1. Incorporation and 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 and Dubai Financial Market. 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.

The interim consolidated financial information was authorized for issue by the Board of Directors on November 13, 2008.

2. Basis of presentation

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of certain amendments to revised IAS 39: Financial Instruments – Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures.

IAS 39: Financial Instruments – Recognition and Measurement

Effective July 1, 2008, the Group has implemented certain amendments to revised IAS 39: Financial Instruments – Recognition and Measurement. The Group has identified the deterioration of the global financial markets and the consequent impact on the financial markets of the Middle East region as a rare situation resulting in the implementation of these amendments.

This has resulted in the reclassification of investments at fair value through income statement amounting to KD 8,283,804 to investments available for sale as per revised IAS 39. Unrealized loss from these investments recognized in the interim consolidated statement of income till the date of reclassification amounted to KD 540,462. Unrealized loss on these investments that would have been recognized in the interim consolidated statement of income if these financial assets had not been reclassified would have amounted to KD 2,289,602 for the three-month period ended September 30, 2008.

IFRS 7 Financial Instruments: Disclosures

Implementation of the amendments to revised IAS 39: Financial Instruments – Recognition and Measurement has resulted in additional disclosures in the accompanying interim consolidated financial information.

The interim consolidated financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". 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, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 2007

3. Basis of consolidation

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

	Country of incorporation	Percentage of ownership		
		September 30, 2008	December 31, 2007 (Audited)	September 30, 2007
1) Dasman Commercial Complex – Joint venture	Kuwait	**62.117%**	62.094%	62.094%
2) HRD International for Human Resources Development Company W.L.L.	Kuwait	**80%**	85.3%	85.3%
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%	70%
5) Kuwait National Real Estate (PVT) Ltd	Pakistan	**100%**	100%	100%
6) National Holding Group Company (Lebanese shareholding company)	Lebanon	**100%**	100%	100%
7) Kuwait Touristic Enterprises Development Company (private shareholding company)	Tunisia	**100%**	100%	100%
8) Kuwait National Real Estate Company (Egyptian shareholding company)	Egypt	**100%**	100%	100%
9) National Project Holding K.S.C. (Holding)	Kuwait	**93%**	90%	90%
10) National Investment & Development Company (private shareholding company)	Jordan	**100%**	100%	100%
11) KREDCO Real Estate Company – Limited	Iraq	**51%**	51%	51%
12) Fresh World International Catering Co. K.S.C. (Closed)	Kuwait	**70%**	70%	70%
13) Yemen Kuwait Co. for General Trading & Contracting W.L.L.	Yemen	**100%**	100%	100%
14) Middle East Projects General Trading Company W.L.L.	Kuwait	**100%**	100%	-
15) Kuwait Wadi El-Nile Urban Development Company (Egyptian shareholding Company)	Egypt	**80%**	80%	-
16) Masaken Global Real Estate Co. K.S.C. (Closed)	Kuwait	**100%**	-	-
17) Victus Food Development Co. W.L.L.	Kuwait	**100%**	-	-

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

During the period, the Parent Company has incorporated its wholly owned subsidiaries Masaken Global Real Estate Co. K.S.C. (Closed) and Victus Food Development Co. W.L.L.

4. Investments at fair value through income statement

Investments at fair value through income statement represents investment in quoted securities held for trading. The movement during the period / year is as follows:

	September 30, 2008	December 31, 2007 (Audited)	September 30, 2007
Balance at the beginning of the period / year	**2,688,041**	2,728,815	2,728,815
Additions	**18,233,834**	279,256	-
Disposals	**(10,688,079)**	-	-
Unrealized (loss) gain on investments at fair value through income statement (Note 14)	**(556,688)**	(320,030)	590,679
Reclassified to investments available for sale (Note 6)	**(8,283,804)**	-	-
Balance at the end of the period / year	**1,393,304**	2,688,041	3,319,494

5. Accounts receivable and other debit balances

As of September 30, 2008, accounts receivable and other debit balances include:

- Advance payments made to a local company to invest in real estate on behalf of the Parent Company in Republic of Iraq amounting to KD 1,096,347 (December 31, 2007 – KD 1,096,347, September 30, 2007 – KD 1,096,347).
- Advance payments made by the Parent Company to acquire land in the United Arab Emirates amounting to KD 44,128,160 as of September 30, 2008 (December 31, 2007 – KD 32,055,715, September 30, 2007 – KD 27,570,002).
- Advance payments made by subsidiaries to acquire land in Egypt equivalent to KD 21,016,993 (December 31, 2007 – KD 22,403,083, September 30, 2007 – KD nil).

