**NATIONAL REAL ESTATE COMPANY K.S.C.**
**AND SUBSIDIARIES**
**STATE OF KUWAIT**

**INTERIM CONSOLIDATED FINANCIAL INFORMATION**
**FOR THE PERIOD ENDED JUNE 30, 2007**
**(UNAUDITED)**
**WITH**
**REPORT ON REVIEW OF INTERIM CONSOLIDATED FINANCIAL INFORMATION**

NATIONAL REAL ESTATE COMPANY K.S.C.
AND SUBSIDIARIES
STATE OF KUWAIT

# INTERIM CONSOLIDATED FINANCIAL INFORMATION
FOR THE PERIOD ENDED JUNE 30, 2007
(UNAUDITED)
WITH
REPORT ON REVIEW OF INTERIM CONSOLIDATED FINANCIAL INFORMATION

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# REPORT ON REVIEW OF INTERIM CONSOLIDATED FINANCIAL INFORMATION

The Board of Directors
National Real Estate Company K.S.C.
State of Kuwait

## Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of National Real Estate Company K.S.C. (the Parent Company) and subsidiaries (the Group) as of June 30, 2007 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim consolidated financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34.

## Emphasis of matter – Cancellations of Kuwait Free Trade Zone management contract

Without qualifying our conclusion, we draw attention to Note (16) to the interim consolidated financial information. A claim has been filed by the Parent Company with respect to the management contract of Kuwait Free Trade Zone, which has been cancelled by the Ministry of Commerce and Industry as at the balance sheet date. As of the balance sheet date, legal proceedings are still in progress.

Report on other Legal and Regulatory Requirements

Furthermore, the interim consolidated financial information is in agreement with the Parent Company's books of account and to the best of our knowledge and belief, there were no contraventions during the period ended June 30, 2007 of either the Commercial Companies Law or the Parent Company's Articles of Association, which might have materially affected the Group's financial position or results of its operations.

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August 8, 2007

NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS OF JUNE 30, 2007
(All amounts are in Kuwaiti Dinars)

| | Note | June 30, 2007 | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash on hand and at banks | | 14,921,130 | 8,020,063 | 6,440,124 |
| Investments at fair value through income statement | | 2,765,698 | 2,728,815 | 7,190,334 |
| Accounts receivable and other debit balances | 4 | 14,460,343 | 7,186,850 | 8,920,248 |
| Investments available for sale | 5 | 16,640,391 | 6,744,369 | 6,178,300 |
| Investment in unconsolidated subsidiaries | | - | 32,291 | 4,289,483 |
| Investment in an associate | 6 | 174,054,491 | 169,308,802 | 154,007,874 |
| Investment in joint venture | | 257,189 | 211,977 | 187,127 |
| Capital work in progress | 7 | 35,618,881 | 16,875,572 | 9,634,681 |
| Net amount due from Kuwait Ports Authority | 8 | - | - | 729,102 |
| Fixed assets | | 1,216,072 | 566,731 | 7,026,756 |
| Investment properties | | 65,797,674 | 65,922,172 | 66,531,637 |
| | | 325,731,869 | 277,597,662 | 271,135,666 |
| **LIABILITIES AND EQUITY** | | | | |
| Liabilities: | | | | |
| Accounts payable and other credit balances | | 43,520,851 | 21,554,916 | 19,449,514 |
| Bank facilities | 9 | 52,654,385 | 34,517,481 | 45,677,563 |
| Provision for end of service indemnity | | 655,738 | 574,910 | 537,263 |
| Total liabilities | | 96,830,974 | 56,647,307 | 65,664,340 |
| Equity: | | | | |
| Share capital | | 74,017,733 | 64,363,246 | 64,363,246 |
| Statutory reserve | | 30,585,134 | 30,585,134 | 27,153,015 |
| Gain on sale of treasury shares | | 10,506,728 | 9,582,304 | 5,595,577 |
| Effects of changes in associate's equity | 6 | 9,652,087 | 9,824,085 | 10,745,972 |
| Cumulative changes in fair value | | 1,213,784 | 94,225 | (16,881) |
| Foreign currency translation adjustments | | 635,347 | 805,452 | 439,654 |
| Retained earnings | | 92,984,282 | 102,154,215 | 96,353,984 |
| | | 219,595,095 | 217,408,661 | 204,634,567 |
| Treasury shares | 10 | (5,810,667) | (5,184,069) | (6,782,161) |
| | | 213,784,428 | 212,224,592 | 197,852,406 |
| Minority interest | | 15,116,467 | 8,725,763 | 7,618,920 |
| Total equity | | 228,900,895 | 220,950,355 | 205,471,326 |
| | | 325,731,869 | 277,597,662 | 271,135,666 |

The accompanying notes (1) to (18) form an integral part of the interim consolidated financial information

Jamil Sultan Al-Essa
Chairman and Managing Director

**NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES**
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**
**FOR THE PERIOD ENDED JUNE 30, 2007**
(All amounts are in Kuwaiti Dinars)

