, owned by Dar Al Arkan Real Estate Development Company.
- Property Management. This segment consists of investment properties that generate rental income. To support this segment, the Company established Dar Al Arkan Properties Company, a wholly-owned subsidiary, owned by Dar Al Arkan Real Estate Development Company. Its main activity is development and acquisitions of commercial and residential real estate. It provides the management, operation and maintenance of residential and commercial buildings and public facilities.

- **Investment Activities.** This segment focuses on real estate related investment in order to derive synergies and benefits from integration. To support this segment, the Company established Dar Al Arkan Investment Company, a wholly-owned subsidiary, owned by Dar Al Arkan Real Estate Development Company. Its main activity is acquisition of real-estate investments.

## **Main Accomplishments for the year 2008**

### **Launch of Qasr Khozam area development project**

The Custodian of the Two Holy Mosques King Abdullah bin Abdul Aziz inaugurated Qasr Khozam and its surrounding areas development project on 11/10/1429H corresponding to 11/10/2008G. The project is the largest rejuvenation project for scattered developments in Jeddah city and the first unique project as a joint venture between the public and private sector.

Upon completion, Qasr Khozam will offer a stable, healthy and safe 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.

Holistic in its approach and merging tradition with contemporary architecture, the new city center of Jeddah will create a benchmark as a world class business hub showcasing a unique living environment, with unparalleled leisure facilities. It aspires to meet the shifting needs and expectations of a fast-growing population, as well as attracting more than 7 million visitors a year to Jeddah.

### **Al Qasr Project**

During the year, the Company continued the development of this master-planned community. Al Qasr Project covers an area of 813,000 square meters and consists of 2,800 apartments and 250 villas. It also includes a shopping mall with a leasing area of 78,000 square meters and around 100,000 square meters of commercial and office spaces. The project will also have 6 mosques, a large public park area and dedicated areas for schools and government facilities. By the end of 2008, 75% of Al Qasr Project was completed. We expect completion of commercial and residential units by December 2009, while Al Qasr mall should be completed in the second half of 2010.

The company started selling residential units in 2008 and all available units offered for sale should be substantially sold by the end of 2009. The company intends to keep part of the residential apartments as well as the retail space for rental purposes in order to increase its income generating assets portfolio.

## **Shams ArRiyadh Project**

During 2008, the company initiated the development of its Shams ArRiyadh Project. The project covers an area of more than 5 million square meters and will consist of approximately 3,200 villas. The project will also include more than 375,000 square meters of prime land for commercial and retail use. The total project cost should be around SR 6 billion. The project is expected to be completed by the end of 2011.

Shams ArRiyadh showcases a host of distinctive features including, but not limited to, reasonable pricing for the high quality of product, spacious areas and intensive landscapes at a relatively high altitude presenting picturesque view of Wadi Hanifa. Shams ArRiyadh will offer generous areas dedicated for sports, social and cultural activities in addition to public service utilities and other urban amenities

## **Al Tilal Project**

The company continued the execution of its 500-villas Al Tilal Residential Project in Medinah. The cost of the project, when it is completed will be around SR 400 million. By the end of 2008, 75% of the project was completed.

## **Strategic decisions during the year**

### **Capital Increase**

In line with the Company's strategy to realize the maximum return to shareholders and to give the company opportunities to further expand its projects and operations which enhances the Company's profitability and performance in the short and long term, the Company increased its capital from SR 5,400 million to 7,200 million after the approval of the extra ordinary general assembly held on 13/10/2008 by issuing 180 million bonus shares on a one free share to every three shares owned by Shareholders basis. This was achieved by transferring SR 1,800 million from the retained earnings to the Company's capital.

### **Financing**

To ensure continued growth, projects expansion and operations through low cost financing solutions, fully compliant with the Sharia Law, the Board of Directors recommended to the general assembly meeting to agree on potential issuance of local or international SUKUKS, which could either be divisible, indivisible or through a series of issuance at times, of whose values and terms will be decided by the Board of Directors without referring back to the General Assembly to that effect. The Board of Directors can delegate any or all authorizations as per the above resolution to any person or persons. That was approved by the general assembly held on 13/10/2008.

## The Company 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.

The strategy and the associated business model and implementation plans were completed during the year and the execution of implementation plans started in the last quarter of 2008. The organizational structure was realigned in order to execute the company's strategic plans.

Included in this report, in Appendix I, are the consolidated financial statements for the year ending 31/12/2008 and the external auditor's report on the accounts - the accountant's legal Gentlemen / Bakr Abulkhair and their associates Deloitte & Touche, the accountant's legal Gentlemen\ Talal Abu-Ghazala and their 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

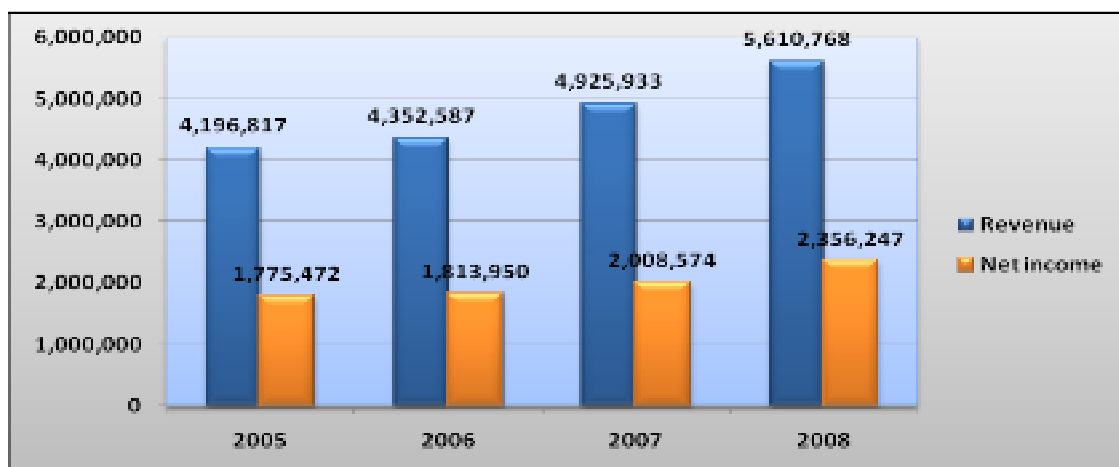
## The financial Results

### The Income Statement comparison for the years 2005 to 2008

The following table illustrates the main income statement items for 2008 compared to the previous fiscal periods since conversion to a Saudi joint stock company. 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)	2008	2007	2006	2005
Revenues	5,610,768	4,925,933	4,352,587	4,196,817
Cost of revenues	2,765,587	-2,517,925	-2,229,876	-2,167,174
Gross Profit	2,845,181	2,408,008	2,122,712	2,029,644
Principal activities expenses	-200,777	-137,913	-72,211	-174,694
Net income from principal activities	2,644,404	2,270,095	2,050,500	1,854,949
Financing expense	-244,628	-278,079	0	0
Net Other Income	16,894	45,149	33,667	66,791
Net Income before Zakat provisions	2,416,670	2,037,165	2,084,167	1,921,740
Zakat provisions	-60,423	-28,591	-270,217	-146,268
Net Income	2,356,247	2,008,574	1,813,950	1,775,472
Earnings Per Share	3.27	2.79	2.51	2.47

Note: due to Capital increase transaction in 2008 by issuing 180 million bonus shares the earnings per share was retroactively adjusted for comparison purposes.



