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

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 2007
## WITH
## INDEPENDENT AUDITORS' REPORT

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

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FOR THE YEAR ENDED DECEMBER 31, 2007
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INDEPENDENT AUDITORS' REPORT

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# INDEPENDENT AUDITORS' REPORT

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

## Report on the consolidated financial statements

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

We did not audit the financial statements of certain subsidiaries and a joint venture whose total assets and revenues constitute of 9.04% and 1% of the respective consolidated totals. The financial statements of these subsidiaries and the joint venture for the year ended December 31, 2007 were audited by other auditors, whose reports were provided to us, and our opinion in so far as it relates to the amounts included in the consolidated financial statements related to these subsidiaries and the joint venture, is based solely on the reports of the other auditors.

## Management's responsibility for the consolidated financial statements

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

## Auditors' responsibility

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

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

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

Opinion

In our opinion and based on the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

Also in our opinion, the consolidated financial statements include the disclosures required by the Commercial Companies Law and the Parent Company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stock taking was carried out in accordance with recognized practice and the accounting information given in the Director's Report is in agreement with the Parent Company's books. According to the information available to us, there were no contraventions during the year ended December 31, 2007 of either the Commercial Companies Law or of the Parent Company's Articles of Association which might have materially affected the Group's financial position or results of its operations except that the Parent Company holds certain direct investments in shares in violation of its objects.

Without qualifying our opinion, we draw attention to Notes (8), (11), (13) and (32) in the consolidated financial statements.

Ali Owaid Rukheyes
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State of Kuwait
March 30, 2008

**NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET**
**AS OF DECEMBER 31, 2007**
(All amounts are in Kuwaiti Dinars)

| ASSETS | Note | 2007 | 2006 |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | 3 | **12,959,872** | 8,020,063 |
| Investments at fair value through income statement | 4 | **2,688,041** | 2,728,815 |
| Accounts receivable and other debit balances | 5 | **70,801,705** | 7,186,850 |
| Investments available for sale | 6 | **17,875,026** | 6,744,389 |
| Investment in an unconsolidated subsidiary | 7 | **-** | 32,291 |
| Investment in associates | 8 | **185,405,109** | 169,308,802 |
| Investment in a joint venture | 9 | **295,681** | 211,977 |
| Capital work in progress | 10 | **38,216,590** | 16,875,572 |
| Fixed assets | 12 | **1,622,360** | 566,731 |
| Investment properties | 13 | **66,411,513** | 65,922,172 |
| Total assets | | **396,275,897** | 277,597,662 |
| LIABILITIES AND EQUITY | | | |
| Liabilities: | | | |
| Accounts payable and other credit balances | 14 | **27,910,930** | 21,554,916 |
| Bank facilities | 15 | **114,807,428** | 34,517,481 |
| Bonds | 16 | **3,031,500** | - |
| Provision for end of service indemnity | 17 | **611,934** | 574,910 |
| Total liabilities | | **146,361,792** | 56,647,307 |
| Equity: | | | |
| Share capital | 18 | **74,017,733** | 64,363,246 |
| Treasury shares | 19 | **(5,554,583)** | (5,184,069) |
| Statutory reserve | 20 | **34,503,518** | 30,585,134 |
| Treasury shares reserve | | **12,051,208** | 9,582,304 |
| Effect of change in associate's equity | 8 | **5,897,123** | 9,824,085 |
| Cumulative changes in fair value | | **997,834** | 94,225 |
| Foreign currency translation adjustments | | **373,733** | 805,452 |
| Retained earnings | | **106,085,640** | 102,154,215 |
| | | **228,372,206** | 212,224,592 |
| Minority interest | | **21,541,899** | 8,725,763 |
| Total equity | | **249,914,105** | 220,950,355 |
| Total liabilities and equity | | **396,275,897** | 277,597,662 |

The accompanying notes (1) to (36) form an integral part of the consolidated financial statements



Jamil Sultan Al-Essa
Chairman and Managing Director

**NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF INCOME**
**YEAR ENDED DECEMBER 31, 2007**
(All amounts are in Kuwaiti Dinars)

| | Note | **2007** | 2006 |
|---|---|---|---|
| Revenues: | | | |
| Rental income – net | | **7,676,554** | 16,289,521 |
| Net share in the associate's results | 8 | **36,200,861** | 38,806,128 |
| Change in fair value of investment properties | 13 | **(444,595)** | 363,013 |
| | | **43,432,820** | 55,458,662 |
| Expenses: | | | |
| Staff costs | | **(4,848,271)** | (4,189,108) |
| General and administrative | 21 | **(6,727,439)** | (6,285,571) |
| Depreciation | 12 | **(238,596)** | (671,724) |
| | | **(11,814,306)** | (11,146,403) |
| Operating profit | | **31,618,514** | 44,312,259 |
| Net investment income | 22 | **9,304,005** | 6,849,022 |
| Other income | 23 | **3,912,520** | 4,478,204 |
| Share in the joint venture's results | 9 | **(46,040)** | (48,629) |
| Interest income | 24 | **2,814,172** | 2,122,417 |
| Interest expense | 25 | **(5,260,380)** | (3,351,694) |
| Provision for interest income | 26 | **(2,340,122)** | (1,896,982) |
| Provision for doubtful debts | 26 | **(9,474)** | (3,962,083) |
| Provision relating to cancellation of management contract of Kuwait Free Trade Zone | 32 | **-** | (13,360,424) |
| Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Board of Directors' remuneration, National Labor Support Tax and Zakat | | **39,993,195** | 35,142,090 |
| Contribution to KFAS | 27 | **(20,505)** | - |
| National Labor Support Tax | 28 | **(70,401)** | - |
| Zakat | 29 | **(1,830)** | - |
| Board of Directors' remuneration | | **(70,000)** | (70,000) |
| Net profit for the year | | **39,830,459** | 35,072,090 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | **39,021,108** | 34,251,191 |
| Minority interest | | **809,351** | 820,899 |
| | | **39,830,459** | 35,072,090 |
| Earnings per share attributable to equity holders of the Parent Company (fils) | 30 | **55.22** | 49.20 |

The accompanying notes (1) to (36) form an integral part of the consolidated financial statements

**NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**YEAR ENDED DECEMBER 31, 2007**
(All amounts are in Kuwaiti Dinars)