| | Note | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| Revenues: | | | | | |
| Rental income – net | | **1,827,558** | 3,880,522 | **3,598,096** | 8,052,452 |
| Net share in the associate's results | 6 | **9,050,747** | 10,083,952 | **19,012,874** | 20,288,355 |
| Other income | 11 | **736,329** | 1,164,627 | **2,607,154** | 2,280,857 |
| | | **11,614,634** | 15,129,101 | **25,218,124** | 30,621,664 |
| Expenses: | | | | | |
| Staff cost | | **1,471,872** | 951,393 | **2,835,818** | 1,926,004 |
| General and administrative | | **1,273,199** | 1,558,990 | **2,106,342** | 2,924,047 |
| Provision for doubtful debts | 12 | **-** | 668,590 | **-** | 1,312,825 |
| Depreciation | | **59,339** | 168,658 | **103,649** | 337,144 |
| Change in fair value of investment properties | | **105,608** | 116,698 | **211,215** | 233,395 |
| | | **2,910,018** | 3,464,329 | **5,257,024** | 6,733,415 |
| Operating profit | | **8,704,616** | 11,664,772 | **19,961,100** | 23,888,249 |
| Interest income | | **791,912** | 507,963 | **1,404,185** | 986,872 |
| Provision for interest income | 12 | **(577,572)** | (456,186) | **(1,140,937)** | (897,533) |
| Interest expense | | **(1,123,860)** | (842,385) | **(1,870,580)** | (1,744,647) |
| Net investment income | 13 | **2,435,673** | 3,328,756 | **3,995,234** | 3,200,191 |
| Share in the joint venture results | | **(5,136)** | (15,231) | **(21,933)** | (26,387) |
| Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labor Support Tax | | **10,225,633** | 14,187,689 | **22,327,069** | 25,406,745 |
| Contribution to KFAS | | **(11,561)** | (35,150) | **(21,183)** | (44,199) |
| National Labor Support Tax | | **(25,109)** | (82,364) | **(73,787)** | (101,336) |
| Net profit for the period | | **10,188,963** | 14,070,175 | **22,232,099** | 25,261,210 |
| Attributable to : | | | | | |
| Equity holders of the Parent Company | | **10,156,919** | 13,955,040 | **22,001,366** | 25,018,841 |
| Minority interests | | **32,044** | 115,135 | **230,733** | 242,369 |
| | | **10,188,963** | 14,070,175 | **22,232,099** | 25,261,210 |
| Earnings per share attributable to equity holders of the Parent Company (fils) | 14 | **14.38** | 20.09 | **31.17** | 36.03 |

The accompanying notes (1) to (18) form an integral part of the interim consolidated financial information

**NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES**
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**
**FOR THE PERIOD ENDED JUNE 30, 2007**
(All amounts are in Kuwaiti Dinars)

| | Attributable to equity holders of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Statutory reserve | Gain on sale of treasury shares | Effects of changes in associate's equity | Cumulative changes in fair value | Foreign currency translation adjustments | Retained earnings | Treasury shares | Subtotal | Minority interest | Total |
| Balance at December 31, 2006 | 64,363,246 | 30,585,134 | 9,582,304 | 9,824,085 | 94,225 | 805,452 | 102,154,215 | (5,184,069) | 212,224,592 | 8,725,763 | 220,950,355 |
| Gain on sale of treasury shares | - | - | 924,424 | - | - | - | - | - | 924,424 | - | 924,424 |
| Change in fair value of investments available for sale | - | - | - | - | 1,119,559 | - | - | - | 1,119,559 | 20,390 | 1,139,949 |
| Foreign currency translation adjustments | - | - | - | - | - | (170,105) | - | - | (170,105) | (22,654) | (192,759) |
| Net income (expense) recognized directly in equity | - | - | 924,424 | - | 1,119,559 | (170,105) | - | - | 1,873,878 | (2,264) | 1,871,614 |
| Net profit for the period | - | - | - | - | - | - | 22,001,366 | - | 22,001,366 | 230,733 | 22,232,099 |
| Total recognized income (expense) for the period | - | - | 924,424 | - | 1,119,559 | (170,105) | 22,001,366 | - | 23,875,244 | 228,469 | 24,103,713 |
| Purchase of treasury shares | - | - | - | - | - | - | - | (961,748) | (961,748) | - | (961,748) |
| Sale of treasury shares | - | - | - | - | - | - | - | 335,150 | 335,150 | - | 335,150 |
| Share of changes in associate's equity – Note 6 | - | - | - | (171,998) | - | - | - | - | (171,998) | - | (171,998) |
| Share of minority from newly consolidated subsidiaries | - | - | - | - | - | - | - | - | - | 6,561,939 | 6,561,939 |
| Paid to minority | - | - | - | - | - | - | - | - | - | (399,704) | (399,704) |
| Cash dividend (2006 – 35 fils per share) - Note 17 | - | - | - | - | - | - | (21,516,812) | - | (21,516,812) | - | (21,516,812) |
| Bonus shares (2006 – 15%) – Note 17 | 9,654,487 | - | - | - | - | - | (9,654,487) | - | - | - | - |
| **Balance at June 30, 2007** | **74,017,733** | **30,585,134** | **10,506,728** | **9,652,087** | **1,213,784** | **635,347** | **92,984,282** | **(5,810,667)** | **213,784,428** | **15,116,467** | **228,900,895** |
| | | | | | | | | | | | |
| Balance at December 31, 2005 | 53,636,038 | 27,153,015 | 4,597,104 | 10,789,087 | (16,881) | - | 92,104,700 | (7,082,828) | 181,180,235 | 6,919,485 | 188,099,720 |
| Gain on sale of treasury shares | - | - | 998,473 | - | - | - | - | - | 998,473 | - | 998,473 |
| Foreign currency translation adjustments | - | - | - | - | - | 439,654 | - | - | 439,654 | - | 439,654 |
| Net income recognized directly in equity | - | - | 998,473 | - | - | 439,654 | - | - | 1,438,127 | - | 1,438,127 |
| Net profit for the period | - | - | - | - | - | - | 25,018,841 | - | 25,018,841 | 242,369 | 25,261,210 |
| Total recognized income for the period | - | - | 998,473 | - | - | 439,654 | 25,018,841 | - | 26,456,968 | 242,369 | 26,699,337 |
| Purchase of treasury shares | - | - | - | - | - | - | - | (21,804) | (21,804) | - | (21,804) |
| Sale of treasury shares | - | - | - | - | - | - | - | 322,471 | 322,471 | - | 322,471 |
| Share of changes in associate's equity – Note 6 | - | - | - | (43,115) | - | - | - | - | (43,115) | - | (43,115) |
| Share of minority from newly consolidated subsidiaries | - | - | - | - | - | - | - | - | - | 500,000 | 500,000 |
| Paid to minority | - | - | - | - | - | - | - | - | - | (42,934) | (42,934) |
| Cash dividend (2005 – 20 fils per share) – Note 17 | - | - | - | - | - | - | (10,042,349) | - | (10,042,349) | - | (10,042,349) |
| Bonus shares (2005 – 20%) – Note 17 | 10,727,208 | - | - | - | - | - | (10,727,208) | - | - | - | - |
| Balance at June 30, 2006 | 64,363,246 | 27,153,015 | 5,595,577 | 10,745,972 | (16,881) | 439,654 | 96,353,984 | (6,782,161) | 197,852,406 | 7,618,920 | 205,471,326 |