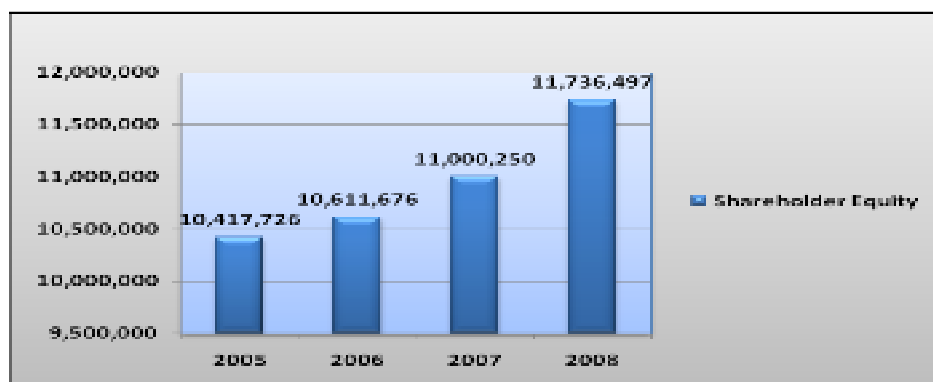
Total Revenue and Net Income changes 2005 to 2008

### The balance sheet comparison for the years 2005 to 2008

The following table illustrates the main balance sheet items for 2008, compared to the previous fiscal periods since conversion to a Saudi joint stock company. 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)	2008	2007	2006	2005
<b>Assets</b>				
Current Asset	4,727,599	7,238,189	11,426,001	10,551,666
Non-current Asset	15,316,592	10,975,543	90,022	138,612
Fixed Asset	119,790	160,596	165,565	133,525
Total Asset	20,163,980	18,374,327	11,681,588	10,823,802
<b>Liabilities</b>				
Current Liabilities	784,594	969,602	652,736	404,174
Murabaha and Sukuk	7,635,000	6,400,000	414,024	0
Non-Current Liabilities	7,889	4,475	3,152	1,902
Total Liabilities	8,427,483	7,374,077	1,069,912	406,076
<b>Shareholders' Equity</b>				
Capital	7,200,000	5,400,000	5,400,000	5,400,000
Statutory reserve	3,600,000	3,242,254	3,242,254	3,242,254
Retained earnings	936,497	2,375,996	1,969,422	1,775,472
Total shareholders' Equity	11,736,497	11,000,250	10,611,676	10,417,726
Total Liabilities and shareholders' Equity	20,163,980	18,374,327	11,681,588	10,823,802
Book value per share	16.30	15.28	14.74	14.47

Note: due to Capital increase transaction in 2008 by issuing 180 million bonus shares the book value per share was retroactively adjusted for comparison purposes.



Shareholders equity changes from 2005 to 2008

## RESULTS OF OPERATIONS

The following table compares the results of operations for 2008 and 2007.

Item	2007	2008	Charge (+or -)	Change%
Revenues	4,925,933	<b>5,610,768</b>	+684,835	+13.9%
Cost of revenues	-2,517,925	<b>-2,765,587</b>	+247,662	+9.84%
Gross Profit	2,408,008	<b>2,845,181</b>	+437,173	+18.15%
Principle activities expenses	-137,913	<b>-200,777</b>	+62,864	+45.58%
Net income from principle activities	2,270,095	<b>2,644,404</b>	+374,309	+16.49%
Financing charges	232,930	<b>227,734</b>	-5,196	-2.23%
Net Income before Zakat provisions	2,037,165	<b>2,416,670</b>	+379,505	+18.63%
Zakat provisions	-28,591	<b>-60,423</b>	+31,832	+111.34%
Net Income	2,008,574	<b>2,356,247</b>	+347,673	+17.31%
Earnings Per Share	2.79	<b>3.27</b>	+0.48	+17.20%

## Revenues

Total revenues were SR 5,610.8 million in 2008, compared to SR 4,925.9 million in 2007, representing an increase of 13.9%. The increase is mainly due to a 28% increase in land revenue in 2008 as compared to 2007. This increase was partially offset by a reduction in revenues from the sale of residential properties. This reduction is primarily due to the lower number of units ready for sale in 2008 as it follows our development cycle. In other words the company completed more projects in 2007 than it did in 2008. This can be explained by our decision to move towards master planned communities which have a longer development cycle.



Revenues from the sale of residential properties were SR 990.4 million in 2008, a 25% decrease from the SR 1,321.2 million for 2007. The revenue decrease is mainly due to the lower number of units sold in 2008 which stood at 1,101 units compared to the 1,220 units sold in 2007. The average unit price in 2008 was SR 823,500 compared to SR 1,082,900 in 2007. The reduction is due to the mix of units sold in 2008, whereby the company started selling apartments at Al Qasr project, which caters to the lower segment of the middle income market.

Revenues from the sale of land were SR 4,620.4 million in 2008 compared to SR 3,604.8 million in 2007, representing a 28% increase. This increase is mainly due to the number of square meters sold which benefited from the real estate growth experienced in 2008, especially in the first part of the year. This resulted in 7.6 million of square meters sold in 2008, compared to 4.3 million in 2007.

The sale of land to developers and investors is influenced by series of factors, including the overall economy of the country. These factors could delay the timing of the sales of land as we assess these on a return on investment basis. We are not able 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, the advent of additional competition and pressure on affordability as a result of an economic slowdown and the absence of a mortgage law could affect our ability to maintain growth in our selling prices.

### **Cost of revenue**

Cost of revenue reached SR 2,765.6 million in 2008, or 49% of total revenues, compared to SR 2,518 million, or 51% of total revenues, in 2007. The decrease, as a percentage of total revenues, is mainly due to the higher profit margin generated by the sale of land in 2008 which produced a gross margin of 52.4% as opposed to a 42.8% gross margin on sale of residential units. The increased margin on land is a direct consequence of the real estate growth experienced in 2008, especially in the first half of the year. The lower gross margin generated from the sale of residential properties is attributable to the mix of units sold, as the company started to sell apartments at Al Qasr project.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses were SR 150.9 million in 2008, or 2.7% of total revenues, compared to SR 95.4 million, or 1.9% of total revenues in 2007. The increase is attributable to increased promotion and advertising costs in relation to new projects, as well as higher payroll-related costs as we continued to strengthen our resource capital to support the future growth of the Company.