| | Attributable to equity holders of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Treasury shares | Statutory reserve | Treasury shares reserve | Effect of change in associate's equity | Cumulative changes in fair value | Foreign currency translation adjustments | Retained earnings | Subtotal | Minority Interest | Total |
| Balance at December 31, 2005 | 53,636,038 | (7,082,828) | 27,153,015 | 4,597,104 | 10,789,087 | (16,881) | - | 92,104,700 | 181,180,235 | 6,919,485 | 188,099,720 |
| Gain on sale of treasury shares | - | - | - | 4,985,200 | - | - | - | - | 4,985,200 | - | 4,985,200 |
| Change in fair value of investments available for sale | - | - | - | - | - | 111,106 | - | - | 111,106 | - | 111,106 |
| Foreign currency translation adjustments | - | - | - | - | - | - | 805,452 | - | 805,452 | - | 805,452 |
| Net income recognized directly in equity | - | - | - | 4,985,200 | - | 111,106 | 805,452 | - | 5,901,758 | - | 5,901,758 |
| Net profit for the year | - | - | - | - | - | - | - | 34,251,191 | 34,251,191 | 820,899 | 35,072,090 |
| Total recognized income for the year | - | - | - | 4,985,200 | - | 111,106 | 805,452 | 34,251,191 | 40,152,949 | 820,899 | 40,973,848 |
| Purchase of treasury shares | - | (85,089) | - | - | - | - | - | - | (85,089) | - | (85,089) |
| Sale of treasury shares | - | 1,983,848 | - | - | - | - | - | - | 1,983,848 | - | 1,983,848 |
| Share of change in associate's equity– Note 8 | - | - | - | - | (965,002) | - | - | - | (965,002) | - | (965,002) |
| Share of minority from newly consolidated subsidiaries | - | - | - | - | - | - | - | - | - | 985,379 | 985,379 |
| Cash dividend (2005 - 20 fils per share) – Note 35 | - | - | - | - | - | - | - | (10,042,349) | (10,042,349) | - | (10,042,349) |
| Bonus shares (2005 – 20%) – Note 35 | 10,727,208 | - | - | - | - | - | - | (10,727,208) | - | - | - |
| Transfer to reserve | - | - | 3,432,119 | - | - | - | - | (3,432,119) | - | - | - |
| Balance at December 31, 2006 | 64,363,246 | (5,184,069) | 30,585,134 | 9,582,304 | 9,824,085 | 94,225 | 805,452 | 102,154,215 | 212,224,592 | 8,725,763 | 220,950,355 |
| Gain on sale of treasury shares | - | - | - | 2,468,904 | - | - | - | - | 2,468,904 | - | 2,468,904 |
| Change in fair value of investments available for sale | - | - | - | - | - | 903,609 | - | - | 903,609 | 32,318 | 935,927 |
| Foreign currency translation adjustments | - | - | - | - | - | - | (431,719) | - | (431,719) | (109,564) | (541,283) |
| Net income (loss) recognized directly in equity | - | - | - | 2,468,904 | - | 903,609 | (431,719) | - | 2,940,794 | (77,246) | 2,863,548 |
| Net profit for the year | - | - | - | - | - | - | - | 39,021,108 | 39,021,108 | 809,351 | 39,830,459 |
| Total recognized income (loss) for the year | - | - | - | 2,468,904 | - | 903,609 | (431,719) | 39,021,108 | 41,961,902 | 732,105 | 42,694,007 |
| Purchase of treasury shares | - | (1,280,638) | - | - | - | - | - | - | (1,280,638) | - | (1,280,638) |
| Sale of treasury shares | - | 910,124 | - | - | - | - | - | - | 910,124 | - | 910,124 |
| Share of change in associate's equity– Note 8 | - | - | - | - | (3,926,962) | - | - | - | (3,926,962) | - | (3,926,962) |
| Share of minority from newly consolidated subsidiaries | - | - | - | - | - | - | - | - | - | 12,648,673 | 12,648,673 |
| Paid to minority | - | - | - | - | - | - | - | - | - | (564,642) | (564,642) |
| Cash dividend (2006 – 35 fils per share) – Note 35 | - | - | - | - | - | - | - | (21,516,812) | (21,516,812) | - | (21,516,812) |
| Bonus shares (2006 – 15%) – Note 35 | 9,654,487 | - | - | - | - | - | - | (9,654,487) | - | - | - |
| Transfer to reserve | - | - | 3,918,384 | - | - | - | - | (3,918,384) | - | - | - |
| **Balance at December 31, 2007** | **74,017,733** | **(5,554,583)** | **34,503,518** | **12,051,208** | **5,897,123** | **997,834** | **373,733** | **106,085,640** | **228,372,206** | **21,541,899** | **249,914,105** |

The accompanying notes (1) to (36) form an integral part of the consolidated financial statements

**NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**YEAR ENDED DECEMBER 31, 2007**
(All amounts are in Kuwaiti Dinars)

| | Note | 2007 | 2006 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit for the year before contribution to KFAS, Board of Directors' remuneration, National Labor Support Tax and Zakat | | **39,993,195** | 35,142,090 |
| Adjustments for: | | | |
| Kuwait Ports Authority's share in Kuwait Free Trade Zone rental income | | **-** | 1,502,184 |
| Depreciation | | **238,596** | 671,724 |
| Amortization | | **-** | 14,250 |
| Net investment income | | **(9,304,005)** | (6,849,022) |
| Net share in the associate's results | | **(36,200,861)** | (38,806,128) |
| Share in the joint venture's results | | **46,040** | 48,629 |
| Gain on sale of fixed assets | | **(1,360)** | - |
| Gain on sale of investment property | | **-** | (287,398) |
| Change in fair value of investment properties | | **444,595** | (363,013) |
| Interest income | | **(2,814,172)** | (2,122,417) |
| Interest expense | | **5,260,380** | 3,351,694 |
| Right of utilization of Ministry of Commerce & Industry for Kuwait Free Trade Zone | | **-** | 907,799 |
| Provision for interest income and doubtful debts | 26 | **2,349,596** | 5,859,065 |
| Provision for end of service indemnity | | **151,521** | 127,125 |
| Provision relating to cancellation of management's contracts of Kuwait Free Trade Zone | 32 | **-** | 13,360,424 |
| | | **163,525** | 12,557,006 |
| Changes in operating assets and liabilities | | | |
| Accounts receivable and other debit balances | | **(9,361,094)** | 584,984 |
| Accounts payable and other credit balances | | **6,862,505** | 2,699,366 |
| Cash (used in) generated from operations | | **(2,335,064)** | 15,841,356 |
| Payment to Ministry of Commerce & Industry for right of utilization for Kuwait Free Trade Zone | | **-** | (752,597) |
| Payment for end of service indemnity | | **(114,497)** | (12,483) |
| Payment to Kuwait Foundation for Advancement of Sciences | | **-** | (133,459) |
| Payment for National Labor Support Tax | | **-** | (402,697) |
| Payment for Board of Directors' remuneration | | **(70,000)** | (70,000) |
| Net cash (used in) generated from operating activities | | **(2,519,561)** | 14,470,120 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of investments at fair value through income statement | | **(279,256)** | (3,247,904) |
| Proceeds from sale of investments at fair value through income statement | | **-** | 12,068,824 |
| Purchase of investments available for sale | | **(14,376,061)** | (2,153,959) |
| Proceeds from sale of investments available for sale | | **5,152,136** | 163,035 |
| Purchase of investment in an unconsolidated subsidiary | | **-** | (32,291) |
| Purchase of investment in an associate | | **(8,840,233)** | (472,184) |
| Proceeds from partial disposal of investments in an associate | | **16,637,213** | 15,515,767 |
| Payment for long term loan to joint venture | | **(105,430)** | (120,842) |
| Payment for capital work in progress | | **(22,218,491)** | (12,634,975) |
| Purchase of fixed assets | | **(1,308,082)** | (290,829) |
| Proceeds from sale of fixed assets | | **13,000** | - |
| Advance payment for purchase of investment properties | | **(54,356,402)** | (1,085,898) |
| Payment for additions to investment properties | | **(933,936)** | (204,666) |
| Proceeds from sale of investment property | | **-** | 1,256,411 |
| Dividend received from an associate | | **16,943,831** | 9,293,198 |
| Dividend income received | | **210,031** | 291,386 |
| Interest received | | **422,903** | 196,308 |
| Net cash (used in) generated from investing activities | | **(63,038,777)** | 18,541,381 |

| | Note | **2007** | 2006 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Net proceeds from (payment of) bank overdraft | | **6,876,320** | (8,177,372) |
| Net proceeds from (payment of) term loans | | **73,413,627** | (13,106,589) |
| Proceeds from issue of bonds | | **3,031,500** | - |
| Purchase of treasury shares | | **(1,280,638)** | (85,089) |
| Proceeds from sale of treasury shares | | **3,379,028** | 6,969,048 |
| Interest expense paid | | **(5,116,678)** | (3,334,661) |
| Cash dividends paid | | **(21,520,048)** | (9,639,730) |
| Paid to minority | | **(564,642)** | - |
| Share of minority from newly consolidated subsidiaries | | **12,648,673** | 985,379 |
| Net cash generated from (used in) financing activities | | **70,867,142** | (26,389,014) |
| Foreign currency translation adjustments | | **(400,737)** | 331,005 |
| Effect of consolidation of a subsidiary | | **31,742** | 549,468 |
| Net increase in cash and cash equivalents | | **4,939,809** | 7,502,960 |
| Cash and cash equivalents at beginning of the year | | **8,020,063** | 517,103 |
| Cash and cash equivalents at end of the year | **3** | **12,959,872** | 8,020,063 |

The accompanying notes (1) to (36) form an integral part of the consolidated financial statements

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. 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 total number of employee's of the Group as of December 31, 2007 is 150 (December 31, 2006 – 179).