The accompanying notes (1) to (18) form an integral part of the interim consolidated financial information

**NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES**
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**
**FOR THE PERIOD ENDED JUNE 30, 2007**
(All amounts are in Kuwaiti Dinars)

| | Six months ended June 30, | |
|---|---|---|
| | **2007** | 2006 |
| **CASH FLOW FROM OPERATING ACTIVITIES:** | | |
| Profit for the period before contribution to KFAS and National Labor Support Tax | **22,327,069** | 25,406,745 |
| Adjustments for: | | |
| Kuwait Ports Authority's share in Kuwait Free Trade Zone rental income | **-** | 1,013,664 |
| Net share in the associate's results | **(19,012,874)** | (20,288,355) |
| Gain on sale of fixed assets | **(1,360)** | - |
| Gain on sale of investment properties | **-** | (12,482) |
| Provision for end of service indemnity | **80,828** | 76,995 |
| Right of utilization of Ministry of Commerce and Industry for Kuwait Free Trade Zone | **-** | 395,561 |
| Provision for interest income and doubtful debts | **1,140,937** | 2,210,358 |
| Depreciation | **103,649** | 337,144 |
| Change in fair value of investment properties | **211,215** | 233,395 |
| Interest income | **(1,404,185)** | (986,872) |
| Interest expense | **1,870,580** | 1,744,647 |
| Net investment income | **(3,995,234)** | (3,200,191) |
| Share in the joint venture results | **21,933** | 26,387 |
| Operating profit before working capital change | **1,342,558** | 6,956,996 |
| (Increase) decrease in accounts receivable and other debit balances | **(7,314,448)** | 863,371 |
| Increase (decrease) in accounts payable and other credit balances | **1,142,005** | (17,450) |
| Cash (used in) generated from operations | **(4,829,885)** | 7,802,917 |
| Paid to Ministry of Commerce and Industry for rights of utilization for Kuwait Free Trade Zone | **-** | (359,318) |
| Paid for Directors' remuneration | **(70,000)** | (70,000) |
| Paid to Kuwait Foundation for the Advancement of Sciences | **-** | (133,459) |
| Paid for National Labor Support Tax | **-** | (402,697) |
| Net cash (used in) generated from operating activities | **(4,899,885)** | 6,837,443 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Paid for purchase of investments at fair value through income statement and investment in an associate | **(3,176,959)** | (697,372) |
| Proceeds from sale of investments at fair value through income statement and investment in an associate | **7,349,917** | 14,159,339 |
| Paid for purchase of investments available for sale | **(9,233,283)** | (1,536,071) |
| Proceeds from sale of investments available for sale | **508,281** | - |
| Paid for purchase of investment in unconsolidated subsidiary | **-** | (32,291) |
| Paid for long term loan to joint venture | **(55,111)** | (73,750) |
| Paid for capital work in progress | **(18,679,263)** | (5,615,252) |
| Paid for purchase of fixed assets | **(769,098)** | (109,640) |
| Proceeds from sale of fixed assets | **13,000** | - |
| Paid for purchase of investment properties | **(86,717)** | (49,597) |
| Proceeds from sale of investment properties | **-** | 476,220 |
| Dividend income received | **205,531** | 288,744 |
| Dividends received from an associate | **13,643,998** | 9,293,198 |
| Interest received | **248,684** | 81,631 |
| Net cash (used in) generated from investing activities | **(10,031,020)** | 16,185,159 |

**NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES**
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (CONTD.)**
**FOR THE PERIOD ENDED JUNE 30, 2007**
(All amounts are in Kuwaiti Dinars)

| | Six months ended June 30, | |
|---|---|---|
| | **2007** | 2006 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Net proceeds from (payment of) bank overdraft | **9,053,834** | (1,622,174) |
| Net proceeds from (payment of) term loans | **9,083,070** | (8,501,705) |
| Paid for purchase of treasury shares | **(961,748)** | (21,804) |
| Proceeds from sale of treasury shares | **1,259,574** | 1,320,944 |
| Interest expense paid | **(1,862,065)** | (1,736,132) |
| Cash dividend paid | **(744,321)** | (7,323,618) |
| Paid to minority | **(399,704)** | (42,934) |
| Share of minority from newly consolidated subsidiaries | **6,561,939** | 500,000 |
| Net cash generated from (used in) financing activities | **21,990,579** | (17,427,423) |
| Foreign currency translation adjustments | **(190,349)** | 221,210 |
| Cash relating to newly consolidated subsidiaries | **31,742** | 106,632 |
| Net increase in cash on hand and at banks | **6,901,067** | 5,923,021 |
| Cash on hand and at banks at beginning of the period | **8,020,063** | 517,103 |
| Cash on hand and at banks at end of the period | **14,921,130** | 6,440,124 |

The accompanying notes (1) to (18) form an integral part of the interim consolidated financial information

1. Activities

National Real Estate Company K.S.C. (the Parent Company) is a Kuwaiti public shareholding company registered in Kuwait and listed on the Kuwait Stock Exchange. It is engaged in real estate investment and management, as well as undertaking real estate construction and maintenance. The Parent Company also holds investments in securities.