## Financing Charges

Net financing charges were SR 227.7 million in 2008, compared to SR 232.9 million in 2007. The decrease is due to the Company's new policy to capitalize interest directly related to the construction of project related expenses. During the year, the Company capitalized SR 136.0 million into work in progress. The implied net increase in financing charges is attributable to the SR 6 billion SUKUKS raised in the course of 2007.

## Net income

As a result of the above, net income was SR 2,356.2 million for 2008 and SR 2,008.6 million for 2007, or SR 3.27 and SR 2.79 per share, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

### General

As of December 31, 2008, we had cash and cash equivalents of SR 716.5 million.

### Cash Flows

The following table sets out the Company's cash flows for the financial periods 2008 and 2007:

(in millions of Saudi Riyals)	2008	2007
Funds from Operating Activities	2,766.2	9,060.6
Funds from (used in) Investing Activities	(4,970.6)	(10,128.2)
Funds from (used in) Financing Activities	(425.9)	4,230.9

Net cash flow generated from operations stood at SR 2,766.2 million in 2008 compared to SR 9,060.6 million in 2007. The negative variance in 2008 was driven by a reclassification in 2007 of the Company's long term projects, which are now part of the investment activities. Without this adjustment, the year on year variance would have been a decrease of SR 300 million which is in line with the Company's continued growth.

The Company's heavy investments in both Project in Progress and other Investments has lead to an overall use of cash in investing activities of SR 4,970.6 million in 2008, this high use of cash in investing activities is in line with the managements long-term plans to further expand in the Saudi real estate market.

The negative cash flow from financing activities resulted from increased bank facilities for use in operation as well as in investing activities which were more than offset by the SR 1,620 million dividends paid in 2008 relating to the year 2007.

## Projects expenditures

Our projects expenditure priorities include the deployment of our residential and commercial master -planned communities as well as investment in land development projects. We spent SR 1,274.4 million in project expenditures in 2008.

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 flow from operations, project financing and bank loans from a variety of sources.

## Dividend Policy

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

## Dividends distributions (cash and bonus shares)

In 2008, we distributed a cash dividend of SR 1,620 million as a distribution of the 2007 results as recommended by the Board of Directors and approved by the general assembly on Saturday 19/4/2008.

In addition, the Company issued 180 million additional bonus shares to current shareholders in October by a stock split of 1 bonus share for each 3 shares held at the approval date. The increase of capital was paid for by transferring the amount of SR 1,800 million from the retained earnings to the capital.

## Indebtedness

The Company makes sure that all financial transactions are in compliance with the Islamic Sharia especially the lending transactions inside and outside the Kingdom. The Company raised in 2007 adequate long term Islamic financing at relatively low cost prior to the occurrence of the current global financial crisis. These funds provided the company with the liquidity necessary to complete the existing projects.

During 2008, we incurred SR 1,235 million of new debt to finance the construction of residential and commercial properties as well as for working capital purposes. We had SR 7,635 million of unsecured indebtedness at December 31, 2008, of which SR 6,000 million were denominated in U.S. dollars.

Summary of the outstanding indebtedness as of December 31, 2008:

(in Saudi Riyals)	2008	2007	Maturity	Cost
Short Term Revolving Facilities	1,300,000,000	400,000,000	2009/2008	Sibor + 1.5% to Sibor + 2%
Short Term Loan	200,000,000	-	2009	Sibor + 2%
Bridge Facility	135,000,000	-	2009	Sibor + 2.5%
SUKUK 2010	2,250,000,000	2,250,000,000	2010	Libor +2%
SUKUK 2012	3,750,000,000	3,750,000,000	2012	Libor+2.25%

### Short Term Revolving Facilities

These facilities are with local banks and mature at various dates during 2009. Although these facilities are normally renewed automatically, there is no guarantee that this will continue going forward.

### Short Term Loan

This loan was repaid subsequent to year end.

### Bridge Facility

This facility was converted into a SR 400 million term loan subsequent to year end. This term loan is to be repaid in full in 2012, bears a cost of Sibor + 2.25% and is secured by the assets being built with this facility.

### Sukuks

This item represents Islamic SUKUK in the amount of SR 6 billion (USD 1.6 billion) issued by Dar International Sukuk Company (USD 600 Million) maturing in 2010 and Dar Al Arkan International Sukuk Company ( USD 1 Billion) maturing in 2012 . The beneficiary right is for Dar Al Arkan Real Estate Company and its subsidiaries. These Sukuk were issued through the sale of lands owned by the Company with the right to buy back these lands on the repayment of the full amount of Sukuk. .

### Related Party Transactions

During the year, the Company did not enter into any significant transactions with related companies, employees or Board Members.

In 2008, the Company sold residential homes to individuals who sought financing from entities that are related to the Company. As a result, these related entities reimbursed the Company on behalf of these individuals. The outstanding balance from these entities as of December 31<sup>st</sup>, 2008 was SR 57.0 million.

## 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 on the Company's growth.
- The Company relies on third party contractors. Any failure from third parties to deliver could result in delays and reduced profitability.

## Management and administration

### Board of Directors

An eleven-member Board of Directors runs the Company, of whom 1 is an executive member and two non executive and 8 are non executive/ independent. 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 2008 and the member's attendance is as shown below:

Member Name	Capacity	Member Classification	Attendance	Other joint stock companies membership
Yousef Abdullah Alshelash	Chairman	Non-executive	4	
Abdulatif Abdulah Alshalash	Managing Director	Executive	4	
Hathlol Saleh Al Hathlol	Member	Non-executive	4	
Khaled Abdullah Alshalash	Member	Non-executive independent	4	
Tarek Mohammed Al Jarallah	Member	Non-executive independent	4	
Abdul Aziz Abdullah Alshelash	Member	Non-executive independent	4	
Majed Romy Al Romy	Member	Non-executive independent	4	
Abdul Kareem Hamad Al Babbain	Member	Non-executive independent	3	Al-Babbain power and Telecommunication Company
Majed Abdulrahman Al Qasem	Member	Non-executive independent	4	
Majed Badr El Refaee	Member	Non-executive independent	1	
Ayman Abdulallah Budi	Member	Non-executive independent	1	

## Remunerations paid to the Board Members

Board Members did not receive the remunerations approved by the general assembly meeting held on 19/4/2008, which entitled every member to receive an annual remuneration of SR 200,000 per year and SR 3,000 for each Board meeting or committee meeting attendance. Such remunerations will be paid within the year 2009 after the annual general assembly meeting

## Board of Directors' Committees

### The Audit Committee

The Audit Committee consists of four members:

1. Tarek Mohammed Al Jarallah	Chairman of the committee
2. Yousef Abdullah Alshelash	Member
3. Abdul Kareem Hamad Al Babtain	Member
4. Majed Abdulrahman Al Qasem	Member

The committee major functional responsibilities are as follows:

- Review and recommend the Annual and Quarterly Financial Statements of the company for approval.
- Review the reports issued by the internal audit department to ensure the company's internal control effectiveness.
- Monitor internal control systems, processes and related policies to ensure their effective functioning, in addition to monitoring risk.
- Monitor compliance with quality control processes.
- Ensures economic viability of various sources of funding as well as compliance of such sources to Islamic finance principles.
- Immediate reporting of any significant control failure or weakness identified to appropriate management.