The consolidated financial statements were authorized for issue by the Board of Directors on March 30, 2008. The Shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention, except that investments at fair value through income statement, certain investments available for sale and investment properties are stated at their fair value. The accounting policies applied by the Group are consistent with those used in the previous year unless otherwise stated.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(b).

(i) Standard and amendments to standard effective in 2007

The Group has adopted IFRS 7 "Financial Instruments: Disclosure" and the complementary amendment to IAS 1 "Presentation of Financial Statements" introducing amended and additional disclosures relating to financial instruments and associated risks and capital disclosures respectively.

(ii) Standards and Interpretations issued but not effective

The following IASB Standards and Interpretation have been issued but are not yet effective, and have not yet been adopted by the Group:

IFRS 8 "Operating Segments"

The application of IFRS 8, which will be effective for the annual periods beginning on or after 1 January 2009, will result in disclosure of information to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

IAS 1 "Presentation of Financial Statements" (Revised)

The application of IAS 1 (Revised), which will be effective for the annual periods beginning on or after 1 January 2009, will impact the presentation of financial statements to enhance the usefulness of the information presented.

IAS 23 "Borrowing Cost" (Revised)

The application of IAS 23 (Revised), which will be effective for the annual periods beginning on or after 1 January 2009, will require an entity to capitalise borrowing costs attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset and removing an option of expensing these borrowing costs in the consolidated statement of income.

IFRIC Interpretation 11 "IFRS 2 - Group and Treasury Share Transactions"

The application of IFRIC Interpretation 11, which will be effective for annual periods beginning on or after 1 March 2007, provides guidance as to whether certain share options given to employees should be accounted as a equity-settled or cash-settled transaction.

b) Critical accounting estimates and judgments

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

a) Judgments

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

(ii) Provision for doubtful debts

The determination of the recoverability of the amount due from customers and the factors determining the impairment of the receivable involve significant judgment.

(iii) Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through income statement" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through income statement" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through income statement at inception, provided their fair values can be reliably estimated. All other investments are classified as "available for sale".

(iv) Impairment of investments

The Group treats investments "available for sale" as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment.

(v) Classification of land

Upon acquisition of a land, the Group classifies the land into one of the following categories, based on the intention of the management for the use of the land.

a) Capital work in progress

When the intention of the Group is to develop a land in order to rent it in the future or as an owner occupied property, both the land and the construction costs are classified as capital work in progress till the properties are ready for use at which time, it is classified as investment properties or fixed assets.

b) Investment property

When the intention of the Group is to earn rentals from land or hold land for capital appreciation or if the intention is not determined for land, the land is classified as investment property.

c) Properties held for sale

When the intention of the Group is to sell land in the ordinary course of business, the properties are classified as properties held for sale.

b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Fair value of unquoted equity investments

If the market for unquoted securities is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

(ii) Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset or the cash-generating unit to which the goodwill is allocated. Estimating a value in use requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present-value of the cash-flows.

(iii) Provision for doubtful debts

The extent of provision for doubtful debts involves estimation process. Provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The benchmarks for determining the amount of provision or write-down require ageing analysis, technical assessment and subsequent events. The provisions and write-down of receivables is subject to management approval.

c) Principles of consolidation

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

| Name of subsidiaries | Country of Incorporation | Percentage of ownership **2007** | Percentage of ownership 2006 |
|---|---|---|---|
| 1) Dasman Commercial Complex – Joint venture | Kuwait | **62.094%** | 62.083% |
| 2) HRD International for Human Resources Development Company W.L.L. | Kuwait | **85.3%** | 85.3% |
| 3) Al-Takafouh Al-Thahabi General Trading and Contracting Company W.L.L. | Kuwait | **100%** | 100% |
| 4) Aqaba National Real Estate Projects Company (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% |
| 10) National Investment & Development Company (private shareholding company) | Jordan | **100%** | 100% |
| 11) KREDCO Real Estate Company – Limited | Iraq | **51%** | - |
| 12) Fresh World International Catering Company K.S.C. (Closed) | Kuwait | **70%** | - |
| 13) Yemen Kuwait Company for General Trading & Contracting W.L.L. | Yemen | **100%** | - |
| 14) Middle East Projects General Trading Company W.L.L. | Kuwait | **100%** | - |
| 15) Kuwait Wadi El-Nile Urban Development Company (Egyptian shareholding company) | Egypt | **80%** | - |

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and are able to make an additional investment to cover the losses.

The consolidated financial statements for the year ended December 31, 2007 include net loss amounting to KD 138,487, and the following assets and liabilities pertaining to the following subsidiaries as of December 31, 2007.

a) KREDCO Real Estate Company – Limited
b) Fresh World International Catering Company K.S.C. (Closed)
c) Yemen Kuwait Company for General Trading & Contracting W.L.L.
d) Middle East Projects General Trading Company W.L.L.
e) Kuwait Wadi El-Nile Urban Development Company (Egyptian Shareholding Company)

The comparative figures for the year ended December 31, 2006 do not include such information.

| Assets: | **2007** |
|---|---|
| Cash and cash equivalents | **4,017,112** |
| Accounts receivable and other debit balances | **21,529,443** |
| Capital work in progress | **3,786,981** |
| Fixed assets | **207,960** |
| | |
| Liabilities: | |
| Accounts payable and other credit balances | **11,943** |

Proportionate consolidation method

The Group reports its interests in certain jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

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

d) Investments

The Group classifies its investments in the following categories: investments at fair value through income statement and available-for-sale investments. The classification depends on the purpose for which the investments were acquired and is determined at initial recognition by the management.

(i) Investments at fair value through income statement

This category has two sub-categories: investments held for trading, and those designated at fair value through statement of income at inception.

a) An investment is classified as held for trading if acquired principally for the purpose of selling in the short term or if it forms part of an identified portfolio of investments that are managed together and has a recent actual pattern of short-term profit making or it is a derivative that is not designated and effective as a hedging instrument.

b) An investment is designated by the management on initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or; if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy.

Investments in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Investments available for sale

Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on settlement date – the date on which an asset is delivered to or by the Group. Investments are initially recognized at fair value plus transaction costs for all investments not carried at fair value through income statement.

After initial recognition, investments at fair value through income statement and investments available for sale are subsequently carried at fair value. The fair values of quoted investments are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Realized and unrealized gains and losses from investments at fair value through income statement are included in the consolidated statement of income. Unrealized gains and losses arising from changes in the fair value of investments available for sale are recognized in cumulative changes in fair value in the consolidated statement of changes in equity.

Where investments available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When an investment available for sale is disposed off or impaired, any prior fair value earlier reported in equity is transferred to the consolidated statement of income.

An investment (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the investment have expired; or the Group has transferred its rights to receive cash flows from the investment and either (a) has transferred substantially all the risks and rewards of ownership of the investment, or (b) has neither transferred nor retained substantially all the risks and rewards of the investment, but has transferred control of the investment.

Where the Group has retained control, it shall continue to recognize the investment to the extent of its continuing involvement in the investment.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for investments available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from the consolidated statement of changes in equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on available for sale equity instruments are not reversed through the consolidated statement of income.

e) Accounts receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 365 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of income.

f) Investment in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policy decisions. The consolidated financial statements include the Group's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of income.

g) Investment in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group reports its interests in jointly controlled entities using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in joint ventures are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of an associate.

Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

h) Capital work in progress

All projects costs are included in the capital work in progress till the date of its completion and preparation to be ready for use. At this date, it is reclassified as investment properties or fixed assets according to the intention of the Group's management.

i) Fixed assets

The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets.

Fixed assets are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

Depreciation is computed on straight line basis over the estimated useful lives of items of fixed assets as follows:

| | Years |
|---|---|
| Leasehold land | 49 |
| Leasehold improvements | 20 |
| Buildings | 20 |
| Furniture, decorations and others | 5 |
| Office equipment | 3 - 5 |
| Motor vehicles | 4 |

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of fixed assets.

j) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

k) Investment properties

Investment properties, which are properties, held to earn rentals and/or for capital appreciation, are stated at their fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of income for the period in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses arising on the retirement or disposal of an investment property are recognized in the consolidated statement of income.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

l) Accounts payable

Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

m) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

n) End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

o) Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

p) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Rendering of services
Revenues from services contract are recognized when these services are rendered.

(ii) Interest income
Interest income is recognized on a time-proportion basis using the effective interest method.

(iii) Dividend income
Dividend income is recognized when the right to receive payment is established.

(iv) Rent:
Rental income is recognized, when earned, on a time apportionment basis.

(v) Gain on sale of investments
Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in consolidated statement of income in the period in which they are incurred.

r) Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

s) Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated statement of income for the period. Translation differences on non-monetary items such as equity investments which are classified as investments at fair value through statement of income are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity investments classified as investments available for sale are included in “cumulative changes in fair value” in the consolidated statement of changes in equity.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the balance sheet date. The results of those subsidiaries are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in the consolidated statement of changes in equity. Such translation differences are recognized in consolidated statement of income in the period in which the foreign operations' is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

t) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, receivables, investments, net amount due from Kuwait Port Authority, payables, bank facilities and bonds. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

u) Contingencies

Contingent liabilities are not recognized but disclosed in the consolidated financial statements, except when the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

3. Cash and cash equivalents

| | **2007** | 2006 |
|---|---|---|
| Cash on hand and at banks | **9,351,583** | 6,011,927 |
| Short term deposits | **3,458,289** | 2,008,136 |
| Money market fund | **150,000** | - |
| | **12,959,872** | 8,020,063 |

The effective interest rate on short term deposits was 4.56% - 6.3% per annum (2006 - 4.77% - 6.3% per annum); these deposits have an average maturity of 60 days (2006 – 60 days).

There is no material difference between the fair value and the book value of cash and cash equivalents.

4. Investments at fair value through income statement

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

| | **2007** | 2006 |
|---|---|---|
| Balance at the beginning of the year | **2,728,815** | 14,386,392 |
| Additions | **279,256** | 3,247,904 |
| Disposals | **-** | (13,227,641) |
| Unrealized loss on investments at fair value through income statement (Note 22) | **(320,030)** | (1,677,840) |
| Balance at the end of the year | **2,688,041** | 2,728,815 |

5. Accounts receivable and other debit balances

| | **2007** | 2006 |
|---|---|---|
| Accrued rent | **1,723,012** | 2,718,029 |
| Provision for doubtful debts (a) | **(1,644,053)** | (1,634,579) |
| | **78,959** | 1,083,450 |
| Due from related parties | **2,008,630** | 1,964,387 |
| Prepaid expenses | **2,658,970** | 103,423 |
| Advance payments (c) | **58,227,277** | 2,458,523 |
| Staff receivables | **110,766** | 147,876 |
| Other receivables (d) | **7,688,455** | 1,421,748 |
| Inventories | **28,648** | 7,443 |
| | **70,801,705** | 7,186,850 |

The fair values of accounts receivable and other debit balances approximated their carrying values as at December 31, 2007.

a) Provision for doubtful debts

The movement in the provision for doubtful debts is as follows:

| | **2007** | 2006 |
|---|---|---|
| Balance at the beginning of the year | **1,634,579** | 1,050,249 |
| Provision for the year | **9,474** | 600,996 |
| Reversed in the year | **-** | (16,666) |
| Balance at the end of the year | **1,644,053** | 1,634,579 |

Provisions, written off as uncollectible receivables and utilization of the provision for doubtful debts are included in the consolidated statement of income.

Provisions for doubtful debts include an amount of KD 535,118 which represents the provision taken by the Parent Company for the accounts receivable and other debit balances of Kuwait Free Trade Zone, due to the Resolution No. 507/2006 issued by Ministry of Commerce & Industry to cancel the management contract of Kuwait Free Trade Zone with the Parent Company (Note 32f). This provision was taken on a conservatism approach and not as surrender to the validity of the resolution.

b) The other classes within accounts receivable and other debit balances do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

c) Advance payments made by the Group include:

- 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 (2006 – KD 1,085,898).
- Payments made by the Parent Company to acquire certain properties in the United Arab Emirates amounting to KD 32,055,715.
- Payment made by a subsidiary to acquire a property in Egypt amounting to KD 21,204,340 representing 25% of the contracted amount.

d) Other receivables include KD 4,994,730 which represents the receivable from minority in Kuwait Wadi El-Nile Urban Development Company (subsidiary). This amount was paid by the Parent Company on behalf of the minority. Subsequent to the balance sheet, this amount was received by the Parent Company.

6. Investments available for sale

| | **2007** | 2006 |
|---|---|---|
| Managed portfolios and funds | **483,899** | 522,949 |
| Quoted securities | **7,934,766** | 1,110,547 |
| Unquoted securities | **9,456,361** | 5,110,893 |
| | **17,875,026** | 6,744,389 |

The movement during the year is as follows:

| | **2007** | 2006 |
|---|---|---|
| Balance at the beginning of the year | **6,744,389** | 4,642,229 |
| Additions | **14,376,061** | 2,153,959 |
| Disposals | **(4,181,351)** | (162,905) |
| Changes in fair value | **935,927** | 111,106 |
| Balance at the end of the year | **17,875,026** | 6,744,389 |

It was not possible to reliably measure the fair value of investments in unquoted securities with a cost of KD 9,109,810 (2006 – KD 4,753,758) 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 446,639 (2006 – KD 446,639).

Investments available for sale are denominated in the following currencies:

| **Currency** | **2007** | 2006 |
|---|---|---|
| Kuwaiti Dinar | **9,566,151** | 5,033,917 |
| US Dollar | **2,244,307** | 902,847 |
| Euro | **981,891** | 737,711 |
| UAE Dirham | **2,057,796** | - |
| Qatari Riyal | **3,024,881** | 69,914 |
| | **17,875,026** | 6,744,389 |

7. Investment in an unconsolidated subsidiary

| Name of the Subsidiary | Country of incorporation | Percentage of ownership | **2007** | 2006 |
|---|---|---|---|---|
| Yemen Kuwait Company for General Trading & Contracting W.L.L. | Yemen | **100%** | **-** | 32,291 |

Investment in Yemen Kuwait Company for General Trading & Contracting W.L.L. was consolidated as at December 31, 2007 (Note 2 c).

8. Investment in associates

| | | Percentage of ownership | | | |
|---|---|---|---|---|---|
| Name of the associate | Country of Incorporation | **2007** | 2006 | **2007** | 2006 |
| (i) Public Warehousing Company K.S.C. (Agility) | Kuwait | **23.516%** | 24.041% | **179,962,349** | 163,654,814 |
| Goodwill | | | | **5,322,760** | 5,653,988 |
| | | | | **185,285,109** | 169,308,802 |
| (ii) Kuwait Bulgarian Dairy Company W.L.L. | Kuwait | **40%** | - | **120,000** | - |
| | | | | **185,405,109** | 169,308,802 |

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

The movement during the year is as follows:

| | **2007** | 2006 |
|---|---|---|
| Balance at the beginning of the year | **169,308,802** | 146,410,294 |
| Additional investment in the associate | **8,840,233** | 472,184 |
| Partial disposal of investment in the associate | **(8,193,994)** | (6,121,604) |
| Net share in the associate's results (a) | **36,200,861** | 38,806,128 |
| Cash dividends received | **(16,943,831)** | (9,293,198) |
| Effect of change in associate's equity (b) | **(3,926,962)** | (965,002) |
| Balance at the end of the year | **185,285,109** | 169,308,802 |

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

| | **2007** | 2006 |
|---|---|---|
| Share in the associate's results | **36,200,861** | 40,032,210 |
| Provision for letter of guarantee relating to the associate | **-** | (1,226,082) |
| | **36,200,861** | 38,806,128 |

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.