6. Investments available for sale

Quoted securities available for sale includes investments reclassified from investments at fair value through income statement amounting to KD 5,898,508 as of September 30, 2008.

	September 30, 2008	December 31, 2007 (Audited)	September 30, 2007
Managed portfolios and funds	**1,726,751**	483,899	197,459
Quoted securities	**11,413,263**	7,934,766	5,343,113
Unquoted securities	**9,988,320**	9,456,361	9,618,542
	23,128,334	17,875,026	15,159,114

The movement of investments available for sale is as follows:

	September 30, 2008	December 31, 2007 (Audited)	September 30, 2007
Balance at beginning of the period / year	**17,875,026**	6,744,389	6,744,389
Additions	**7,417,670**	14,376,061	10,269,079
Transferred to Investment in associate	**(2,625,000)**	-	-
Reclassified from investment at fair value through income statement (Note 4)	**8,283,804**	-	-
Disposals	**(3,566,899)**	(4,181,351)	(2,141,542)
Cumulative changes in fair value	**(4,256,267)**	935,927	287,188
Balance at end of the period / year	**23,128,334**	17,875,026	15,159,114

It was not possible to reliably measure the fair value of investments in unquoted securities amounting to KD 10,410,599 (December 31, 2007 – KD 9,109,810, September 30, 2007 – KD 8,548,341) due to non-availability of a reliable method that could be used to determine the fair value of such investments. Accordingly, they were stated at their cost less impairment losses which amounted to KD 422,279 (December 31, 2007 – KD 422,279, September 30, 2007 – KD 422,279).

7. Investment in associates

		Percentage of ownership					
Name of the associate	Country of Incorporation	**September 30, 2008**	December 31, 2007 (Audited)	September 30, 2007	**September 30, 2008**	December 31, 2007 (Audited)	September 30, 2007
(i) Public Warehousing Company K.S.C. (Agility)	Kuwait	**22.932%**	23.516%	23.366%	**172,968,055**	185,285,109	176,349,173
(ii) Kuwait Bulgarian Dairy Company W.L.L.	Kuwait	**40%**	40%	-	**120,000**	120,000	-
(iii) Al-Seef International Holding K.S.C.C.	Kuwait	**25%**	-	-	**2,804,321**	-	-
					175,892,376	185,405,109	176,349,173

The fair value of the Group's investment in Public Warehousing Company K.S.C. (Agility) as of the interim condensed consolidated balance sheet date is KD 196,852,701

The movement during the period / year is as follows:

	September 30, 2008	December 31, 2007 (Audited)	September 30, 2007
Balance at the beginning of the period / year	**185,405,109**	169,308,802	169,308,802
Additional investment in the associate	**17,934**	8,960,233	3,176,959
Transferred from investments available for sale	**2,625,000**		
Partial disposal of investment in the associate	**(4,670,793)**	(8,193,994)	(5,983,235)
Share in the associate's results	**24,915,980**	36,200,861	27,863,875
Cash dividends received	**(17,459,220)**	(16,943,831)	(16,943,831)
Effect of changes in associate's equity (a)	**(14,941,634)**	(3,926,962)	(1,073,397)
Balance at the end of the period / year	**175,892,376**	185,405,109	176,349,173

(a) The effect of changes in associates' equity is as follows:

	September 30, 2008	December 31, 2007 (Audited)	September 30, 2007
Gain (loss) on sale of treasury shares	**168,760**	(80,390)	(145,590)
Foreign currency translation adjustments	**(4,317,797)**	(3,779,997)	(863,064)
Cumulative changes in fair value of available for sale investments	**2,808**	(66,575)	(64,743)
Net movement in treasury shares	**(10,795,405)**	-	-
	(14,941,634)	(3,926,962)	(1,073,397)

(i) Public Warehousing Company K.S.C. (Agility) is a public shareholding company registered in Kuwait and listed on the Kuwait Stock Exchange and Dubai Financial Market. Its principal activities are storing goods, management and renting of warehouses, all transportation activities, distribution, handling and customs clearance of goods.

a) During 2006, the Parent Company made a provision amounting to KD 1,226,082 for its share of interest of a bank performance guarantee that has been encashed in favor of General Administration of Customs for Kuwait in relation to non-performance of obligations under a contract operated by a subsidiary of the associate.

The subsidiary of the associate appealed against that encashment through case No. 224/2007 "Administrative – 7". In the opinion of the external legal consulting firms, the violations against which a portion of the bank guarantee provided has been cashed, are non-contractual violations and believe the verdict shall be issued in favor of the subsidiary to return the cashed portion of the guarantee plus interest. Accordingly, no provision has been made in the associate's books as of the balance sheet date.