The Committee held four meetings during 2008.

### Nominations & Remuneration Committee

The Nomination and Remuneration Committee consists of three members:

1. Abdullatif Abdullah Alshalash	Chairman of the committee
2. Yousef Abdullah Alshelash	Member
3. Abdul Kareem Hamad Al Babtain	Member

The Committee major functional responsibilities are as follow:

- Conduct annual reviews of capabilities and scope of responsibilities related to Board membership and to report on the same regularly.

- Recommend appropriate changes/modifications to (including but not limited to) compensation structures and nomination procedures.
- Report on any conflicts and recommend remedial actions.
- Develop clear policies and criteria for Board members' rewards.

The Committee held four meetings during 2008.

### Investment Committee

The Investment Committee consists of five members:

1. Yousef Abdullah Alshelash	Chairman of the committee
2. Abdullatif Abdullah Al Shalash	Member
3. Majed Romy Al Romey	Member
4. Abdul Aziz Abdullah Al Shelash	Member
5. Khaled Abdullah Al shalash	Member

The Committee major functional responsibilities are as follow:

- Monitor investments and adherence to investment management policies, including but not limited to land acquisition etc.
- Review all key agreements, contracts and commitments prior to the company making any key investments.
- Study investment applications and make necessary recommendations.
- Facilitate the overall investment procedure.
- Evaluate investment performance on a regular basis.

The Committee held five meetings during 2008.

### Executive Committee

The Investment Committee consists of three members:

1. Yousef Abdullah Alshelash	Chairman of the committee
2. Abdullatif Abdullah Alshalash	Member
3. Tarek Mohammed Al Jarallah	Member

The Committee major functional responsibilities are as follows:

- Evaluate commitments and progress of various projects as well as to monitor and evaluate the land acquisition and investment process in conjunction with the Investment Committee and senior management.
- Monitor and evaluate the overall performance of the company and resolve any issues of production progress, action plans, resource allocations, etc.
- Review the Company's business plan and resolve any outstanding financial and administrative issues.
- Take corrective measures in order to ensure that the company achieves its periodical targets.

The Committee held twelve meetings on a monthly basis during 2008.

### 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 2008:

Item (in Saudi Riyals)	Executive Board members	Non-executive \independent Board Members	Senior executives (including CFO and MD)
Salaries and compensation	-	-	3,917,800
Allowances	-	-	953,675
Periodic and annual bonuses	-	-	519,213
Incentive plans	-	-	-
Any other compensation or benefits paid on monthly or annual basis	-	-	-

### The Board Members and senior executives ownership changes during the year

At the start of the Year 2008		Net Change(- or +) during the year	At the end of 2008	
No of Shares	Ownership %		No of Shares	Ownership%
208,063,115	38,4%	+ 66,883,061	274,946,176	38,2%

Note: the company increased its Capital in October 2008 by issuing 180 million bonus shares.

### Main shareholders who own more than 5% ownership changes during the year

At the start of the Year 2008		Net Change(- or +) during the year	At the end of 2008	
No of Shares	Ownership %		No of Shares	Ownership%
315,456,693	58.4%	+ 94,816,755	410,273,448	57%

Note: the company increased its Capital in October 2008 by issuing 180 million bonus shares.

### Human Resources

The company's strategy is to recruit, sustain and develop human capabilities and skills and incentivize employees. This will include:



- Participating in the annual career day in all Saudi universities so as to train and recruit fresh graduates.
- Strengthen relationships with local and international corporations and recruiting agencies.
- The Company's investment in training reached 5% of the salary mass in 2008. The Company held intensive training courses during 2008 covering various fields. There were 322 trainees who participated in these courses.
- The Company adopts a planned program for Saudization, which reached 36% in 2008. Moreover, 52% of all new recruits in 2008 were Saudis. The total work force for the Company was 421 employees by 31/12/2008.
- The management developed incentive programs for employees including commission scheme for the sales department and bonus program
- An extensive salary adjustment program was completed to bring the compensation system in par with the market.. As a result, the employee turnover rate was reduced from 21% in 2007 to 10% in 2008.
- The Company endorses an annual performance appraisal system for its entire workforce, where all employees are appraised according to their job requirements and what is expected from them.
- The Company benchmarked and updated its human resources policies.
- Within the health and safety procedures, the Company embarked on a program of medical care for employees, providing first aid kits and safety tools at work place, in addition to providing medical insurance to eligible employees and their families.

## Corporate Governance

Internal governance for the Company has been approved pursuant to the Board decision no. (7) 2008 which complies with the CMA Corporate Governance Regulations to ensure the protection of shareholders and stakeholders rights and the implementation of sustained disclosure and transparency pertaining to the Company's activities.

Some of the procedures taken in compliance with the corporate governance are the separation between the role of Chairman of the Board of Directors and CEO and increase the number of the Board's independent member by adding two independent members according to a decision of the general assembly held on 19/4/2008. During the formation of the Audit Committee and Nomination & Remuneration Committee, it was taken into consideration that members of the two committees should include independent members of the Board.

The Company complies with the binding regulations and guiding rules of Corporate Governance Regulations in issues pertaining to shareholders and stakeholders rights and procedures related to disclosure and transparency with the exception of article (6) - item (b) "Voting Rights". The Company is in the process of setting a suitable mechanism to approve and implement it in the future.

## **Internal audit and effectiveness of the Company's internal control procedures**

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 in with the auditing international highest standards.

The internal audit department verifies the authenticity of the internal control procedures to monitor Company's 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 in force.

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

The Board of Directors undertakes that the system of internal controls is sound in design and has been effectively implemented.

## **Investors Relations**

To guarantee shareholders' rights to access information by sustained disclosures in accordance with the rules and regulations of CMA, the Company took several steps via specified channels including the announcement of quarterly and annual fiscal results, new projects and recommendations of the Board of Directors.

Specialized personnel in the investors' relations section support shareholders inquiry through a toll free number, e-mail and fax. The inquiries include those relating to the annual dividend payments and the method of disbursement. Through coordination with local banks for the disbursement of dividend, the dividend disbursement percentage reached 99.97% of the total dividend to be distributed for the fiscal year 2007. The remaining 0.03% was not distributed because of unavailability of the correct bank accounts for the shareholders or the shareholders did not come to collect their dividends in cash from the head office of the company.

Invitations have been delivered to all shareholders to attend the meetings of general assembly including announcement in the exchange and the company's web site and daily newspapers.

Shareholders also participated in the election of the new Board Members and voted on the items of the ordinary and extraordinary general assembly held on 19/4/2008 and 13/10/2008.