(b) The effect of change in associate's equity is as follows:

| | **2007** | 2006 |
|---|---|---|
| Loss on sale of treasury shares | **(80,390)** | (484,823) |
| Foreign currency translation adjustment | **(3,779,997)** | (484,594) |
| Cumulative changes in fair value of available for sale investments | **(66,575)** | 4,415 |
| | **(3,926,962)** | (965,002) |

(c) The net assets and the results of the associate are summarized as follows:

| | **2007** | 2006 |
|---|---|---|
| Total assets | **1,536,022,000** | 1,320,377,000 |
| Current liabilities | **(576,375,000)** | (408,309,000) |
| Non current liabilities | **(175,004,000)** | (206,551,000) |
| Net assets | **784,643,000** | 705,517,000 |
| | | |
| Total revenues | **1,690,217,000** | 1,349,785,000 |
| Total expenses | **(1,536,276,000)** | (1,183,268,000) |
| Net profit for the year | **153,941,000** | 166,517,000 |

During the year, 9,665,000 shares were sold from investment in the associate (2006 – 7,265,000 shares). The goodwill relating to these shares amounted to KD 331,228 (2006 – KD 499,371).

The market value of the shares of the associate at the balance sheet date amounted to KD 308,837,439 (2006 – KD 315,582,248).

The Group's share in the contingent liabilities and capital commitments of the associate amounted to KD 19,568,134 (2006 – KD 22,203,000).

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.

   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 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 a 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 December 31, 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 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”. In January 2008, the Court of Appeal ruled in favor of the associate whereby Al-Jahra Fish, Meat and Vegetables Market Project Contract is 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 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 consolidated financial statements of the associate as of December 31, 2007.

(ii) The Group has not accounted for its share of results in Kuwait Bulgarian Dairy Company W.L.L. since the associate was incorporated during the year and has not yet commenced any business operations till date.

9. Investment in a joint venture

| Name of the joint venture | Country of Incorporation | Percentage of ownership | **2007** | 2006 |
|---|---|---|---|---|
| Noor Light W.L.L. | Kuwait | 50% | **(132,673)** | (86,633) |
| Long term loan | | | **428,354** | 298,610 |
| | | | **295,681** | 211,977 |

The principal activities of Noor Light W.L.L. are remanufacturing of iron, aluminum and other raw materials and manufacturing of all types of lighting materials.

The movement during the year is as follows:

| | **2007** | 2006 |
|---|---|---|
| Balance at the beginning of the year | **211,977** | 139,764 |
| Share in the joint venture's results | **(46,040)** | (48,629) |
| Increase in the long term loan granted to the joint venture | **129,744** | 120,842 |
| Balance at the end of the year | **295,681** | 211,977 |

The Group's share of the net assets and the results of the joint venture are summarized as follows:

| | **2007** | 2006 |
|---|---|---|
| Assets | **84,857** | 66,070 |
| Liabilities | **(217,530)** | (152,703) |
| | **(132,673)** | (86,633) |

| | **2007** | 2006 |
|---|---|---|
| Revenues | **44,545** | - |
| Expenses | **(90,585)** | (48,629) |
| Net loss for the year | **(46,040)** | (48,629) |

10. Capital work in progress

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

| | **2007** | 2006 |
|---|---|---|
| Balance at the beginning of the year | **16,875,572** | 3,101,630 |
| Additions | **22,218,491** | 17,228,458 |
| Transfers | **-** | (255,000) |
| Charged to Kuwait Ports Authority | **-** | (874,354) |
| Amortization | **-** | (14,250) |
| Foreign currency translation adjustments | **(137,780)** | 240,064 |
| Provision relating to cancellation of management contract of Kuwait Free Trade Zone (Note 32f) | **-** | (2,550,976) |
| Provisions against additions in Kuwait Free Trade Zone set off against contractual obligations (Note 14) | **(739,693)** | - |
| Balance at the end of the year | **38,216,590** | 16,875,572 |

11. Net amount due from Kuwait Ports Authority

| | **2007** | 2006 |
|---|---|---|
| Due from Kuwait Ports Authority | | |
| Rehabilitation costs of properties (a) | **6,417,653** | 6,417,653 |
| Accrued interest on the balance (b) | **9,565,539** | 7,225,417 |
| | **15,983,192** | 13,643,070 |
| Rent due from Kuwait Ports Authority (c) | **15,633,440** | 15,633,440 |
| Gross amount due from Kuwait Ports Authority before its share in rental income of Kuwait Free Trade Zone | **31,616,632** | 29,276,510 |
| 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 |
| Less: Refunded share of the outstanding and unpaid rent of Kuwait Ports Authority (e) | **(637,756)** | (637,756) |
| Net share of Kuwait Ports Authority in rental income of Kuwait Free Trade Zone | **6,928,556** | 6,928,556 |
| Gross amount due from Kuwait Ports Authority after its share in rental income of Kuwait Free Trade Zone | **24,688,076** | 22,347,954 |
| Provision for doubtful debts (b,c,f) | **(24,688,076)** | (22,347,954) |
| | **-** | - |

(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 consolidated statement of income for the year ended December 31, 2007 amounted to KD 2,340,122 (December 31, 2006 – KD 1,896,982). The managing company has fully provided for this interest.

(c) Also, the balance due from Kuwait Ports Authority as of December 31, 2007 includes an amount of KD 15,633,440 (December 31, 2006 - 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. The gross share of the Kuwait Ports Authority in those rents amounted to KD Nil for the year ended December 31, 2007 (December 31, 2006 – KD 1,502,184).

(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 32f), the managing company has fully provided for the amount due from Kuwait Ports Authority on a conservatism approach and not as surrender to the validity of the cancellation resolution.

12. Fixed assets

| | Leasehold land | Leasehold improvements | Buildings, furniture, decorations, office equipment and motor vehicles | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| At December 31, 2006 | - | 8,086,569 | 1,995,637 | 10,082,206 |
| Additions | 393,475 | 369,475 | 545,132 | 1,308,082 |
| Disposals | - | - | (19,955) | (19,955) |
| **At December 31, 2007** | **393,475** | **8,456,044** | **2,520,814** | **11,370,333** |
| **Accumulated depreciation:** | | | | |
| At December 31, 2006 | - | 1,416,986 | 1,423,192 | 2,840,178 |
| Charge for the year | 4,684 | 35,375 | 198,537 | 238,596 |
| Related to disposals | - | - | (8,315) | (8,315) |
| Foreign currency translation | - | - | 2,217 | 2,217 |
| **At December 31, 2007** | **4,684** | **1,452,361** | **1,615,631** | **3,072,676** |
| Provision relating to cancellation of management's contract of Kuwait Free Trade Zone (Note 32f) | - | (6,618,463) | (56,834) | (6,675,297) |
| **Net book value:** | | | | |
| **At December 31, 2007** | **388,791** | **385,220** | **848,349** | **1,622,360** |
| At December 31, 2006 | - | 51,120 | 515,611 | 566,731 |

"Leasehold improvements" mainly represent the improvements made by the Parent Company for the infrastructure in the Kuwait Free Trade Zone, and its depreciation was over the period of management contract for the Kuwait Free Trade Zone. As a result of the resolution relating to the cancellation of the management contract of Kuwait Free Trade Zone with the managing company, the managing company has made a provision for the full amount of infrastructure work on a conservatism approach and not as a surrender to the validity of the cancellation of the contract.