The address of the Parent Company's registered office is P.O Box 22644, Safat 13087, State of Kuwait.

These interim consolidated financial information were approved for issue by the Board of Directors on August 8, 2007.

2. Basis of presentation

These interim consolidated financial information have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the guidelines issued by the Kuwait Stock Exchange. The accounting policies used in the preparation of the interim consolidated financial information for the period are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2006.

The interim consolidated financial information do not include all of the information and footnotes required for complete financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 2006

3. Basis of consolidation

The interim consolidated financial information include the financial information of National Real Estate Company K.S.C. (the Parent Company) and the following subsidiaries:

| | | Percentage of ownership | | |
|---|---|---|---|---|
| Name of subsidiaries | Country of incorporation | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
| 1) Dasman Commercial Complex – Joint venture | Kuwait | **62.094%** | 62.083% | 62.083% |
| 2) HRD International for Human Resources Development Company W.L.L. | Kuwait | **85.3%** | 85.3% | 51% |
| 3) Al-Takafouh Al-Thahabi General Trading and Contracting Company W.L.L. | Kuwait | **100%** | 100% | 100% |
| 4) Aqaba National Real Estate Projects Co. (private shareholding company) | Jordan | **70%** | 70% | - |
| 5) Kuwait National Real Estate (PVT) Ltd | Pakistan | **100%** | 100% | - |
| 6) National Holding Group Company (Lebanese shareholding company) | Lebanon | **100%** | 100% | - |
| 7) Kuwait Touristic Enterprises Development Company (private shareholding company) | Tunisia | **100%** | 100% | - |
| 8) Kuwait National Real Estate Company (Egyptian shareholding company) | Egypt | **100%** | 100% | - |
| 9) National Project Holding K.S.C. (Holding) | Kuwait | **90%** | 90% | 90% |
| 10) National Investment & Development Company (private shareholding company) | Jordan | **100%** | 100% | 100% |
| 11) Kurdistan Real Estate Development Co. – Ltd | Iraq | **51%** | - | - |
| 12) Fresh World International Catering Co. K.S.C. (Closed) | Kuwait | **70%** | - | - |
| 13) Yemen Kuwait Co. for General Trading & Contracting W.L.L. | Yemen | **100%** | - | - |

The accompanying interim consolidated financial information includes proportionate consolidation of the Parent Company's 50% investment in a joint venture (Mediterranean Investment Holding) a company registered in Malta, whose principal activities are investing and developing real estate projects.

4. Accounts receivable and other debit balances

As of June 30, 2007, accounts receivable and other debit balances include advances paid to acquire certain properties amounting to KD 4,337,560 (December 31, 2006 – KD 32,002, June 30, 2006 – KD 32,002)

5. Investments available for sale

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| Managed portfolios and funds | **173,103** | 230,081 | 18,430 |
| Quoted securities | **7,038,754** | 1,110,547 | - |
| Unquoted securities | **9,428,534** | 5,403,761 | 6,159,870 |
| | **16,640,391** | 6,744,389 | 6,178,300 |

It was not possible to reliably measure the fair value of investments in unquoted securities amounting to KD 8,548,341 (December 31, 2006 – KD 4,753,758, June 30, 2006 – KD 6,159,870) due to non-availability of a reliable method that could be used to determine the fair value of such investment. Accordingly, they were stated at their cost less impairment losses which amounted to KD 446,639 (December 31, 2006 – KD 446,639, June 30, 2006 – KD 446,639).

6. Investment in an associate

The investment in an associate represents a 23.6826% equity interest in Public Warehousing Company K.S.C. (Agility) as of June 30, 2007 (December 31, 2006 – 24.0409%, June 30, 2006 – 24.6354%), a public shareholding company registered in Kuwait and listed on the Kuwait Stock Exchange. Its principal activities is storing goods, management of warehouses, all transportation activities, distribution, handing over and custom clearing of goods.

The movement of the investment is as follows:

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| Beginning balance | **169,308,802** | 146,410,294 | 146,410,294 |
| Additional investment in the associate | **3,176,959** | 472,184 | - |
| Disposal of investment in the associate | **(3,628,148)** | (6,121,604) | (3,354,462) |
| Net share in the associate's results | **19,012,874** | 38,806,128 | 20,288,355 |
| Cash dividends received | **(13,643,998)** | (9,293,198) | (9,293,198) |
| Effect of changes in associate's equity | **(171,998)** | (965,002) | (43,115) |
| Ending balance | **174,054,491** | 169,308,802 | 154,007,874 |

The net share of the associate's results is as follows:

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| Share in the associate's results | **19,012,874** | 40,032,210 | 20,288,355 |
| Provision for letter of guarantee relating to the associate | **-** | (1,226,082) | **-** |
| | **19,012,874** | 38,806,128 | 20,288,355 |

The effect of changes in associate's equity is as follows:

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| Loss on sale of treasury shares | **(7,897)** | (484,823) | (61,909) |
| Foreign currency translation adjustments | **(97,477)** | (484,594) | 15,231 |
| Cumulative changes in fair value of available for sale investments | **(66,624)** | 4,415 | 3,563 |
| | **(171,998)** | (965,002) | (43,115) |

As at June 30, 2007, investment in an associate included a goodwill of KD 5,515,970 (December 31, 2006 – KD 5,653,988, June 30, 2006 - KD 5,878,279).

