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

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

CONTENTS

	Pages
Report on review of interim consolidated financial information	
Interim condensed consolidated balance sheet (Unaudited)	3
Interim condensed consolidated statement of income (Unaudited)	4
Interim condensed consolidated statement of changes in equity (Unaudited)	5
Interim condensed consolidated statement of cash flows (Unaudited)	6 - 7
Notes to interim consolidated financial information (Unaudited)	8 - 24

AL-WAHA
AUDITING OFFICE
ALI OWAID RUKHAEYES

Member of The International Group of Accounting Firms

P.O. Box 27387 Safat
13134 – State of Kuwait
Telephone: (965) 2423415
Facsimile : (965) 2423417

Albazie & Co.

Member of RSM International

Public Accountants

Kuwait Airways Building, 7th Floor
Shuhada Street, P.O. Box 2115 Safat
13022 – State of Kuwait
T + 965 2410010
F + 965 2412761
www.albazie.com

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 September 30, 2007 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the nine-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 f) to the interim consolidated financial information. A claim had been filed by the Parent Company against the Ministry of Commerce and Industry with respect to the management contract of Kuwait Free Trade Zone, which had been cancelled by the Ministry of Commerce and Industry. 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 September 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.

Ali Owaid Rukheyes
Licence No. 72-A
Member of the International Group
of Accounting Firms

Dr. Shuaib A. Shuaib
Licence No. 33-A
Albazie & Co.
Member of RSM International

State of Kuwait
November 11, 2007

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

ASSETS	Note	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Cash on hand and at banks		**18,414,225**	8,020,063	5,673,383
Investments at fair value through income statement		**3,319,494**	2,728,815	5,092,697
Accounts receivable and other debit balances	4	**38,241,821**	7,186,850	9,607,860
Investments available for sale	5	**15,159,114**	6,744,389	6,734,903
Investment in unconsolidated subsidiaries		**-**	32,291	6,528,200
Investment in an associate	6	**176,349,173**	169,308,802	163,028,957
Investment in joint venture		**292,075**	211,977	202,258
Capital work in progress	7	**35,280,986**	16,875,572	9,111,207
Net amount due from Kuwait Ports Authority	8	**-**	-	1,337,427
Fixed assets		**1,364,290**	566,731	7,179,453
Investment properties		**65,900,913**	65,922,172	66,480,810
		354,322,091	277,597,662	280,977,155
LIABILITIES AND EQUITY				
Liabilities:				
Accounts payable and other credit balances		**23,742,052**	21,554,916	17,991,016
Bank facilities	9	**88,435,936**	34,517,481	42,795,538
Provision for end of service indemnity		**676,380**	574,910	554,233
Total liabilities		**112,854,368**	56,647,307	61,340,787
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		**11,772,668**	9,582,304	6,494,745
Effects of changes in associate's equity	6	**8,750,688**	9,824,085	10,731,523
Cumulative changes in fair value		**344,808**	94,225	(16,881)
Foreign currency translation adjustments		**888,144**	805,452	439,654
Retained earnings		**104,489,562**	102,154,215	109,725,362
		230,848,737	217,408,661	218,890,664
Treasury shares	10	**(5,494,340)**	(5,184,069)	(6,457,286)
		225,354,397	212,224,592	212,433,378
Minority interest		**16,113,326**	8,725,763	7,202,990
Total equity		**241,467,723**	220,950,355	219,636,368
		354,322,091	277,597,662	280,977,155

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 SEPTEMBER 30, 2007
(All amounts are in Kuwaiti Dinars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2007	2006	2007	2006
Revenues:					
Rental income – net		2,021,488	3,456,215	5,619,584	11,508,667
Net share in the associate's results	6	8,851,001	10,778,953	27,863,875	31,067,308
Other income	11	110,462	689,485	2,717,616	2,970,342
		10,982,951	14,924,653	36,201,075	45,546,317
Expenses:					
Staff cost		(1,233,739)	(890,123)	(4,069,557)	(2,816,127)
General and administrative		(915,038)	(1,032,831)	(3,021,380)	(3,956,878)
Provision for doubtful debts	12	-	(660,901)	-	(1,973,726)
Depreciation		(54,330)	(165,949)	(157,979)	(503,093)
Change in fair value of investment properties		(105,607)	(116,700)	(316,822)	(350,095)
		(2,308,714)	(2,866,504)	(7,565,738)	(9,599,919)
Operating profit		8,674,237	12,058,149	28,635,337	35,946,398
Interest income		667,272	527,682	2,071,457	1,514,554
Provision for interest income	12	(592,129)	(477,291)	(1,733,066)	(1,374,824)
Interest expense		(1,672,728)	(844,368)	(3,543,308)	(2,589,015)
Net investment income	13	4,568,276	2,256,221	8,563,510	5,456,412
Share in the joint venture results		(14,056)	(13,756)	(35,989)	(40,143)
Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labor Support Tax		11,630,872	13,506,637	33,957,941	38,913,382
Contribution to KFAS		(25,771)	(24,449)	(46,954)	(68,648)
National Labor Support Tax		(69,168)	(82,150)	(142,955)	(183,486)
Net profit for the period		11,535,933	13,400,038	33,768,032	38,661,248
Attributable to :					
Equity holders of the Parent Company		11,505,280	13,371,378	33,506,646	38,390,219
Minority interests		30,653	28,660	261,386	271,029
		11,535,933	13,400,038	33,768,032	38,661,248
Earnings per share attributable to equity holders of the Parent Company (fils)	14	16.29	19.20	47.46	55.23