13. Investment properties

The movement during the year is as follows:

| | **2007** | 2006 |
|---|---|---|
| Balance at the beginning of the year | **65,922,172** | 67,179,173 |
| Additions | **933,936** | 204,666 |
| Disposals | **-** | (969,013) |
| Change in fair value of investment properties | **(444,595)** | 363,013 |
| Provision relating to cancellation of management's contract of Kuwait Free Trade Zone (Note 32f) | **-** | (855,667) |
| Balance at the end of the year | **66,411,513** | 65,922,172 |

The properties that are built on land owned by the Group are valued by an independent valuer. Properties that are built on land rented from others are valued using the discounted cash flow method.

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.

14. Accounts payable and other credit balances

| | **2007** | 2006 |
|---|---|---|
| Revenue received in advance | **6,285,216** | 3,744,997 |
| Refundable deposits from tenants | **1,972,074** | 1,430,861 |
| Payable to contractors | **2,529,699** | 1,211,432 |
| Dividend payable to shareholders | **1,760,475** | 1,763,711 |
| Accrued expenses | **9,976,849** | 9,561,291 |
| Accrued interest (a) | **164,493** | - |
| Due to a portfolio manager | **1,709,613** | - |
| Other payables | **2,436,232** | 2,119,388 |
| Provision for contractual obligations (Note 32f) | **913,543** | 1,653,236 |
| Kuwait Foundation for the Advancement of Sciences payable | **20,505** | - |
| National Labor Support Tax payable | **70,401** | - |
| Zakat payable | **1,830** | - |
| Board of Directors' remuneration payable | **70,000** | 70,000 |
| | **27,910,930** | 21,554,916 |

a) Accrued interest is normally settled quarterly to half-yearly.

b) There is no material difference between the fair value and the book value of accounts payable and other credit balances.

## 15. Bank facilities

| | Currency | **2007** | 2006 |
|---|---|---|---|
| Current | | | |
| Overdraft facility from a local bank carrying an interest rate of 1.25% per annum over the Central Bank of Kuwait discount rate repayable on April 23, 2008. | KD | **7,056,521** | 1,190,522 |
| Overdraft facility from a local bank carrying an interest rate of 1.25% per annum over the Central Bank of Kuwait discount rate repayable on August 1, 2008. | KD | **1,010,321** | - |
| Term loan from a local bank carrying an interest rate of 1% per annum over the Central Bank of Kuwait discount rate, repayable on March 2008 in 72 equal installments of KD 325,000. | KD | **975,000** | 3,250,000 |
| Term loan from a local bank carrying an interest rate of 0.75% per annum over the Central Bank of Kuwait discount rate, repayable on March 2008 in 55 equal monthly installments. | KD | **272,732** | 1,090,908 |
| Revolving multi currency loans from a local bank carrying an interest rate of 1.25% - 1.5% per annum over the Central Bank of Kuwait discount rate for KD loans (1.25% per annum over LIBOR for USD loans), repayable on April 23, 2008. | KD / USD | **69,687,854** | 28,150,000 |
| Revolving loan from a local bank carrying an interest rate of 1.25% per annum over the Central Bank of Kuwait discount rate, repayable on August 1, 2008. | KD | **19,000,000** | - |
| Revolving multi currency loan from an International Bank carrying an interest rate of 1% per annum over the LIBOR repayable on March 26, 2008. | USD | **8,205,000** | - |
| Revolving multi currency loan from an International Bank carrying an interest rate of 1% per annum over the KIBOR repayable on June 28, 2008. | KD | **8,600,000** | - |
| Term loan from a local bank, carrying an interest rate of 1.25% per annum over the Central Bank of Kuwait discount rate, repaid on April 23, 2007. | KD | **-** | 563,319 |
| Total current portion of bank facilities | | **114,807,428** | 34,244,749 |
| Non-current | | | |
| Term loan from a local bank carrying an interest rate of 0.75% per annum over the Central Bank of Kuwait discount rate, repayable on March 2008 in 55 equal monthly installments. | KD | **-** | 272,732 |
| Total non-current portion of bank facilities | | **-** | 272,732 |
| Total bank facilities | | **114,807,428** | 34,517,481 |

Bank facilities amounting to KD 96,992,107 have been secured by promissory notes amounting to KD 114,000,000.

As at December 31, 2007, the Group had available KD 13,255,625 (2006 - KD 40,096,159) of undrawn bank facilities in respect of which all conditions precedent had been met.

The carrying amounts of the bank facilities approximate their fair value.

16. Bonds

Bonds represent the Parent Company's proportionate share in the bonds issued by Mediterranean Investment Holding P.L.C. (joint venture).

| Bond denominated in | Interest rate | Repayable by | **2007** | 2006 |
|---|---|---|---|---|
| EURO | 7.5% | December 4, 2014 | **3,031,500** | - |

During the year ended December 31, 2007, Mediterranean Investment Holding P.L.C. (joint venture) issued bonds of a nominal value of € 15,000,000 (KD 6,063,000), which unless previously redeemed in accordance with the early redemption option given in the terms of issue, shall be redeemable at par on December 4, 2014. The issuer reserves the right to redeem the bonds or any part of the issue at any time prior to the stated maturity on either of the interest payment dates falling in 2012 and/or 2013. Redemption of the bonds shall be made at the face value of the bonds. In addition the issuer reserves the right to purchase from the market at any time after issue, bonds for cancellation.

17. Provision for end of service indemnity

| | **2007** | 2006 |
|---|---|---|
| Balance at the beginning of the year | **574,910** | 460,268 |
| Charge for the year | **151,521** | 127,125 |
| Paid during the year | **(114,497)** | (12,483) |
| Balance at the end of the year | **611,934** | 574,910 |

18. Share capital

The authorized, issued and fully paid-up share capital consists of 740,177,330 shares (2006 – 643,632,460 shares) of 100 fils each.

19. Treasury shares

| | **2007** | 2006 |
|---|---|---|
| Number of treasury shares | **31,749,297** | 30,538,954 |
| Percentage of issued and paid up shares (%) | **4.29** | 4.74 |
| Market value (KD) | **15,557,156** | 16,796,425 |
| Cost (KD) | **5,554,583** | 5,184,069 |

20. Statutory reserve

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend upto 5% of paid-up share capital in years when accumulated profits are not sufficient to secure the payment of such a dividend.

21. General and administrative expenses

| | **2007** | 2006 |
|---|---|---|
| Cleaning and maintenance | **(830,719)** | (959,834) |
| Security | **(191,984)** | (210,696) |
| Utilities | **(246,164)** | (219,152) |
| Insurance | **(40,765)** | (46,704) |
| Land lease and office rent | **(1,154,150)** | (679,493) |
| Legal fees | **(806,998)** | (580,054) |
| Professional services | **(1,709,416)** | (854,077) |
| Right of utilization of Ministry of Commerce & Industry for Kuwait Free Trade Zone | **-** | (907,799) |
| Subscriptions and communication | **(149,083)** | (110,739) |
| Advertising and marketing | **(521,841)** | (453,674) |
| Printing and stationary | **(39,976)** | (49,248) |
| Business travel | **(166,762)** | (107,730) |
| Bank charges | **(28,286)** | (32,748) |
| Donations | **(83,600)** | (73,980) |
| Company incorporation charges | **(289,889)** | (546,709) |
| Share of Maastricht School of Management - Netherlands (relating to revenue of a subsidiary) | **(277,497)** | (367,400) |
| Miscellaneous | **(190,309)** | (85,534) |
| | **(6,727,439)** | (6,285,571) |

