



AQAR

07 **AQAR**
REAL ESTATE
INVESTMENTS
ANNUAL REPORT



**H.H. Sheikh Nawaf
Al-Ahmed Al-Jaber Al-Sabah**

Crown Prince of the
State of Kuwait



**H.H. Sheikh Sabah
Al-Ahmed Al-Jaber Al-Sabah**

Amir of the
State of Kuwait



**H.H. Sheikh Nasser
Al-Mohammad Al-Sabah**

Prime Minister
of the State of Kuwait



Our Contacts

Aqar Real Estate Investments Co. (S.A.K.C.)

Incorporation date: 09-10-1997

Listing date in KSE: 11-04-2005

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CHAIRMAN'S MESSAGE

To the Shareholders of Aqar Real Estate Investment Company

On behalf of the members of the Board of Directors, I am pleased to present to you the Annual Report on the company's operations during the financial year, which ended on 31st December 2007, including the most significant activities and achievements during the year together with the auditor's report, consolidated balance sheet and income statement.

Dear Shareholders,

During 2007 the company witnessed an increase of activities that would enable the company to realize the benefits of these achievements in the near future. During the year, the executive management focused on developing a number of significant projects that would be the mainstay of income generating assets which would realize attractive returns for its shareholders. Aqar was able to complete the first project in Kuwait and the Middle East - The Dana & Dina Towers specially designed for the one of Aqar's client which has been based on the 'Lease to Own Built to Suit' model. The project was completed and handed over in record time. This project will generate for the company, a lucrative annual return for the next 13 years.

In addition, the company carried out a number of vital projects either directly or in strategic partnership with other parties. We started the construction and development of the Al Mahboulah Residential Housing Project on an area of 3,000 sq. meters. We have also completed 40% of development of the Khayal Tower which is located at Al Shaab Al Bahry that is unique as it directly overlooks the sea. The first phase of the Al Barsha Project in Dubai which is a multi use project, covering an area of 3,221 square meters has been completed.

Meanwhile the company liquidated part of its investments that has yielded a good return which has reflected positively on the Company's financial performance. The cash income generated from the sale of such investments will be utilized in other projects for the benefit of shareholders.

A detailed study is currently being conducted to explore unique and significant real estate investments in the local, Gulf as well as other markets. This study is currently in its final stages.

In addition, the management has made intensive efforts to activate the role of its subsidiary, Al Roya International Real Estate Company, the main arm for property management operations of the Company. During the year, the Company acquired an investment property in the name of our subsidiary as part of a plan to increase the portfolio of income generating properties in the future, with the aim of ensuring regular and attractive returns that would contribute to an increase in earnings from operations. It is envisaged that Roya International Real Estate Company will undertake the management of the properties that will be completed in the near future.

Moreover, the Company's total revenues showed a 120% increase during the year to reach KD 2,764,489 compared with KD 1,254,783 in 2006. During the year, the overheads totaled a sum of KD 925,911. The Net Profit of the Company was an amount of KD 1,734,959 that is 808 f ls per share or an increase of 128% over the 2006 profits. The increase in profit per share was 354 f ls.

The Company is steadily carrying out its plan to build up a strong investment base that will have a positive impact upon the Company's financial performance, which will certainly result in increased earnings and profitability. The Company still has many plans and projects to be implemented in the current year as well as the continued development of its properties and the participation in new investments in the local and regional front as part of an ambitious plan that would keep the Company in a safety zone from the world market fluctuations.

We pledge to make all possible efforts to enhance the Company's position and to enjoy a leading position in the property market to serve the best interests of our shareholders.

Finally, I would like to express my sincere thanks and appreciation to the shareholders in my name and on behalf of members of the Board of Directors and company's staff for their continuous confidence and support.

I would also like to express our thanks to the Company's management and staff for their sincere efforts to achieve further progress in the future.



Issam Abdulaziz Al Usaimi
Chairman

BOARD OF DIRECTORS

Issam Abdulaziz Al Usaimi

Chairman

Muneer Abdul Mohsen Al Sharhan

Vice chairman

Yousif Dakeel Al Dakeel

Board member

Khaled Abdulaziz Al Usaimi

Board member

Soud Abdul Mohsen Al Zeben

Board member

Tariq Abdullah Al khoraf

Board member

Nawaf Bader Al Ameem

Board member

MANAGEMENT

Emad Abdullah Al Essa

General Manager

Hamed Fatouh Hamed

Financial & Administration Manager

Abdulaziz Abdulrazzaq Al Mejel

Manager of Project Development Department

Soud Abdullah Al Osaimi

Assistant Manager of Real Estate Investments Department

COMPANY PROJECTS

Dana and Dina Tower

Khayal Tower

Al Mahboolah Residential Towers

Al Barsha Project

Al Sharq Tower

Dana and Dina Tower

The main feature of the Dana and Dina Towers is that it adopts the 'Lease to Own', 'Built to Suit' scheme, which is the first of its kind in Kuwait and the Middle East. This scheme involves the construction of a building according to the requirements and specifications decided by the customer in advance enabling him to lease the project until he ultimately owns the project. The project was designed for the one of Aqar's client as per their specifications.