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 SEPTEMBER 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	-	-	2,190,364	-	-	-	-	-	2,190,364	-	2,190,364
Change in fair value of investments available for sale	-	-	-	-	250,583	-	-	-	250,583	36,605	287,188
Foreign currency translation adjustments	-	-	-	-	-	82,692	-	-	82,692	(29,656)	53,036
Net income recognized directly in equity	-	-	2,190,364	-	250,583	82,692	-	-	2,523,639	6,949	2,530,588
Net profit for the period	-	-	-	-	-	-	33,506,646	-	33,506,646	261,386	33,768,032
Total recognized income for the period	-	-	2,190,364	-	250,583	82,692	33,506,646	-	36,030,285	268,335	36,298,620
Purchase of treasury shares	-	-	-	-	-	-	-	(1,104,519)	(1,104,519)	-	(1,104,519)
Sale of treasury shares	-	-	-	-	-	-	-	794,248	794,248	-	794,248
Share of changes in associate's equity – Note 6	-	-	-	(1,073,397)	-	-	-	-	(1,073,397)	-	(1,073,397)
Share of minority from newly consolidated subsidiaries	-	-	-	-	-	-	-	-	-	7,653,941	7,653,941
Paid to minority	-	-	-	-	-	-	-	-	-	(534,713)	(534,713)
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 September 30, 2007	**74,017,733**	**30,585,134**	**11,772,668**	**8,750,688**	**344,808**	**888,144**	**104,489,562**	**(5,494,340)**	**225,354,397**	**16,113,326**	**241,467,723**
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	-	-	1,897,641	-	-	-	-	-	1,897,641	-	1,897,641
Foreign currency translation adjustments	-	-	-	-	-	439,654	-	-	439,654	-	439,654
Net income recognized directly in equity	-	-	1,897,641	-	-	439,654	-	-	2,337,295	-	2,337,295
Net profit for the period	-	-	-	-	-	-	38,390,219	-	38,390,219	271,029	38,661,248
Total recognized income for the period	-	-	1,897,641	-	-	439,654	38,390,219	-	40,727,514	271,029	40,998,543
Purchase of treasury shares	-	-	-	-	-	-	-	(21,804)	(21,804)	-	(21,804)
Sale of treasury shares	-	-	-	-	-	-	-	647,346	647,346	-	647,346
Share of changes in associate's equity – Note 6	-	-	-	(57,564)	-	-	-	-	(57,564)	-	(57,564)
Share of minority from newly consolidated subsidiary	-	-	-	-	-	-	-	-	-	500,000	500,000
Paid to minority	-	-	-	-	-	-	-	-	-	(487,524)	(487,524)
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 September 30, 2006	64,363,246	27,153,015	6,494,745	10,731,523	(16,881)	439,654	109,725,362	(6,457,286)	212,433,378	7,202,990	219,636,368

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 SEPTEMBER 30, 2007
(All amounts are in Kuwaiti Dinars)