22. Net investment income

| | **2007** | 2006 |
|---|---|---|
| Dividend income | **210,031** | 291,386 |
| Unrealized loss from investments at fair value through income statement | **(320,030)** | (1,677,840) |
| Realized loss on sale of investments at fair value through income statement | **-** | (1,158,687) |
| Realized gain on partial sale of investment in an associate | **8,443,219** | 9,394,163 |
| Realized gain on sale of investments available for sale | **970,785** | - |
| | **9,304,005** | 6,849,022 |

23. Other income

| | **2007** | 2006 |
|---|---|---|
| Foreign exchange gain (loss) | **397,248** | (2,618) |
| Promotional income | **182,646** | 108,821 |
| Service income– programs and courses fee | **1,136,646** | 1,981,607 |
| Service and registration income – Kuwait Free Trade Zone | **-** | 853,116 |
| Service and registration income – others | **208,317** | 698,112 |
| Consultancy fees | **1,528,044** | 41,125 |
| Gain from money market funds | **57,024** | - |
| Gain on sale of investment property | **-** | 287,398 |
| Gain on sale of fixed assets | **1,360** | - |
| Miscellaneous | **401,235** | 510,643 |
| | **3,912,520** | 4,478,204 |

24. Interest income

| Interest from: | **2007** | 2006 |
|---|---|---|
| Call accounts | **122,926** | 169,612 |
| Short term deposits | **299,977** | 27,801 |
| Current account with a related party | **26,833** | 15,468 |
| Current account with a joint venture | **24,314** | 12,554 |
| Balance due from Kuwait Ports Authority | **2,340,122** | 1,896,982 |
| | **2,814,172** | 2,122,417 |

25. Interest expense

| Interest on: | **2007** | 2006 |
|---|---|---|
| Overdrafts | **(503,761)** | (360,715) |
| Term loans | **(4,735,828)** | (2,990,979) |
| Bonds | **(20,791)** | - |
| | **(5,260,380)** | (3,351,694) |

26. Provisions

| | **2007** | 2006 |
|---|---|---|
| Provision for the balance of rent due from the utilized properties by Kuwait Ports Authority in the Kuwait Free Trade Zone | **-** | (3,929,373) |
| Provision for bad debts related to accounts receivable and other debit balances | **(9,474)** | (49,376) |
| Provision no longer required related to accounts receivable and other debit balances | **-** | 16,666 |
| Provision for doubtful debts | **(9,474)** | (3,962,083) |
| Provision for interest income due on the balance due from Kuwait Ports Authority (Note 11b) | **(2,340,122)** | (1,896,982) |
| | **(2,349,596)** | (5,859,065) |

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

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit of the Parent Company after deducting its share of income from shareholding subsidiaries and associates and transfer to statutory reserve. The calculation of Kuwait Foundation for the Advancement of Sciences is as follows:

| | **2007** | 2006 |
|---|---|---|
| Profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors remuneration | **39,183,844** | 35,142,090 |
| (Deduct) Share of results from a subsidiary subject to KFAS | **(704,666)** | - |
| (Deduct) Share of results from an associate subject to KFAS | **(36,200,861)** | (38,806,128) |
| | **2,278,317** | (3,664,038) |
| (Deduct) the transfer to statutory reserve | **(227,832)** | - |
| | **2,050,485** | (3,664,038) |
| KFAS rate | **1%** | 1% |
| | **20,505** | - |

28. National Labor Support Tax (NLST)

National Labor Support Tax is calculated at 2.5% of the profit of the Parent Company and after deducting its share of income from listed shareholding subsidiaries and associates and cash dividends from Kuwaiti listed shareholding companies.

29. Zakat

Zakat is calculated at 1% of the profit of the Parent Company in accordance with Law No. 46/2006 and the Ministry of Finance Resolution No. 58/2007, which is effective from December 10, 2007.

30. Earnings per share

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

| | **2007** | 2006 (Restated) |
|---|---|---|
| Net profit for the year attributable to equity holders of the Parent Company | **39,021,108** | 34,251,191 |

| | **2007 Shares** | 2006 Shares |
|---|---|---|
| Number of issued and fully paid-up shares at beginning of the year | **643,632,460** | 643,632,460 |
| Add: Bonus shares | **96,544,870** | 96,544,870 |
| Less: Weighted average number of treasury shares | **(33,534,571)** | (44,019,117) |
| Weighted average number of share outstanding | **706,642,759** | 696,158,213 |

| | **Fils** | Fils |
|---|---|---|
| Earnings per share attributable to equity holders of the Parent Company | **55.22** | 49.20 |

Earnings per share for the year ended December 31, 2006 have been restated due to issue of bonus shares for the year 2006 (Note 35).

31. Related party balances and transactions

Related parties represent main 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:

| | Major shareholders | Key management personnel | Associate | Joint venture | 2007 | 2006 |
|---|---|---|---|---|---|---|
| **(i) Balances included in the consolidated balance sheet:** | | | | | | |
| Accounts receivable and other debit balances | **413,615** | **891,881** | **703,134** | **-** | **2,008,630** | 1,964,387 |
| Investments at fair value through income statement | **2,063,064** | **-** | **-** | **-** | **2,063,064** | 1,964,774 |
| Accounts payable and other credit balances | **20,743** | **-** | **-** | **-** | **20,743** | 20,743 |
| **(ii) Transactions included in the consolidated statement of income** | | | | | | |
| Rental income - net | **470,911** | **-** | **-** | **-** | **470,911** | 1,231,689 |
| Net investment income | **(180,966)** | **-** | **-** | **-** | **(180,966)** | (3,346,322) |
| Other income | **353,818** | **-** | **-** | **-** | **353,818** | 60,860 |
| Interest income | **26,833** | **-** | **-** | **24,314** | **51,147** | 28,022 |
| General and administrative expenses | **(186,757)** | **-** | **-** | **-** | **(186,757)** | (271,913) |

| | 2007 | 2006 |
|---|---|---|
| **(iii) Key management compensation:** | | |
| Short term benefits | **1,197,865** | 1,063,727 |
| Termination benefits | **24,577** | 23,913 |
| Board of Directors' remuneration | **70,000** | 70,000 |

32. Contingencies and capital commitments

a) At December 31, 2007, the Group's management authorized capital commitments amounting to KD 127,750,230 (2006 – KD 2,245,745).

b) At December 31, 2007, capital expenditure arising from the Parent Company's interest in Mediterranean Investment Holding (joint venture) is as follows:

(i) Capital expenditure contracted for the construction and development of real estate projects but not yet incurred amounted to KD 8,407,360 (2006 – KD 4,548,228).

(ii) Capital expenditure authorized by the board of directors of the joint venture but has not yet been contracted for amounted to KD 4,567,460 (2006 – KD 9,016,950).

c) At December 31, 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 | KD |
|---|---|
| 2008 – 2012 | 141,000 |
| 2013 – 2017 | 141,000 |
| 2018 – 2019 | 56,400 |
| | 338,400 |

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 Group was contingently liable in respect of the following:

| | **2007** | 2006 |
|---|---|---|
| Letters of guarantee | **540,181** | 4,984,206 |
| Letters of credit | **15,703** | 264,587 |
| | **555,884** | 5,248,793 |

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 Court of Appeal sustained the decision of the Court of First Instance. The tenant has appealed against the decision of the Court of Appeal in the Court of Cassation. As of the balance sheet date, the case is not yet settled and the hearing has been set for April 21, 2008.

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 December 31, 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 Company K.S.C (the managing company). Due to this, the managing company had lost its control over the assets located in KFTZ. Accordingly, the managing company had recognized the following provisions:

| | 2006 |
|---|---|
| Assets located in KFTZ | 11,172,070 |
| Provision for contractual obligations relating to the cancellation of management's contract of Kuwait Free Trade Zone | 1,653,236 |
| Provision for doubtful debts | 535,118 |
| | 13,360,424 |

All these provisions were made on a conservatism approach and not as surrender to the validity of the resolution.