## Corporate social responsibility

The Company promotes social values as well as all economic, safety, security, environmental and cultural factors in its projects.

Qasr Khozam Project is considered one of the major contributions of the Company's social responsibility to work jointly with the government to develop Qasr Khozam and the surrounding scattered developments, which will develop the real estate properties, provide investment and career opportunities as well as ensure that a healthy, decent and safe environment is in place for all.

The Company contributed to community service by sponsoring several activities catering the real estate industry. The company sponsored a series of outreach activities for the real estate sector such as Jeddah fifth exhibition of Real Estate and Housing Finance International, Al-Madina fourth exhibition of Real Estate and Construction, and Riyadh tenth Exhibition of Real Estate and Urban Development, as well as sponsoring Cityscape –Dubai, deemed as the largest global real estate forum, in October of 2008.

The Company strives to improve the living conditions of its employees and their families in their surrounding community, which is one of the most important components of social responsibility.

The Company has recently established a corporate social responsibility unit under the domain of the Department of Corporate Communications with a view to institutionalize the activities of corporate social responsibility.

## Government Payments

In 2008 and 2007, the Company made payments to various Authorities as follows:

item	2008	2007	description
Zakat	24,277,121	-	Payment to the Department of Zakat & Income Tax
GOSI	2,201,777	949,470	Payment in accordance of general organization for social insurance
Government fees	568,770	955,795	Visa , residence permit renewal , insurance ,building permits ,Chamber of Commerce and Industry subscription
Fines	100,000	-	Imposed fine from the Capital Market Authority.
Total	27,147,668	1,905,265	

## **Appendix I: Audited consolidated financial statements**

**DAR ALARKAN  
REAL ESTATE DEVELOPMENT COMPANY  
SAUDI JOINT STOCK COMPANY**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

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

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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## 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) as at December 31, 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and notes 1 to 26 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified Opinion

In our opinion, the 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, 2008, 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 by-laws as these relate to the preparation and presentation of the consolidated financial statements.

Bakr A. Abulkhair  
License No. 101



20 Muharram 1430  
17 January 2009

Abdulqadir A. Al-Wohaib  
License No. 48



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

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2008**

	<u>Note</u>	<u>2008</u> <u>SR</u>	<u>2007</u> <u>SR</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	( 3 )	716,474,665	3,346,864,936
Accounts receivable, net	( 4 )	948,647,127	483,560,967
Short term investment	( 5 )	-	6,645,485
Prepaid expenses and others	( 6 )	1,736,634,991	1,382,091,556
Due from related parties	( 7 )	57,042,000	3,576,494
Projects in progress – short-term	( 8 )	1,148,199,717	2,132,092,087
Developed lands – short-term	( 9 )	120,600,000	551,387,179
Total current assets		<u>4,727,598,500</u>	<u>7,906,218,704</u>
<b>Non-Current Assets</b>			
Projects in progress - Long-term	( 8 )	6,772,765,263	6,347,696,173
Investments in lands under development	( 5 )	3,727,480,034	1,295,089,777
Developed lands - Long-term	( 9 )	2,978,237,404	2,234,451,566
Investment properties		591,238,110	241,689,818
Investments in associates	( 5 )	1,120,000,000	75,000,000
Property and equipment, net	( 10 )	119,789,908	160,596,266
Deferred charges, net	( 11 )	126,870,915	113,585,023
Total Non-Current Assets		<u>15,436,381,634</u>	<u>10,468,108,623</u>
<b>TOTAL ASSETS</b>		<u><b>20,163,980,134</b></u>	<u><b>18,374,327,327</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Islamic Murabaha	( 12 )	1,635,000,000	400,000,000
Accounts payable	( 13 )	171,207,159	107,719,393
Accrued expenses and others	( 14 )	613,386,626	861,882,477
Total current liabilities		<u>2,419,593,785</u>	<u>1,369,601,870</u>
<b>Non-Current Liabilities</b>			
Islamic Sukuk	( 16 )	6,000,000,000	6,000,000,000
Provision for end-of-service indemnities	( 17 )	7,888,971	4,475,307
Total Non-Current Liabilities		<u>6,007,888,971</u>	<u>6,004,475,307</u>
<b>Shareholders' Equity</b>			
Capital	( 18 )	7,200,000,000	5,400,000,000
Statutory reserve	( 19 )	3,600,000,000	3,242,253,763
Retained earnings		936,497,378	2,357,996,387
Total shareholders' equity		<u>11,736,497,378</u>	<u>11,000,250,150</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u><b>20,163,980,134</b></u>	<u><b>18,374,327,327</b></u>

  
 Managing Director

  
 Chief Financial Officer

  
 Chief Internal Auditor

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




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

**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 SR	2007 SR
Revenue		5,610,767,945	4,925,932,752
Cost of revenue		(2,765,586,774)	(2,517,924,572)
<b>Gross profit</b>	( 20 )	<b>2,845,181,171</b>	<b>2,408,008,180</b>
<b>Operating expenses:</b>			
Sales and Marketing expenses	( 21 )	(52,675,432)	(39,085,943)
General and administrative expenses	( 22 )	(96,956,707)	(43,768,855)
Other parties' share in profits from investments		(1,220,961)	(12,591,077)
Depreciation of property and equipment	( 10 )	(22,252,460)	(18,440,619)
Amortization of deferred charges	( 11 )	(27,671,346)	(24,026,567)
<b>Net income for the year from operating activities</b>		<b>2,644,404,265</b>	<b>2,270,095,119</b>
<b>Other Income / ( expenses ) :</b>			
Islamic Murabaha charges , net		(48,240,840)	(6,156,444)
Islamic Sukuk Charges	( 8 )	(196,387,446)	(271,922,708)
Other income		16,894,249	45,149,464
<b>Net income for the year before Zakat</b>		<b>2,416,670,228</b>	<b>2,037,165,431</b>
Zakat provision	( 15 )	(60,423,000)	(28,591,082)
<b>Net income for the year</b>		<b>2,356,247,228</b>	<b>2,008,574,349</b>
Earning per share	( 23 )	3.27	2.79

  
 Managing Director

  
 Chief Financial Officer

  
 Chief Internal Auditor

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	<u>Capital</u>	<u>Statutory</u>	<u>Retained</u>	<u>Total</u>
	<u>SR</u>	<u>Reserve</u>	<u>Earnings</u>	<u>SR</u>
Total Shareholders' Equity as of 1 January 2007	5,400,000,000	3,242,253,763	1,969,422,038	10,611,675,801
Dividends	-	-	(1,620,000,000)	(1,620,000,000)
Net Income for the year	-	-	2,008,574,349	2,008,574,349
<b>Total Shareholders' Equity as of 31 December 2007</b>	<b>5,400,000,000</b>	<b>3,242,253,763</b>	<b>2,357,996,387</b>	<b>11,000,250,150</b>
Dividends	-	-	(1,620,000,000)	(1,620,000,000)
Capital increase through transfer from retained earnings	1,800,000,000	-	(1,800,000,000)	-
Transfer to statutory reserve	-	357,746,237	(357,746,237)	-
Net Income for the year	-	-	2,356,247,228	2,356,247,228
<b>Total Shareholders' Equity as of 31 December 2008</b>	<b>7,200,000,000</b>	<b>3,600,000,000</b>	<b>936,497,378</b>	<b>11,736,497,378</b>