	Nine months ended September 30,	
	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES:		
Profit for the period before contribution to KFAS and National Labor Support Tax	**33,957,941**	38,913,382
Adjustments for:		
Kuwait Ports Authority's share in Kuwait Free Trade Zone rental income	**-**	1,383,408
Net share in the associate's results	**(27,863,875)**	(31,067,308)
Gain on sale of fixed assets	**(1,360)**	-
Gain on sale of investment properties	**-**	(12,482)
Provision for end of service indemnity	**129,907**	93,965
Right of utilization of Ministry of Commerce and Industry for Kuwait Free Trade Zone	**-**	581,306
Provision for interest income and doubtful debts	**1,733,066**	3,348,550
Depreciation	**157,979**	503,093
Change in fair value of investment properties	**316,822**	350,095
Interest income	**(2,071,457)**	(1,514,554)
Interest expense	**3,543,308**	2,589,015
Net investment income	**(8,563,510)**	(5,456,412)
Share in the joint venture results	**35,989**	40,143
Operating profit before working capital change	**1,374,810**	9,752,201
Increase in accounts receivable and other debit balances	**(31,054,971)**	(574,663)
Increase in accounts payable and other credit balances	**1,967,886**	1,558,587
Cash (used in) generated from operations	**(27,712,275)**	10,736,125
Paid to Ministry of Commerce and Industry for rights of utilization for Kuwait Free Trade Zone	**-**	(566,853)
Paid for end of service indemnity	**(28,437)**	-
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	**(27,810,712)**	9,563,116
CASH FLOWS FROM INVESTING ACTIVITIES:		
Paid for purchase of investments at fair value through income statement and investment in an associate	**(3,176,959)**	(949,218)
Proceeds from sale of investments at fair value through income statement and investment in an associate	**12,830,157**	20,507,988
Paid for purchase of investments available for sale	**(10,269,079)**	(2,255,579)
Proceeds from sale of investments available for sale	**3,057,420**	-
Paid for purchase of investment in unconsolidated subsidiary	**-**	(2,271,008)
Paid for long term loan to joint venture	**(98,228)**	(102,637)
Paid for capital work in progress	**(18,161,659)**	(6,219,749)
Paid for purchase of fixed assets	**(970,712)**	(173,286)
Proceeds from sale of fixed assets	**13,000**	-
Paid for purchase of investment properties	**(295,563)**	(115,470)
Proceeds from sale of investment properties	**-**	476,220
Dividend income received	**210,031**	289,539
Dividends received from an associate	**16,943,831**	9,293,197
Interest received	**320,532**	117,828
Net cash generated from investing activities	**402,771**	18,597,825

	Nine months ended September 30,	
	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from (payment of) bank overdraft	**7,899,612**	(4,178,347)
Net proceeds from (payment of) term loans	**46,018,843**	(8,827,557)
Paid for purchase of treasury shares	**(1,104,519)**	(21,804)
Proceeds from sale of treasury shares	**2,984,612**	2,544,987
Interest expense paid	**(3,530,534)**	(2,577,403)
Cash dividend paid	**(21,430,245)**	(10,283,472)
Paid to minority	**(534,713)**	(487,524)
Share of minority from newly consolidated subsidiaries	**7,653,941**	500,000
Net cash generated from (used in) financing activities	**37,956,997**	(23,331,120)
Foreign currency translation adjustments	**(186,636)**	219,827
Cash relating to newly consolidated subsidiaries	**31,742**	106,632
Net increase in cash on hand and at banks	**10,394,162**	5,156,280
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	**18,414,225**	5,673,383

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 November 11, 2007.

2. Basis of presentation

The interim consolidated financial information has 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 September 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:

Name of subsidiaries	Country of incorporation	Percentage of ownership		
		September 30, 2007	December 31, 2006 (Audited)	September 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. The principal activities are investing and developing real estate projects.

4. Accounts receivable and other debit balances

As of September 30, 2007, accounts receivable and other debit balances include advances paid to acquire certain properties amounting to KD 27,570,002 (December 31, 2006 – KD 1,085,898 September 30, 2006 – KD 1,085,898)

5. Investments available for sale

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Managed portfolios and funds	**197,459**	230,081	1,011,298
Quoted securities	**5,343,113**	1,110,547	-
Unquoted securities	**9,618,542**	5,403,761	5,723,605
	15,159,114	6,744,389	6,734,903

It was not possible to reliably measure the fair value of investments in unquoted securities amounting to KD 8,970,620 (December 31, 2006 – KD 4,753,758, September 30, 2006 – KD 5,723,605) 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, September 30, 2006 – KD 446,639).