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. As of the balance sheet date, the case is still under study with the Experts Department.

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 managing company is in process of performing an assessment of the compensation in case the court sustains the cancellation resolution. In such event, the managing company proposes to offer an initiative for a considerate settlement of its rights with the government. In the event of failure of the initiative, a claim is proposed to be filed by the managing company for the recovery of those compensation claims as per the law.

33. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalents, investments, receivables, net amount due from Kuwait Ports Authority, payables, bank facilities and bonds and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

**Credit risk:**
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash and cash equivalents, receivables and net amount due from Kuwait Ports Authority. The Group's cash and cash equivalents are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash and cash equivalents, receivables and net amount due from Kuwait Ports Authority.

**Liquidity risk:**
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and ensures adequate balances are maintained in cash and cash equivalents or other investments that are readily realizable to meet its obligations.

a) The maturity profile of financial liabilities was as follows:

| | **2007** | | | | | |
|---|---|---|---|---|---|---|
| **Financial liabilities** | **Upto 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
| **Accounts payable and other credit balances** | **618,964** | **2,240,224** | **7,575,025** | **17,455,926** | **20,791** | **27,910,930** |
| **Bank facilities** | **415,910** | **9,431,822** | **104,959,696** | **-** | **-** | **114,807,428** |
| **Bonds** | **-** | **-** | **-** | **-** | **3,031,500** | **3,031,500** |
| | **1,034,874** | **11,672,046** | **112,534,721** | **17,455,926** | **3,052,291** | **145,749,858** |

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| Financial liabilities | Upto 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| Accounts payable and other credit balances | 563,815 | 624,968 | 7,274,979 | 13,091,154 | - | 21,554,916 |
| Bank facilities | 415,910 | 831,818 | 32,997,021 | 272,732 | - | 34,517,481 |
| Bonds | - | - | - | - | - | - |
| | 979,725 | 1,456,786 | 40,272,000 | 13,363,886 | - | 56,072,397 |

b) The analysis of the Group's contingent liabilities and capital commitments by remaining contractual maturities was as follows:

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| **Contingent Liabilities** | **Up to 1 month** | **1 - 3 months** | **3 - 12 months** | **1 – 5 years** | **Over 5 years** | **Total** |
| **Letters of guarantee** | **-** | **-** | **540,181** | **-** | **-** | **540,181** |
| **Letters of credit** | **-** | **-** | **15,703** | **-** | **-** | **15,703** |
| **Capital commitments** | **320,979** | **389,200** | **32,828,759** | **94,612,137** | **12,912,375** | **141,063,450** |
| | **320,979** | **389,200** | **33,384,643** | **94,612,137** | **12,912,375** | **141,619,334** |

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| Contingent Liabilities | Up to 1 month | 1 - 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Total |
| Letters of guarantee | - | - | 4,984,206 | - | - | 4,984,206 |
| Letters of credit | - | - | 264,587 | - | - | 264,587 |
| Capital commitments | - | 28,200 | 4,860,463 | 11,063,260 | 225,600 | 16,177,523 |
| | - | 28,200 | 10,109,256 | 11,063,260 | 225,600 | 21,426,316 |

**Interest rate risk**

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature are indicated in the respective notes.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit (through the impact on short term deposits, floating rate borrowings and bonds). There is no impact on Group's equity.

| Year | Increase / (Decrease) in interest rate | Balance on December 31 | Effect on profit |
|---|---|---|---|
| **2007** | | | |
| **Short term deposits** | **± 50 basis points** | **3,458,289** | **±17,291** |
| **Overdrafts** | **± 50 basis points** | **(8,066,842)** | **±40,334** |
| **Loans** | **± 50 basis points** | **(106,740,586)** | **±533,703** |
| **Bonds** | **± 50 basis points** | **(3,031,500)** | **±15,158** |
| 2006 | | | |
| Short term deposits | ± 50 basis points | 2,008,136 | ±10,041 |
| Overdraft | ± 50 basis points | (1,190,522) | ±5,953 |
| Loans | ± 50 basis points | (33,326,959) | ±166,635 |
| Bonds | ± 50 basis points | - | - |

### Foreign currency risk

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between other currencies and Kuwaiti Dinar.

| Currencies | Change in foreign currency rate | Effect on profit | Effect on equity |
|---|---|---|---|
| **2007** | | | |
| **US Dollar** | **±5%** | **±(492,651)** | **±6,960** |
| **Euro** | **±5%** | **±76,259** | **±49,095** |
| **UAE Dirham** | **±5%** | **±1,605,537** | **±102,890** |
| **Qatari Riyal** | **±5%** | **±7,187** | **±151,244** |
| **Jordanian Dinar** | **±5%** | **±221,693** | **-** |
| **Egyptian Pound** | **±5%** | **±1,324,539** | **-** |
| **Others** | **±5%** | **±12,908** | **-** |
| 2006 | | | |
| US Dollar | ±5% | ±39,880 | ±2,926 |
| Euro | ±5% | ±188,768 | ±36,886 |
| UAE Dirham | ±5% | ±1,950 | - |
| Qatari Riyal | ±5% | ±46,591 | ±3,496 |
| Jordanian Dinar | ±5% | ±98,063 | - |
| Egyptian Pound | ±5% | ±14,806 | - |
| Others | ±5% | ±9,601 | - |

### Equity price risk

Equity price risk is a risk that the value of a financial instrument will fluctuate as a result of changes in the level of equity indices and the value of individual stocks, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The equity price risk exposure arises from the Group's investment in equity securities classified as ‘at fair value through income statement’ and ‘available for sale’.

The following table demonstrates the sensitivity to a reasonably possible change in equity indices as a result of change in the fair value of these investments, to which the Group had significant exposure:

| | **2007** | | | 2006 | | |
|---|---|---|---|---|---|---|
| Market indices | **Change in equity price %** | **Effect on profit** | **Effect on equity** | Change in equity price % | Effect on profit | Effect on equity |
| Kuwait Stock Exchange | **±5%** | **±103,153** | **±93,510** | ±5% | ±98,239 | ±12,220 |
| Doha Securities Market | **±5%** | **-** | **±151,244** | ±5% | - | ±3,496 |
| Abu Dhabi Securities Market | **±5%** | **-** | **± 102,890** | ±5% | - | - |
| NASDAQ | **±5%** | **±31,245** | **-** | ±5% | ±38,202 | ±2,926 |
| Malta Stock Exchange | **±5%** | **-** | **±49,095** | ±5% | - | ±36,886 |

**Fair value of financial instruments**

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. At December 31, the fair values of financial instruments approximate their carrying amounts.

34. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

For the purpose of capital risk management, the total capital resources consist of the following components:

| | **2007** | 2006 |
|---|---|---|
| Bank facilities | **114,807,428** | 34,517,481 |
| Bonds | **3,031,500** | - |
| Less: cash and cash equivalents | **(12,959,872)** | (8,020,063) |
| Net debt | **104,879,056** | 26,497,418 |
| Total equity | **249,914,105** | 220,950,355 |
| Total capital resources | **354,793,161** | 247,447,773 |

35. Proposed dividend, rights issue and bonus shares

The Board of Directors of the Parent Company proposed a cash dividend of 20 fils per share and bonus shares of 10 shares for every 100 shares.

Additionally, the Board of Directors of the Parent Company proposed an increase in share capital by 30% of the paid-up capital at par value of 100 fils and a share premium of 150 fils per share totaling to a subscription price of 250 fils per share. These proposals are subject to the approval of the shareholders' General Assembly.

Shareholders' General Assembly

The Shareholders' Annual 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' Annual 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.

36. Comparative figures

Certain prior year amounts have been reclassified to conform with the current year's presentation.