The Parent Company has provided for its share of the encashed portion of the bank guarantee on a conservatism approach and not as surrender to the validity of the encashment.

During the period, 5,567,500 shares were sold from investment in the associate (December 31, 2007 – 9,665,000 shares, September 30, 2007 – 6,950,000 shares). The goodwill relating to these shares amounted to KD 426,040 (December 31, 2007 – KD 331,228, September 30, 2007 – KD 240,556).

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 July 30, 2002 for the purpose of bidding for the provision of services for Prime Vendor Services Contract with the U.S. Government. The partnership agreement provided for the preparation of all infrastructure and assets for that purpose. The associate had submitted all evidences to the Execution Department in proof of the partnership not having any funds, assets or properties and the eventual non-existence of the partnership, as a consequence of the partners not providing any capital contributions to the partnership.

On January 7, 2008, the Supreme Court of Kuwait ruled in favor of the associate confirming that the partnership agreement between the associate and the third party was not legally enforceable and is void.

b. On November 27, 2006, and based on the recommendation by the Ministers' Council, the Ministry 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 the Kuwait Court of Cassation, that the new resolution is void, because it has been made on the same subject of the previous resolution. In the opinion of external legal counsel, the Court shall issue its judgment to revoke the new resolution issued by the Public Authority of Industry, because it has been based on a wrong basis. The resolutions issued by the governmental authorities are merely of financial concerns that shall be resolved by the Courts to establish the associate's rights in such contracts.

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 since January 1, 2007.

c. On January 9, 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/ 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. 2/2007 issued by the Ministry of Finance. In January 2008, the Court of Appeal ruled in favor of the associate whereby Al-Jahra Fish, Meat and Vegetables Market Project Contract are to be given back to the associate. The Court of Appeal also ruled out that the associate be compensated for losses and expenses that arose as a result of this case.

d. In addition to the above, the associate is involved in various claims and legal proceedings including employee compensation and contractors 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, 2008.

(iı) The Group has not accounted for its share of results in Kuwait Bulgarian Dairy Company W.L.L. due to non-availability of financial information.

(iii) The Group has accounted for KD 193,301 as its share of results and KD (13,980) as share of changes in associate's equity in Al-Seef International Holding K.S.C. (Closed) based on the audited financial statements of the associate as at December 31, 2007.

8. Capital work in progress

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

	September 30, 2008	December 31, 2007 (Audited)	September 30, 2007
Balance at the beginning of the period / year	**38,216,590**	16,875,572	16,875,572
Additions	**11,991,072**	22,218,491	18,161,659
Foreign currency translation adjustments	**(3,076,646)**	(137,780)	243,755
Provisions against additions in Kuwait Free Trade Zone set off against contractual obligations	**-**	(739,693)	-
Balance at the end of the period / year	**47,131,016**	38,216,590	35,280,986

9. Net amount due from Kuwait Ports Authority

	September 30, 2008	December 31, 2007 (Audited)	September 30, 2007
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)	**11,480,075**	9,565,539	8,958,483
	17,897,728	15,983,192	15,376,136
Rent due from Kuwait Ports Authority (c)	**15,633,440**	15,633,440	15,633,440
Gross amount due from Kuwait Ports Authority before its share in rental income of Kuwait Free Trade Zone	**33,531,168**	31,616,632	31,009,576
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	7,566,312
Less: Refunded share of the outstanding and unpaid rent of Kuwait Ports Authority (e)	**(637,756)**	(637,756)	(637,756)
Net share of Kuwait Ports Authority in rental income of Kuwait Free Trade Zone	**6,928,556**	6,928,556	6,928,556
Gross amount due from Kuwait Ports Authority after its share in rental income of Kuwait Free Trade Zone	**26,602,612**	24,688,076	24,081,020
Provision for doubtful debts (b,c,f)	**(26,602,612)**	(24,688,076)	(24,081,020)
	-	-	-

(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, 2008 amounted to KD 1,914,536 (December 31, 2007 – KD 2,340,122, September 30, 2007 – KD 1,140,937). The managing company has fully provided for this interest.

(c) Also, the balance due from Kuwait Ports Authority as of September 30, 2008 includes an amount of KD 15,633,440 (December 31, 2007 - KD 15,633,440, September 30, 2007 – KD 15,633,440) 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. As a result of the resolution issued by the Ministry of Commerce and Industry mentioned in (f) below, the Parent Company lost its control over the assets of Kuwait Free Trade Zone and on its management. Accordingly, Kuwait Ports Authority's share of rent was not calculated for the years 2007 and 2008.

(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.

(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 18f), 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.