Managing Director



Chief Financial Officer



Chief Internal Auditor

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

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	2008	2007
	SR	SR
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year before zakat	2,416,670,228	2,037,165,431
<b>Adjustment for:</b>		
Depreciation of property and equipment	22,252,460	18,440,619
Amortization of deferred charges	27,671,346	24,026,567
Provision for doubtful accounts	-	377,586
Provision for end-of-service indemnities allocated to expenses	3,580,673	1,524,476
Changes in operating assets and liabilities		
Accounts receivable	(465,086,160)	(3,279,827)
Prepaid expenses and others	(354,543,435)	(1,087,897,055)
Developed lands – short-term	430,787,179	1,979,396,076
Projects in progress – short-term	983,892,370	5,803,775,413
Accounts payable	63,487,766	28,010,261
Related party transactions – net	(53,465,506)	(1,981,634)
Accrued expenses and others	(284,641,728)	261,194,328
End-of- service indemnities paid	(167,009)	(201,647)
Zakat paid	(24,277,123)	-
<b>Net cash from operating activities</b>	<b>2,766,161,061</b>	<b>9,060,550,594</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Developed lands, long-term	(743,785,838)	(2,234,451,566)
Projects in progress, long-term	(425,069,090)	(6,426,369,309)
Purchase of property and equipment	(3,472,212)	(13,471,753)
Investments	(3,798,266,954)	(1,453,915,080)
<b>Net cash used in investing activities</b>	<b>(4,970,594,094)</b>	<b>(10,128,207,708)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Islamic Murabaha	1,235,000,000	(14,023,661)
Islamic Sukuk	-	6,000,000,000
Dividends	(1,620,000,000)	(1,620,000,000)
Deferred Charges	(40,957,238)	(135,099,426)
<b>Net cash (used in) / from financing activities</b>	<b>(425,957,238)</b>	<b>4,230,876,913</b>
(Decrease) / Increase in cash and cash equivalents	(2,630,390,271)	3,163,219,799
Cash and cash equivalents, beginning of the year	3,346,864,936	183,645,137
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<b>716,474,665</b>	<b>3,346,864,936</b>

  
Managing Director

  
Chief Financial Officer

  
Chief Internal Auditor

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**1- THE COMPANY AND IT'S SUBSIDIARIES, AND THE NATURE OF BUSINESS:**

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

The Company operates in the field of purchase and acquisition of real estate and lands and construction of buildings for the purpose of investing thereof by leasing out or selling in favor of the Company.

The Company operates in general construction of residential and commercial buildings (construction, maintenance, demolition and reconstruction).

Below is the nature of business of the Company's direct subsidiaries:

**DAR AL ARKAN PROPERTIES COMPANY** – is a limited liability Company, registered in Riyadh under the Commercial Registration No. 1010254063 dated 25/7/1429H (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 registered in Riyadh under the Commercial Registration No. 1010247583 dated 28/3/1429H (corresponding to 5/4/2008 G). It operates in general construction of residential and commercial buildings (construction/maintenance/demolition/restructuring).

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in accordance with the accounting standards issued by the Saudi Organization of Certified Public Accountants. The significant accounting policies adopted by the Company in preparing its consolidated financial statements are as follows:

**Basis of consolidation of the financial statements**

The company has investments in the following subsidiaries which are operating under their own commercial registrations and are summarized below:

<b>Company</b>	<b>Establishment Country</b>	<b>Ownership 2008</b>	<b>Main Activity</b>
Dar Al Arkan Properties Company Limited liability company	Kingdom of Saudi Arabia	100%	Property management
Dar Al Arkan Projects Company Limited liability company	Kingdom of Saudi Arabia	100%	Development of Residential and Commercial Properties
Dar Al Arkan Investment Company Limited liability company	Kingdom of Saudi Arabia	100%	Real Estate Investments

**Accounting Convention**

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

**Cash and Cash Equivalents**

For the purpose of preparing the consolidated statement of cash flows, cash and cash equivalents include cash on hand, unrestricted current accounts with banks and Islamic deposits with maturities less than three months from the date of acquisition.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**Accounts Receivable**

Accounts receivable are stated at their estimated net realizable value. The provision for doubtful debts is estimated based on analysis of the collectible amounts of the accounts receivable balances at the end of the period of the consolidated financial statements.

**Investments**

Investments represent investing in projects of other companies for the purpose of earning determined percentage of the profit of these projects as per contracts.

**Investments in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decision of the investee.

The equity method is used to evaluate these investments in which the unrealized revenues are considered in the consolidated statement of income in accordance with the financial statements of the investees.

**Property and equipment**

Property and equipment are stated at cost net of related accumulated depreciation up to the date of the consolidated financial statements. Depreciation is computed using the straight – line method over the property and equipment estimated useful lives based on the following annual depreciation rates:

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

**Investment properties**

These properties represent real estate used for rental activities. The investment properties are stated at cost, and are amortized using the straight-line method at an annual rate of 3%.

**Deferred charges**

The deferred charges are amortized using the straight-line method over five years.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**Provision for End-of-Service Benefits**

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

**Zakat Provision**

Zakat is calculated and recognized 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 recognized 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.

**Revenue Recognition**

Revenues are recognized upon sale of the projects and transfer of ownership which coincides with the signed sales contracts.

**General, Administrative, Sales and Marketing Expenses**

General, administrative, selling and marketing expenses are recognized as expenses for the period based on the accrual basis and charged to the accounting period during which they were incurred. Expenses that are deferred for more than one financial year are allocated over such periods using historical cost.

**Foreign Currency Transactions**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income of the same period.

**3- CASH AND CASH EQUIVALENTS**

	<b>2008</b>	<b>2007</b>
	<b>SR</b>	<b>SR</b>
Cash on hand	<b>313,448</b>	315,037
Current accounts with local banks in Saudi Riyal	<b>476,161,217</b>	2,006,319,097
Short term Islamic Deposits	<b>240,000,000</b>	1,340,230,802
	<b>716,474,665</b>	<b>3,346,864,936</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**4- ACCOUNTS RECEIVABLE, NET**

	<b>2008</b>	<b>2007</b>
	<b>SR</b>	<b>SR</b>
Customers	<b>953,125,655</b>	488,039,495
Provision for doubtful debts	<b>(4,478,528)</b>	(4,478,528)
	<b><u>948,647,127</u></b>	<u>483,560,967</u>

**5- INVESTMENTS:**

**Short-Term investments**

These investments represent the Company's share in financing investments in projects of other companies according to contracts in return of share of the profits generated by these projects during financial periods ranging between one year "short-term" and two years "long-term".