The project site overlooks Al-Fahaheel Highway and is situated in Al-Mahboulah, with a total site area of 4,000 square metres. The project consists of two residential towers made up of a total of 86 residential units with different areas and lay-outs.

The project is characterized by its varied recreational facilities provided at the request of the American School such as the swimming pool, health club, car park on the ground floor and basement. In addition the project is surrounded by beautiful landscape.

The project was completed on schedule and within a record period of time without any delay in hand-over.





Khayal Tower

The project is situated in Al-Shaab Al-Bahry, and covers an area of 1,000 square metres, has a high-end luxury design and directly overlooks the Arabian Gulf Road with a fascinating sea view.

It consists of 15 storeys in addition to the mezzanine floor comprising a total of 19 residential units with different floor areas and layouts. All the residential units overlook the sea which enhances their luxury quality. The project also comprises a health club, a swimming pool and various service facilities. The project is scheduled for completion by the end of 2008.

Al Mahboulah Residential Towers

This project is a luxury residential complex that keeps pace with all the requirements of modern lifestyle. It overlooks Al Fahaheel Highway and is situated in Al Mahboulah, covering an area of 3,000 square metres. It consists of two residential towers, each 15 storeys high. It has a total of 52 residential units with different floor areas in addition to 8 spacious villas with modern designs. The project incorporates recreational facilities including a swimming pool, a health club, landscaping and car parking areas providing residents with all means of luxury and convenience.





Al Barsha Project

This project is situated in Dubai, United Arab Emirates at Al-Barsha (1) area, one of the most highly developed parts of Dubai. The project covers a total area of 3,221 square metres and comprises 3 level basements dedicated as car parks and a ground floor to be utilized as a shopping area. It will also comprise six floors to be utilized as offices.

The first phase of the project has already been completed and the second phase is in progress.



AL-MAL & AQAR

Al Sharq Tower

Through an alliance with Injazat Property Development, we launched the development of Al Sharq Tower project, which is situated in Al Sharq District opposite Al Hilali Road. It will be built on an area of 3,000 square meters. The project site is in one of the prime locations in the capital city.

This project has a car park for the benefit of the building's users and has a unique design that incorporates all the architectural and technical features of the District. The project has won the MIPM Award for best office tower in the world in 2007 at the International Property Exhibition, which was held in Cannes, France.

CONSOLIDATED FINANCIAL STATEMENTS

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AUDITORS REPORT

We have audited the accompanying consolidated financial statements of Aqar Real Estate Investments Company K.S.C. (Closed) (“the parent company”) and subsidiary (“the group”) which comprise consolidated balance sheet as at 31 December 2007 and the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ Responsibility For the Consolidated Financial Statements

Directors of the parent company are 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 from 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’ judgement, 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 the parent company’s management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2007, and 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

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the parent company's articles of association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the group or on its financial position.



Waleed A. Al Osami
License No. 68 A
of Ernst & Young



Ali A. Al Hasawi
Licence No. 30 A,
BDO Burgian International Accountants

27 March 2008
Kuwait

INCOME STATEMENT

Year ended 31 December 2007

	Note	2007 K.D.	2006 K.D.
Income			
Real estate income	3	435,427	333,318
Gain on disposal of property under development	4	750,000	-
Realised gain on available for sale investments		293,261	3,114
Unrealised gain (loss) on investments at fair value through income statement		469	(41,395)
Change in fair value of investment properties	11	936,600	22,913
Dividend income		57,724	75,455
Rental income		27,365	20,537
Share of results in associates companies	10	-	484,693
Interest income		260,934	348,081
Other income		2,709	8,067
		2,764,489	1,254,783
Expenses			
Staff costs		(675,701)	(298,718)
Depreciation		(10,129)	(9,406)
General and administrative expenses		(148,593)	(157,468)
Finance costs		(39,038)	(2,349)
Loss on foreign exchange		(52,450)	-
Prof t before KFAS, NLST and ZAKAT		1,838,578	786,842
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(16,547)	(7,082)
National Labour Support Tax (NLST)		(45,964)	(19,381)
Zakat		(1,108)	-
Board of directors' remuneration		(40,000)	-
Prof t for the Year		1,734,959	760,379
Basic and Diluted Earnings per share attributable to Shareholders of the parent company	5	808 f ls	354 f ls

The attached notes 1 to 24 form part of these consolidated financial statements.