During the period, 3,940,000 shares were sold from investment in an associate (December 31, 2006 – 7,265,000 shares, June 30, 2006 – 3,940,000 shares). The goodwill relating to these shares amounted to KD 138,018 (December 31, 2006 – KD 499,370, June 30, 2006 - KD 275,079).

The associate's contingent liabilities are as follows:

a. A dispute has arisen between the associate and a third party with respect to a partnership agreement dated 30 July 2002 for the purpose of bidding for and execution of the provision of services for Prime Vendor Services Contract with the U.S. Government

The third party has filed claims against the associate with respect to the above-mentioned partnership alleging that the financial rewards arising from the Prime Vendor Contract accrue to the partnership and consequently is entitled to his share of the rewards. The associate filed a case requesting nullity of the partnership agreement and delegation of an expert to assess the compensation to which the associate may be entitled. The court issued its ruling in which the arbitration clause in the partnership agreement was nullified and the case taken under its jurisdiction. The court delegated an expert. The expert's report concluded that no cash contributions, assets or infrastructure have been provided for the partnership and explained that these are the basic obligations in the partnership. This report has been submitted to the court, which, having been satisfied that neither party met its obligations under the partnership contract dated 30 July 2002, the Court issued a sentence on 5 December 2005 that both parties have been discharged from their obligations under the contract. The third party has submitted an appeal to the Supreme Court of Appeals, where it is currently under review. However, the Supreme Court of Appeal resolved to refer the case back to the Experts Department. This will not affect the latest situation because the Court issued its ruling in its session on March 27th, 2007 for the Appeal No. 673/2006 to confirm the verdict issued for the nullity of the case filed by the third party against the associate and some of its executives, based on the expert's' report, which stated that the plaintiff did not satisfy any of its obligations in the partnership contract, and hence, he is not entitled to any rewards. The associate's legal consulting firms consider it probable for the associate to win the case, the final outcome of this case cannot presently be predicted.

The third party also submitted a request to the Arbitration Committee of Kuwait Chamber of Commerce & Industry. The Arbitrator issued his decision to withhold arbitration procedures until the court issues its final ruling in the case.

The third party has also filed a case against the associate requesting receivership over the partnership, however, the case was rejected by the Court of First Instance. Subsequently, the Court of Appeal issued a verdict reversing the ruling issued by the Court of First Instance and appointed a team of official receivers to administer the funds, assets and properties of the partnership (not those of the associate). The court ruling has also specified the duties of the official receivers to include the proper administration of the partnership affairs under the objectives for which it was established, collection of its funds, satisfaction of its obligations and the depositing of any proceeds at the court's treasury.

The ongoing legal proceedings also included a case filed by the third party against certain executives of the associate in which the case was lost. The associate has also appealed against the ruling in which official receivers were appointed as discussed above, seeking cessation of official receivership but this case was rejected by the Court of Summary Appeal.

The associate's external legal consulting firms advised that the partnership agreement had expired on 1 January 2003, i.e. before the associate was awarded the Prime Vendor Services Contract by the U.S. Government and as a result the partnership agreement is considered void and of no force or effect. They also advised that the official receivership over the partnership agreement has no financial impact on the associate or any of its projects. This is further reinforced by the verdict issued by the Supreme Court of Appeal on 27 March 2007, the legal base of which is that the partnership agreement between the associate and the third party does not exist and both parties have been discharged from their obligations under the contract

Based on the foregoing interpretation and the legal opinion of external legal consulting firms, the firms have advised the associate not to provide for any amount in respect of the claim or negotiate any settlement with the third party and accordingly, no provision has been made in the associate's interim consolidated financial information as of June 30, 2007.

b. On 27 November 2006, and based on the recommendation by the Ministers' Council, the Minister of Commerce & Industry issued the Resolution No. 30/2006 to terminate three contracts of those concluded between the associate and the Public Authority of Industry for Mina Abdulla Zone, Kuwait.

The associate protested against this order through the case No. 940/2006 "Administrative". In the Hearing held on December 25, 2006, the court pronounced its ruling to repeal the aforesaid Resolution of the Ministry of Commerce & Industry and its resultant impacts.

However, the Government requested the Board of Public Authority of Industry to hold a meeting chaired by the Minister of Commerce & Industry, who issued a new resolution No. 1/2007 to terminate the same contract, being the subject of the previous Resolution.

The associate, again, appealed against the new resolution through the case No. 36/2007 and assured, in its statement of defense, which is in agreement with the clauses of the law, as confirmed by the Supreme Court including Kuwait Court of Cassation, that the new resolution is void, because it has been made on the same subject of the previous resolution. From a legal perspective, the court shall issue its judgment to void the new resolution issued by the Public Authority of Industry, because it has been based on wrong basis.

The associate is in the process of performing an assessment of the final losses arising from the aforementioned resolutions, so that a claim can be filed with the Government of Kuwait for recovery of these amounts.