6. Investment in an associate

The investment in an associate represents a 23.366% equity interest in Public Warehousing Company K.S.C. (Agility) as of September 30, 2007 (December 31, 2006 – 24.041%, September 30, 2006 – 24.362%), 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:

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Beginning balance	**169,308,802**	146,410,294	146,410,294
Additional investment in the associate	**3,176,959**	472,184	-
Partial disposal of investment in the associate	**(5,983,235)**	(6,121,604)	(5,097,883)
Net share in the associate's results (i)	**27,863,875**	38,806,128	31,067,308
Cash dividends received	**(16,943,831)**	(9,293,198)	(9,293,198)
Effect of changes in associate's equity (ii)	**(1,073,397)**	(965,002)	(57,564)
Ending balance	**176,349,173**	169,308,802	163,028,957

(i) The net share in the associate's results is as follows:

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Share in the associate's results	**27,863,875**	40,032,210	31,067,308
Provision for letter of guarantee relating to the associate	**-**	(1,226,082)	-
	27,863,875	38,806,128	31,067,308

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

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Loss on sale of treasury shares	**(145,590)**	(484,823)	(181,059)
Foreign currency translation adjustments	**(863,064)**	(484,594)	119,098
Cumulative changes in fair value of available for sale investments	**(64,743)**	4,415	4,397
	(1,073,397)	(965,002)	(57,564)

As at September 30, 2007, investment in an associate include goodwill of KD 5,413,432 (December 31, 2006 – KD 5,653,988, September 30, 2006 - KD 5,732,846).

During the period, 6,950,000 shares were sold from investment in an associate (December 31, 2006 – 7,265,000 shares, September 30, 2006 – 6,082,500 shares). The goodwill relating to these shares amounted to KD 240,556 (December 31, 2006 – KD 499,371, September 30, 2006 - KD 420,512).

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. However the court of appeal issued its verdict that the Arbitration Committee is not the relevant competent jurisdiction.

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 September 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. The associate has not recognized any revenue on the three aforesaid contracts for the period from January 1, 2007 to September 30, 2007.

Whereas the resolutions issued by the governmental authorities are not expected, from a legal perspective, 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 to the Court of First Instance against this resolution through Case No. 200/2007 Administrative - 3. The Court of First Instance cancelled the resolution No. 2 for 2007 issued by the Ministry of Finance. Based on the favorable verdict from the Court of First Instance and the associate's legal status of this lawsuit, no provision has been made against 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 September 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:

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Beginning balance	**16,875,572**	3,101,630	3,101,630
Additions	**18,161,659**	17,228,458	6,219,749
Transfers	**-**	(255,000)	(255,000)
Relating to a newly consolidated subsidiary	**-**	-	699,355
Charged to Kuwait Ports Authority	**-**	(874,354)	-
Amortization	**-**	(14,250)	-
Foreign currency translation adjustments	**243,755**	240,064	219,827
Provision relating to cancellation of management contract of Kuwait Free Trade Zone	**-**	(2,550,976)	(874,354)
Ending balance	**35,280,986**	16,875,572	9,111,207

8. Net amount due from Kuwait Ports Authority

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Due from Kuwait Ports Authority			
Rehabilitation costs of properties (a)	**6,417,653**	6,417,653	6,417,653
Accrued interest on the balance (b)	**8,958,483**	7,225,417	6,703,259
	15,376,136	13,643,070	13,120,912
Rent due from Kuwait Ports Authority (c)	**15,633,440**	15,633,440	13,816,082
Gross amount due from Kuwait Ports Authority before its share in rental income of Kuwait Free Trade Zone	**31,009,576**	29,276,510	26,936,994
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	7,447,536
Less: Refunded share of the outstanding and unpaid rent of Kuwait Ports Authority (e)	**(637,756)**	(637,756)	(986,559)
Less: Refunded share of the outstanding and unpaid rent of Ministry of Health – Kuwait (e)	**-**	-	(82,655)
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	6,363,187
Gross amount due from Kuwait Ports Authority after its share in rental income of Kuwait Free Trade Zone	**24,081,020**	22,347,954	20,573,807
Provision for doubtful debts (b,c,f)	**(24,081,020)**	(22,347,954)	(19,236,380)
	-	-	1,337,427

(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 September 30, 2007 amounted to KD 1,733,066 (September 30, 2006 – KD 1,374,824). The managing company has fully provided for this interest.

(c) Also, the balance due from Kuwait Ports Authority as of September 30, 2007 includes an amount of KD 15,633,440 (December 31, 2006 - KD 15,633,440, September 30, 2006 – KD 13,816,082), 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 September 30, 2007 (September 30, 2006 – KD 1,383,408).