**Investments in lands under development**

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

**Investments in share capital of associates**

This item represents investments in shares of companies that are not publicly traded. The Company's ownership in these companies ranges from 15% to 33.34%. The Company's share of profits and losses in these associates over which the Company exercises significant influence amounted to nil for the year ended 31 December 2008.



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**6- PREPAID EXPENSES AND OTHERS**

	<u>2008</u> <u>SR</u>	<u>2007</u> <u>SR</u>
Prepayments	43,790,822	8,447,313
Employees advances and receivables	2,838,502	2,485,094
Advance payments to contractors	101,205,823	588,409,464
Advance payments to purchase lands	1,334,339,844	780,673,136
Advance payment to acquire an investment	250,000,000	-
Other receivables	4,460,000	2,076,549
	<u>1,736,634,991</u>	<u>1,382,091,556</u>

**7- DUE FROM RELATED PARTIES**

During the year, the Company sold residential homes to individuals who sought financing from entities that are related to the Company. As a result, these related entities reimbursed the Company on behalf of these individuals.

Below are the balances with related parties as at 31 December 2008 and 2007:

	<u>2008</u> <u>SR</u>	<u>2007</u> <u>SR</u>
Kingdom Installment Company	-	3,576,494
Saudi Home Loans Company	57,042,000	-
	<u>57,042,000</u>	<u>3,576,494</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**8- PROJECTS IN PROGRESS**

**Projects in progress – short-term**

	<u>2008</u>	<u>2007</u>
	<b>SR</b>	<b>SR</b>
Residential and Commercial Developments	<b>988,841,009</b>	727,108,988
Lands	<b>159,358,708</b>	1,404,983,099
	<b><u>1,148,199,717</u></b>	<b><u>2,132,092,087</u></b>

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

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

	<u>2008</u>	<u>2007</u>
	<b>SR</b>	<b>SR</b>
Residential and Commercial Developments	<b>3,205,958,881</b>	2,691,685,247
Lands	<b>3,566,806,382</b>	3,656,010,926
	<b><u>6,772,765,263</u></b>	<b><u>6,347,696,173</u></b>

Long-term projects in progress represent residential projects and lands owned by the Company which will be transferred to short-term projects in progress upon their completion.

During the year 2008, the Company's management adjusted the Islamic Sukuk charges caption by the capitalization of SR 135,977,648 to projects in progress. This adjustment is reflected in the consolidated statement of income for the year ended 31 December 2008.

**9- DEVELOPED LANDS**

This item represents the value of the lands owned by the Company which have been developed for the purpose of projects construction.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**10- PROPERTY AND EQUIPMENT, NET**

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

	Buildings	Vehicles	Furniture & Fixtures	Electrical Appliances	Leasehold Improvements	Prefabricated houses	Tools	Signboards	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
<b>Cost</b>									
Balance at 1/1/2008	134,145,850	11,625,368	20,503,828	15,150,839	12,586,421	8,619,208	5,445,216	5,566,648	213,643,378
Additions for the year	-	340,168	946,079	1,612,958	38,007	100,000	-	435,000	3,472,212
Transfers / Disposals during the year	(25,000,000)	-	-	-	-	-	(22,000)	-	(25,022,000)
<b>Balance at 31/12/2008</b>	<b>109,145,850</b>	<b>11,965,536</b>	<b>21,449,907</b>	<b>16,763,797</b>	<b>12,624,428</b>	<b>8,719,208</b>	<b>5,423,216</b>	<b>6,001,648</b>	<b>192,093,590</b>
<b>Accumulated Depreciation</b>									
Balance at 1/1/2008	11,554,248	7,165,421	9,199,001	6,900,918	5,909,602	5,515,723	3,134,608	3,667,596	53,047,112
Depreciation for the year	5,666,723	2,151,639	4,320,276	3,885,034	2,525,833	2,345,135	334,658	1,023,162	22,252,460
Transfer during the year	(2,995,890)	-	-	-	-	-	-	-	(2,995,890)
<b>Balance at 31/12/2008</b>	<b>14,225,081</b>	<b>9,317,060</b>	<b>13,519,277</b>	<b>10,785,952</b>	<b>8,435,435</b>	<b>7,860,858</b>	<b>3,469,266</b>	<b>4,690,758</b>	<b>72,303,682</b>
<b>Net book value 31/12/2008</b>	<b>94,920,769</b>	<b>2,648,476</b>	<b>7,930,630</b>	<b>5,977,845</b>	<b>4,188,993</b>	<b>858,350</b>	<b>1,953,950</b>	<b>1,310,890</b>	<b>119,789,908</b>
<b>Net book value 31/12/2007</b>	<b>122,591,602</b>	<b>4,459,947</b>	<b>11,304,827</b>	<b>8,249,921</b>	<b>6,676,819</b>	<b>3,103,485</b>	<b>2,310,613</b>	<b>1,899,052</b>	<b>160,596,266</b>

- The company transferred assets with a book value of SR 25,000,000 during the year to investment properties caption.

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**11- DEFERRED CHARGES, NET**

	<u>2008</u> <u>SR</u>	<u>2007</u> <u>SR</u>
Net deferred charges, beginning of the year	<b>113,585,023</b>	2,512,164
Additions during the year	<b>40,957,238</b>	135,099,426
Amortization charge for the year	<b>(27,671,346)</b>	(24,026,567)
<b>Net deferred charges, end of the year</b>	<b>126,870,915</b>	113,585,023

**12- ISLAMIC MURABAHA**

The Company has total bank facilities of SR 2.1 billion from local commercial banks in the form of Islamic Murabaha, Letters of Guarantee and Letters of Credit.

The Company has utilized SR 1,635,000,000 in the form of Islamic Murabaha.

These facilities are secured by promissory notes.

The bank facility agreements include financial covenants relating to total liabilities to shareholders' equity ratio and bank debts to tangible net worth ratio which the Company was in compliance with as at 31 December 2008.