Whereas the resolutions issued by the governmental authorities are not expected, from legal perspectives, to remain effective, no provision should be made in the books of the associate, as the outcomes of the legal cases issued by the courts in this respect are in favour of the associate.

c. On January 9th, 2007 the Ministry of Finance terminated Al-Jahra Fish, Meat and Vegetables Market Project Contract with the associate according to the resolution of the Council of Ministers No. 2 for 2007. The associate appealed against this resolution, however, the case is not yet settled. Based on the associate's legal status of this lawsuit, the associate's legal counsel believes that the court shall issue its judgment to void that resolution; therefore, no provision has been made for facing this resolution.

d. In addition to the above, the associate is involved in various claims and legal proceedings including employee compensation and contractor disputes. The in-house legal counsel of the associate believes that such claims are not valid and will not have a material adverse effect on the interim consolidated financial information of the associate as of June 30, 2007.

7. Capital work in progress

This represents mainly work-in-progress relating to foreign subsidiaries. The movement of this item during the period / year is as follows:

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| Beginning balance | **16,875,572** | 3,101,630 | 3,101,630 |
| Additions | **18,679,263** | 17,468,522 | 5,615,252 |
| Transfers | **-** | (255,000) | - |
| Relating to newly consolidated subsidiary | **-** | - | 699,355 |
| Charged to Kuwait Ports Authority | **-** | (874,354) | - |
| Amortization | **-** | (14,250) | - |
| Foreign currency translation adjustments | **64,046** | - | 218,444 |
| Provision relating to cancellation of management contract of Kuwait Free Trade Zone | **-** | (2,550,976) | - |
| Ending balance | **35,618,881** | 16,875,572 | 9,634,681 |

8. Net amount due from Kuwait Ports Authority

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| Due from Kuwait Ports Authority | | | |
| Rehabilitation costs of properties (a) | **6,417,653** | 6,417,653 | 5,543,299 |
| Accrued interest on the balance (b) | **8,366,354** | 7,225,417 | 6,225,968 |
| | **14,784,007** | 13,643,070 | 11,769,267 |
| Rent due from Kuwait Ports Authority (c) | **15,633,440** | 15,633,440 | 13,056,695 |
| Gross amount due from Kuwait Ports Authority before its share in rental income of Kuwait Free Trade Zone | **30,417,447** | 29,276,510 | 24,825,962 |
| Due to Kuwait Ports Authority | | | |
| Gross share of Kuwait Ports Authority in rental income of Kuwait Free Trade Zone (d) | **7,566,312** | 7,566,312 | 7,077,792 |
| Less: Refunded share of the outstanding and unpaid rent of Kuwait Ports Authority (e) | **(637,756)** | (637,756) | (960,468) |
| Less: Refunded share of the outstanding and unpaid rent of Ministry of Health – Kuwait (e) | - | - | (78,394) |
| Less: Refunded share of the outstanding and unpaid rent of Ministry of Interior – Kuwait (e) | - | - | (15,135) |
| Net share of Kuwait Ports Authority in rental income of Kuwait Free Trade Zone | **6,928,556** | 6,928,556 | 6,023,795 |
| Gross amount due from Kuwait Ports Authority after its share in rental income of Kuwait Free Trade Zone | **23,488,891** | 22,347,954 | 18,802,167 |
| Provision for doubtful debts (b,c,f) | **(23,488,891)** | (22,347,954) | (18,073,065) |
| | - | - | 729,102 |

(a) According to clause number 11 in Kuwait Free Trade Zone management contract, if National Real Estate Company K.S.C. (the managing company) makes any rehabilitation for the properties according to the plan implemented by the Ministry of Commerce and Industry, then the managing company has the right to recover all the expenses it incurred for the rehabilitation work for those properties before accounting for the assigned share of Kuwait Ports Authority. These costs need to be approved by the Ministry of Commerce and Industry. In accordance with this clause and the letter from the Ministry of Commerce and Industry dated November 25, 1998, at which the Ministry approved the costs that amounted to KD 6,449,034; the managing company had charged the amounts incurred in the renovation and overhauling of some properties of Kuwait Ports Authority to its account, including borrowing costs that can be capitalized amounting to KD 73,122 and the interest for the bank loans amounting to KD 100,393 that can be capitalized for the period from the date of commencement of activities till December 31, 1999.

The actual rehabilitation costs incurred by the managing company for Kuwait Ports Authority properties amounted to KD 6,417,653. The Consulting Committee of the Free Zones had approved the rehabilitation costs of KD 5,033,000 during its meeting on January 23, 2002, for the period from May 30, 1998 till October 31, 2000.

(b) The managing company also computes interest on the monthly outstanding balance due from Kuwait Ports Authority at 10% per annum. Interest income recorded in the interim condensed consolidated statement of income for the period ended June 30, 2007 amounted to KD 1,140,937 (June 30, 2006 – KD 897,533). The managing company has fully provided for this interest.

(c) Also, the balance due from Kuwait Ports Authority as of June 30, 2007 includes an amount of KD 15,633,440 (December 31, 2006 - KD 15,633,440, June 30, 2006 – KD 13,056,695), being the balance due for the rents of utilized properties by Kuwait Ports Authority in the Kuwait Free Trade Zone. The managing company has recorded a provision for those rents in the balance due from Kuwait Ports Authority.

(d) According to the management contract, 80% of the rent collected in the Kuwait Free Trade Zone from the existing properties that were handed over from Kuwait Ports Authority is assigned to it. The gross share of the Kuwait Ports Authority in those rents amounted to KD Nil for the period ended June 30, 2007 (June 30, 2006 – KD 1,013,664).

(e) The 80% share relating to the outstanding and unpaid rent of Kuwait Ports Authority is deducted from the gross share of Kuwait Ports Authority in rental income of the Kuwait Free Trade Zone. In case of any settlement regarding those outstanding and unpaid rents, its relative share previously deducted will be refunded back to the share of Kuwait Ports Authority in rental income of Kuwait Free Trade Zone. In 2006, the managing company had refunded back the previously deducted share for the rents of Ministry of Health and Ministry of Interior to the gross share of Kuwait Ports Authority in rental income of Kuwait Free Trade Zone.