(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 (f)), 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

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Current portion			
Bank overdraft	**9,090,134**	1,190,522	5,165,662
Term loans	**79,345,802**	31,897,409	34,594,128
	88,435,936	33,087,931	39,759,790
Non-current portion			
Term loans	**-**	1,429,550	3,035,748
	88,435,936	34,517,481	42,795,538

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

10. Treasury shares

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Number of treasury shares	**32,054,297**	30,538,954	38,361,191
Percentage of issued shares (%)	**4.33**	4.74	5.96
Market value (KD)	**20,194,207**	16,796,425	25,701,998
Cost (KD)	**5,494,340**	5,184,069	6,457,286

11. Other income

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	**2007**	2006
Promotional income	**32,603**	39,228	**125,478**	93,591
Service income – programs and courses fee	**13,779**	229,738	**944,840**	1,336,357
Service and registration income – Kuwait Free Trade Zone	**-**	156,384	**-**	469,152
Service and registration income – others	**42,117**	10,534	**134,849**	606,921
Consultancy fees	**-**	-	**1,287,397**	-
Gain on sale of fixed assets	**-**	-	**1,360**	-
Gain on sale of investment properties	**-**	-	**-**	12,482
Miscellaneous	**21,963**	253,601	**223,692**	451,839
	110,462	689,485	**2,717,616**	2,970,342

12. Provisions

	Three months ended September 30,		Nine months ended September 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	**-**	1,979,817
Provision for bad debts related to accounts receivable and other debit balances	**-**	962	**-**	10,575
Provision no longer required related to accounts receivable and other debit balances	**-**	-	**-**	(16,666)
Provision for doubtful debts	**-**	660,901	**-**	1,973,726
Provision for interest income on the balance due from Kuwait Ports Authority	**592,129**	477,291	**1,733,066**	1,374,824
	592,129	1,138,192	**1,733,066**	3,348,550

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 September 30,		Nine months ended September 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	-	1,979,817
Provision for interest income on the balance due from Kuwait Ports Authority	**592,129**	477,291	**1,733,066**	1,374,824
Total provision of Kuwait Ports Authority charged to the statement of income (Note 8)	**592,129**	1,137,230	**1,733,066**	3,354,641

13. Net investment income

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	**2007**	2006
Dividend income	**4,500**	795	**210,031**	289,539
Unrealized gain (loss) from investments at fair value through income statement	**553,796**	1,138,941	**590,679**	(1,142,324)
Realized gain from investments at fair value through income statement and investment in an associate	**3,125,151**	1,116,485	**6,846,920**	6,309,197
Realized gain from investments available for sale	**884,829**	-	**915,880**	-
	4,568,276	2,256,221	**8,563,510**	5,456,412

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 September 30,		Nine months ended September 30,	
	2007	2006 (Restated)	**2007**	2006 (Restated)
Net profit for the period attributable to equity holders of the Parent Company	**11,505,280**	13,371,378	**33,506,646**	38,390,219
	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	**(33,752,014)**	(43,682,136)	**(34,138,033)**	(45,137,926)
Weighted average number of shares outstanding	**706,425,315**	696,495,193	**706,039,296**	695,039,403
	Fils	Fils	**Fils**	Fils
Earnings per share attributable to equity holders of the Parent Company	**16.29**	19.20	**47.46**	55.23

Earnings per share for the three months and nine months ended September 30, 2006 have been restated due to issue of bonus shares for the year 2006 (Note 17).

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:

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Balances:			
Investments at fair value through income statement	**2,552,403**	1,964,774	2,163,091
Accounts receivable and other debit balances	**1,436,836**	1,101,708	1,098,580
Accounts payable and other credit balances	**20,743**	20,743	20,743

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	**2007**	2006
Transactions:				
Rental income - net	**71,288**	213,242	**353,183**	1,007,848
Other income	**3,531**	-	**31,035**	18,820
General and administrative expenses	**40,298**	37,991	**149,916**	188,933

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	**2007**	2006
Key management compensation:				
Short term benefits	**169,967**	177,181	**458,327**	413,408
Termination benefits	**8,625**	8,141	**18,433**	24,425

16. Contingencies and capital commitments

a) At September 30, 2007, the Parent Company's management authorized capital commitments amounting to KD 2,149,294 (December 31, 2006 – KD 2,245,745, September 30, 2006 – KD 3,421,160).

b) At September 30, 2007, capital expenditure contracted for the construction and development of real estate projects but not yet incurred and arising from the Parent Company's interest in Mediterranean Investment Holding – joint Venture amounted to KD 8,781,602.

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

Year	September 30, 2007
2007 – 2011	**141,000**
2012 – 2016	**141,000**
2017 – 2019	**63,450**
	345,450

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.

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

	September 30, 2007	December 31, 2006 (Audited)	September 30, 2006
Letters of guarantee	**8,843,096**	4,984,206	4,381,300
Letters of credit	**15,666**	264,587	324,218
	8,858,762	5,248,793	4,705,518

e) 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 yet settled.

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 September 30, 2007.

f) 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 case is still under study with the Experts Department and the hearing has been set for November 21, 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.

g) 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.