**13- ACCOUNTS PAYABLE**

	<u>2008</u> <u>SR</u>	<u>2007</u> <u>SR</u>
Contractors	<b>164,610,975</b>	98,675,715
Suppliers	<b>6,596,184</b>	5,991,278
Projects' Shareholders	<b>-</b>	3,052,400
	<b>171,207,159</b>	107,719,393

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**14- ACCRUED EXPENSES AND OTHERS**

	<u>2008</u>	<u>2007</u>
	SR	SR
Accrued expenses	6,355,838	3,922,138
Islamic Sukuk charges	48,105,522	70,622,708
Islamic Murabaha charges	39,461,514	21,891,208
Estimated zakat provision – Note 15	510,074,430	473,928,553
Advances from customers	-	288,869,010
Other credit balances	9,389,322	2,648,860
	<u>613,386,626</u>	<u>861,882,477</u>

**15- PROVISION FOR ZAKAT**

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

	<u>2008</u>	<u>2007</u>
	SR	SR
<b><u>Zakat base:</u></b>		
Capital and statutory reserve – beginning of the year	8,642,253,763	8,642,253,763
Provisions – beginning of the year after deduction of amounts paid during the year	482,715,379	452,389,244
Adjusted net income for the year – Note 15/b	2,420,250,901	1,143,643,276
Retained earnings after dividends	737,996,387	349,422,038
Islamic Sukuk	6,000,000,000	-
<b>Total zakat base</b>	<b>18,283,216,430</b>	<b>10,587,708,321</b>
<b><u>Deductions</u></b>		
Total deduction after adjustment	15,866,296,428	12,882,928,505
<b>Zakat base</b>	<u>2,416,920,002</u>	<u>(2,295,220,184)</u>
<b>Estimated zakat provision for the year</b>	<u>60,423,000</u>	<u>28,591,082</u>

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b) Adjusted net income for the year:

	<b>2008</b>	2007
	<b>SR</b>	SR
Net income for the year	<b>2,416,670,228</b>	1,120,716,798
Provisions	<b>3,580,673</b>	1,757,727
Differences of property and equipment depreciation	-	21,168,751
<b>Adjusted net income – Note 15/a</b>	<b>2,420,250,901</b>	1,143,643,276

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

	<b>2008</b>	2007
	<b>SR</b>	SR
Beginning balance of the year	<b>473,928,553</b>	445,337,471
Payments during the year	<b>(24,277,123)</b>	-
Estimated zakat for the current year	<b>60,423,000</b>	28,591,082
<b>Estimated zakat provision – Note 14</b>	<b>510,074,430</b>	473,928,553

d) The zakat provision for the year 2007 was computed based on the standalone financial statements of Dar Al Arkan Real Estate Development Company.

e) The Company completed its zakat filing up to 2007 inclusive and made advance payment of SR 24 million during 2008.

f) The last zakat certificate received by the Company was for the period ended 30/12/1423 (corresponding to 4/3/2003).

**16- ISLAMIC SUKUK**

This item represents Islamic Sukuk in the amount of SR 6 Billion (USD 1.6 Billion) issued by Dar International Sukuk Company (USD 600 Million) maturing in 2010 and Dar Al Arkan International Sukuk Company (\$1 Billion) maturing in 2012. The beneficiary right is for Dar Al Arkan Real Estate Development Company and its subsidiaries. These Sukuk were issued through the sale of lands owned by the company with the right to buy back the beneficial ownership of these lands upon the repayment of the full amount of the Sukuk. The Company has issued a corporate guarantee to the Sukuk holders.

The Sukuk agreements include financial covenants relating to the minimum limit of shareholders' equity, total liabilities to total assets and the current ratio which the Company was in compliance with as at 31 December 2008.

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

	<b>2008</b>	2007
	<b>SR</b>	SR
Balance, beginning of the year	<b>4,475,307</b>	3,152,478
Charge to expenses	<b>3,580,673</b>	1,524,476
Paid during the year	<b>(167,009)</b>	(201,647)
<b>Balance, end of the year</b>	<b>7,888,971</b>	4,475,307

**18- SHARE CAPITAL**

On 13 October 2008 (corresponding to 13 Shawal 1429) the General Assembly of the Company held its extraordinary meeting and resolved to increase the Company's capital share from SR 5.4 billion to SR 7.2 billion by issuing 180 million additional shares at SR 10 per share which were transferred from the retained earnings to the share capital by granting one share for each 3 shares owned by the shareholders who were registered in the shareholders' records at the end of the trading day of Monday 13 October 2008.

**19- PROFITS AND RESERVES**

The Company's annual net profit after deducting of the general expenses and costs are distributed as follows:

- Deduction of Zakat due.
- Deduction of 10% of net income to establish a statutory reserve in accordance with Article 125 of the Regulations for Companies. The Ordinary General Assembly stops this deduction when the reserve reaches 50% of the share capital.

On 19 April 2008 corresponding to 13 Rabi Al Thani 1429 , the General Assembly of shareholders held its ordinary meeting and approved the Board of Directors recommendation to distribute dividends of SR 3 per share to shareholders amounting to SR 1.6 billion who were recorded in the shareholders' register as of the date of General Assembly meeting

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**20- GROSS PROFIT**

<u>Description</u>	<u>2008</u>			<u>2007</u>
	<u>Revenues from operations</u>	<u>Cost of operations</u>	<u>Gross profit</u>	<u>Gross profit</u>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Lands Residential and Commercial Developments	4,620,392,501	(2,198,657,726)	<b>2,421,734,775</b>	1,784,308,310
	990,375,444	(566,929,048)	<b>423,446,396</b>	623,699,870
<b>Total</b>	<b>5,610,767,945</b>	<b>(2,765,586,774)</b>		
<b>Gross profit</b>			<b><u>2,845,181,171</u></b>	<b><u>2,408,008,180</u></b>

**21- SALES AND MARKETING EXPENSES**

The details of this item are as follows:

	<u>2008</u>	<u>2007</u>
	<u>SR</u>	<u>SR</u>
Salaries, wages and related cost	<b>10,483,665</b>	7,590,195
Advertising	<b>20,502,728</b>	20,403,091
Exhibitions and seminars	<b>10,878,363</b>	9,307,040
Marketing expenses	<b>6,116,611</b>	-
Maintenance and utilities	<b>2,948,486</b>	-
Professional fees	<b>354,378</b>	1,586,255
Others	<b>1,391,201</b>	199,362
	<b><u>52,675,432</u></b>	<b><u>39,085,943</u></b>



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**22- GENERAL AND ADMINISTRATIVE EXPENSES**

The details of this item are as follows:

	<b>2008</b>	2007
	<b>SR</b>	SR
Salaries, wages and related cost	<b>59,342,655</b>	30,681,664
Professional fees	<b>14,174,351</b>	1,401,576
Maintenance and utilities	<b>12,024,606</b>	7,112,439
Travel expenses	<b>3,285,780</b>	299,952
Advertising	<b>2,776,308</b>	-
Rent	<b>1,452,905</b>	416,383
Others	<b>3,900,102</b>	3,856,841
	<b><u>96,956,707</u></b>	<b><u>43,768,855</u></b>

**23- EARNING PER SHARE**

Earning per share is computed by dividing the net income for the year by the outstanding number of shares at the end of the year amounting 720,000,000 shares for all the years.

**24- SEGMENT INFORMATION**

The Company's management believes that operational segment information disclosure for the Company and its subsidiaries is not required, due to the fact that so far up to 31 December 2008 the Company has only one major operating sector representing real estate development and operates mainly in the Kingdom of Saudi Arabia.

**25- COMMITMENTS**

As at 31 December 2008, the Company and its subsidiaries have commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 1,061 million (2007: SR 1,394 million).

**26- COMPARATIVE FIGURES**

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