(f) As a result of the resolution issued by the Ministry of Commerce and Industry No. 507 / 2006 relating to the cancellation of the management contract of Kuwait Free Trade Zone with the managing company (Note 16 (e)), the managing company has fully provided for the amount due from Kuwait Ports Authority on a conservatism approach and not as a surrender to the validity of the cancellation resolution.

9. Bank facilities

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| **Current portion** | | | |
| Bank overdraft | **10,244,356** | 1,190,522 | 7,745,721 |
| Term loans | **42,410,029** | 28,150,000 | 32,150,000 |
| | **52,654,385** | 29,340,522 | 39,895,721 |
| **Non-current portion** | | | |
| Term loans | **-** | 5,176,959 | 5,781,842 |
| | **52,654,385** | 34,517,481 | 45,677,563 |

The above bank facilities carry an annual interest rates ranging from 0.75% to 1.25% (December 31, 2006 - 0.75% - 1.25%; June 30, 2006 -0.75% to 1.25%) over Central Bank of Kuwait discount rate.

10. Treasury shares

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| Number of treasury shares | **34,529,297** | 30,538,954 | 40,291,191 |
| Percentage of issued shares (%) | **4.67** | 4.74 | 6.26 |
| Market value (KD) | **22,444,043** | 16,796,425 | 24,577,627 |
| Cost (KD) | **5,810,667** | 5,184,069 | 6,782,161 |

11. Other income

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Promotional income | **22,035** | 31,948 | **92,875** | 54,363 |
| Service income – programs and courses fee | **449,590** | 554,851 | **931,061** | 1,106,619 |
| Service and registration income – Kuwait Free Trade Zone | **-** | 119,524 | **-** | 312,768 |
| Service and registration income – others | **62,693** | 345,852 | **92,732** | 596,387 |
| Consultancy fees | **29,173** | - | **1,287,397** | - |
| Gain on sale of fixed assets | **-** | - | **1,360** | - |
| Gain on sale of investment properties | **-** | - | **-** | 12,482 |
| Miscellaneous | **172,838** | 112,452 | **201,729** | 198,238 |
| | **736,329** | 1,164,627 | **2,607,154** | 2,280,857 |

12. Provisions

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Provision for the balance of rent due from the utilized properties by Kuwait Ports Authority in the Kuwait Free Trade Zone | **-** | 659,939 | **-** | 1,319,878 |
| Provision for bad debts related to accounts receivable and other debit balances | **-** | 8,651 | **-** | 9,613 |
| Provision no longer required related to accounts receivable and other debit balances | **-** | - | **-** | (16,666) |
| Provision for doubtful debts | **-** | 668,590 | **-** | 1,312,825 |
| Provision for interest income on the balance due from Kuwait Ports Authority | **577,572** | 456,186 | **1,140,937** | 897,533 |
| | **577,572** | 1,124,776 | **1,140,937** | 2,210,358 |

Details of the provisions for the balance due from Kuwait Ports Authority and charged to the statement of income are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Provision for the amount due for renting the utilized properties by Kuwait Ports Authority in the Kuwait Free Trade Zone | **-** | 659,939 | **-** | 1,319,878 |
| Provision for interest income on the balance due from Kuwait Ports Authority | **577,572** | 456,186 | **1,140,937** | 897,533 |
| Total provision of Kuwait Ports Authority charged to the statement of income (Note 8) | **577,572** | 1,116,125 | **1,140,937** | 2,217,411 |

13. Net investment income

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Dividend income | **191,797** | 169,244 | **205,531** | 288,744 |
| Unrealized gain (loss) from changes in fair value of investments at fair value through income statement | **(131,155)** | 1,461,416 | **36,883** | (2,281,265) |
| Realized gain on sale of investments at fair value through income statement and investment in an associate | **2,358,249** | 1,698,096 | **3,721,769** | 5,192,712 |
| Realized gain on sale of investments available for sale | **16,782** | - | **31,051** | - |
| | **2,435,673** | 3,328,756 | **3,995,234** | 3,200,191 |

14. Earnings per share

Earnings per share is computed by dividing net profit for the period attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the period as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2007** | 2006 (Restated) | **2007** | 2006 (Restated) |
| Net profit for the period attributable to equity holders of the Parent Company | **10,156,919** | 13,955,040 | **22,001,366** | 25,018,841 |
| | **2007 Shares** | 2006 Shares | **2007 Shares** | 2006 Shares |
| Number of issued and fully paid-up shares | **643,632,460** | 643,632,460 | **643,632,460** | 643,632,460 |
| Bonus shares | **96,544,869** | 96,544,869 | **96,544,869** | 96,544,869 |
| Less: Weighted average number of treasury shares | **(34,099,297)** | (45,468,018) | **(34,334,242)** | (45,877,860) |
| Weighted average number of shares outstanding | **706,078,032** | 694,709,311 | **705,843,087** | 694,299,469 |
| | **Fils** | Fils | **Fils** | Fils |
| Earnings per share attributable to equity holders of the Parent Company | **14.38** | 20.09 | **31.17** | 36.03 |

Earnings per share for the three months and six months ended June 30, 2006 have been restated due to issue of bonus shares for the year 2006.

15. Related party balances and transactions

Related parties represent major shareholders, directors, associates, key management personnel and parties related to them. Pricing policies and terms of these transactions are approved by the Parent Company's management. Related party balances and transactions are summarized as follows:

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| **Balances:** | | | |
| Investments at fair value through income statement | **2,146,711** | 1,964,774 | 4,253,466 |
| Accounts receivable and other debit balances | **1,147,569** | 1,101,708 | 928,325 |
| Accounts payable and other credit balances | **20,743** | 20,743 | 20,743 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Transactions:** | | | | |
| Rental income - net | **164,216** | 234,148 | **281,895** | 794,606 |
| Other income | **20,600** | 18,000 | **27,504** | 54,820 |
| General and administrative expenses | **38,362** | 82,267 | **109,618** | 150,942 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Key management compensation:** | | | | |
| Short term benefits | **151,462** | 117,062 | **288,360** | 236,227 |
| Termination benefits | **4,904** | 8,142 | **9,808** | 16,284 |

16. Contingencies and capital commitments

a) At June 30, 2007, the Parent Company's management authorized capital commitments amounting to KD 2,686,660 (December 31, 2006 – KD 2,245,745, June 30, 2006 – KD 2,163,951).

b) At June 30, 2007, the Parent Company had commitments under a major non-cancelable operating lease, primarily for land leased from the Government of Kuwait for the Water Front Project as follows:

| Year | **June 30, 2007** |
|---|---|
| 2007 – 2011 | **141,000** |
| 2012 – 2016 | **141,000** |
| 2017 – 2019 | **70,500** |
| | **352,500** |

For the operating lease commitments, the Parent Company is required to give a bank guarantee of 0.5% of the total value of the capital project concerned for the purpose of maintenance services to be provided by the final lessor.

c) The Parent Company was contingently liable in respect of the following:

| | **June 30, 2007** | December 31, 2006 (Audited) | June 30, 2006 |
|---|---|---|---|
| Letters of guarantee | **572,797** | 4,984,206 | 4,984,206 |
| Letters of credit | **15,421** | 264,587 | 343,438 |
| | **588,218** | 5,248,793 | 5,327,644 |

d) One of the tenants of the Kuwait Free Trade Zone had filed a complaint against the Parent Company claiming for a compensation amounting to KD 11,632,382. An Arbitration Committee was formed under the supervision of Ministry of Commerce and Industry. The Parent Company's management submitted many memoranda objecting about the non-competency of the Arbitration Committee, disapproving the arbitration procedures and agreement, and request for denying the case. However, the Arbitration Committee continued to perform its function and declared a verdict on November 15, 2003 obliging the Parent Company to pay compensation for losses suffered amounting to KD 3,600,000.

The Parent Company's management appealed against the verdict of the Arbitration Committee dated November 15, 2003. On January 19, 2004, the General Court declared that the verdict by Arbitration Committee dated November 15, 2003 is void, and forwarded the case to the Experts Department in Ministry of Justice which had concluded in its report that no compensation to be done to the tenant and the Court of First Instance issued its ruling in which the Arbitration decision was nullified and the managing company is not entitled to any compensation. The First Instance Court sustained its decision to the Supreme Court of Appeal. The tenants have appealed against the Supreme Court in the Court of Cassation as of the balance sheet date. As of the balance sheet date, the case is not settled yet.

In the opinion of the legal advisor of the Parent Company, material liabilities will not arise in the case. Accordingly, no provision had been accounted for the case in the Parent Company's books as of June 30, 2007.

e) As per the decision No. 507 in 2006, the Ministry of Commerce and Industry cancelled the management contract of Kuwait Free Trade Zone in Shuwaikh port dated May 30, 1998 between the Ministry of Commerce and Industry and National Real Estate Co. K.S.C (the managing company). Due to this, the managing company had lost its control over the assets located in KFTZ.

The managing company had filed case 939/2006 for an appeal against the decision of Ministry of Commerce and Industry for the cancellation of management contract for KFTZ. On April 15, 2007, the court forwarded the case to the Experts Department. The Experts Department hearing is determined to be on May 23, 2007. The hearing has been postponed to September 30, 2007.

As per the opinion of the managing company's external legal counsel, the decision of the Ministry of Commerce and Industry would be cancelled and in case the decision is not cancelled, then the managing company has the right to recover all expenses incurred due to cancellation of the contract before its maturity and has also the right to be compensated for future benefits for the rest of the managing contract term.

The Parent Company is in the process of performing an assessment of the compensation in case the court sustains the cancellation resolution. So the claim can be filed with the Government of Kuwait for recovery of these expected claims as per the law.

f) The Parent Company has certain properties erected on land leased from the Government for 25 years. The Ministry of Finance had issued a resolution to terminate those contracts after the expiry of this 25 years period. However, the Parent Company appealed against this resolution claiming for the renewal of those contracts for another 25 years with the same terms. The court of First Instance sustains the resolution of the Ministry of Finance, after which the Parent Company appealed against the resolution of the court of First Instance. The Court of Appeal in its sitting dated June 24, 2007 had decided in its verdict to cancel the resolution of the court of First Instance and to cancel the resolution of the Minister of Finance to withdraw those properties and consider it as void along with all its consequent effects. The Ministry of Finance appealed against this verdict at the Supreme Court, at which legal proceedings are currently in progress.

17. Cash dividends and bonus shares

The shareholders' General Assembly held on June 6, 2007 had approved the distribution of cash dividends of 35 fils per share and 15 bonus shares for every 100 shares for the year ended December 31, 2006.

The shareholders' General Assembly held on May 22, 2006 had approved the distribution of cash dividends of 20 fils per share and 20 bonus shares for every 100 shares for the year ended December 31, 2005.

18. Comparative figures

Certain prior period amounts have been reclassified to conform with the current period presentation.