BALANCE SHEET

Year ended 31 December 2007

	Note	2007 K.D.	2006 K.D.
Assets			
Cash and bank balances	6	386,766	183,892
Fixed deposits	6	4,524,439	4,690,825
Investments at fair value through income statement	7	266,649	266,180
Accounts receivable and other assets	8	4,287,710	1,574,181
Available for sale investments	9	4,077,755	5,645,531
Investment in associates	10	7,364,947	6,293,347
Investment properties	11	4,682,225	4,257,000
Properties under development	12	1,116,000	2,780,027
Equipment		20,461	24,355
Total Assets		26,726,952	25,715,338
Liabilities And Equity			
Liabilities			
Term loan		-	1,445,700
Accounts payable and other liabilities	13	866,882	224,406
		866,882	1,670,106
Equity			
Share capital	14	21,500,000	21,500,000
Share premium		129,167	129,167
Statutory reserve	15	608,572	424,714
General reserve	15	608,572	424,714
Cumulative changes in fair values		(80,655)	(179,629)
Treasury shares	16	(27,618)	-
Treasury shares reserve	16	8,523	-
Retained earnings		3,113,509	1,746,266
		25,860,070	24,045,232
Total Liabilities and Equity		26,726,952	25,715,338



Issam Abdulaziz Al Usaimi
Chairman



Emad Abdullah Al-Essa
General Manager

The attached notes 1 to 24 form part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Share capital K.D.	Share premium K.D.	Statutory reserve K.D.	General reserve K.D.	Cumulative Changes in fair Values K.D.	Treasury Shares K.D.	Treasury Shares reserve K.D.	Retained earnings K.D.	Total K.D.
Balance at 1 January 2007	-	129,167	424,714	424,714	(179,629)	-	-	1,746,266	24,045,232
Changes in fair values of investments available for sale	-	-	-	-	392,235	-	-	-	392,235
Transferred to income statement on sale of available for sale investments	-	-	-	-	(293,261)	-	-	-	(293,261)
Total income recognised directly in equity	-	-	-	-	98,974	-	-	-	98,974
Profit for the year	-	-	-	-	-	-	-	1,734,959	1,734,959
Total income and expenses for the year	-	-	-	-	98,974	-	-	1,734,959	1,833,933
Purchase of treasury shares	-	-	-	-	-	(44,982)	-	-	(44,982)
Sale of treasury shares	-	-	-	-	-	17,364	8,523	-	25,887
Transfers to reserves	-	-	183,858	183,858	-	-	-	(367,716)	-
Balance at 31 December 2007	21,500,000	129,167	608,572	608,572	(80,655)	(27,618)	8,523	3,113,509	25,860,070
Balance at 1 January 2006	20,000,000	129,167	346,030	346,030	(85,053)	-	-	2,643,255	23,379,429
Changes in fair values of investments available for sale	-	-	-	-	(91,462)	-	-	-	(91,462)
Transferred to income statement on sale of available for sale investments	-	-	-	-	(3,114)	-	-	-	(3,114)
Total income and expenses recognised directly in equity	-	-	-	-	(94,576)	-	-	-	(94,576)
Profit for the year	-	-	-	-	-	-	-	760,379	760,379
Total income and expenses for the year	-	-	-	-	(94,576)	-	-	760,379	665,803
Issue of bonus shares	1,500,000	-	-	-	-	-	-	(150,500,000)	-
Transfers to reserves	-	-	78,684	78,684	-	-	-	(157,368)	-
Balance at 31 December 2006	21,500,000	129,167	424,714	424,714	(179,629)	-	-	1,746,266	24,045,232

The attached notes 1 to 24 form part of these consolidated financial statements.

STATEMENT OF CASH FLOW

Year ended 31 December 2007

	Note	2007 K.D.	2006 K.D.
Operating Activities			
Profit for the year		1,734,959	760,379
Adjustments for:			
Depreciation		10,129	9,406
Realised loss on available for sale investments		(293,261)	(3,114)
Unrealised (gain) loss on investments at fair value through income statement		(469)	41,395
Gain on disposal of property under development	4	(750,000)	-
Real estate income		(435,427)	(333,318)
Change in fair value of investment properties		(936,600)	(22,913)
Dividend income		(57,724)	(75,455)
Interest income		(260,934)	(348,081)
Share of results in associates		-	(484,693)
Provision for employees' end of service benefits		31,627	23,311
		(957,700)	(433,083)
Changes in operating assets and liabilities:			
Accounts receivable and other assets		310,290	451,083
Accounts payable and other liabilities		674,702	34,071
		27,292	52,071
Contribution paid to KFAS		(7,082)	(18,695)
Paid to NLST		(19,381)	(45,271)
Directors fees paid		-	(40,000)
Net cash from (used in) operating activities		829	(51,895)

The attached notes 1 to 24 form part of these consolidated financial statements.

STATEMENT OF CASH FLOW (CONTINUED)

Year ended 31 December 2007

	Note	2007 K.D.	2006 K.D.
Investing Activities			
Purchase of available for sale investments		-	(1,442,929)
Proceeds from sale of available for sale investments		1,686,625	-
Purchase of investment property		(583,625)	-
Proceeds from disposal of property under development		2,700,000	-
Additions to properties under development		(1,804,249)	(773,637)
Investment in associates		(1,071,600)	(1,308,655)
Purchase of equipment		(6,235)	(847)
Proceeds on sale of available for sale investments		306,110	-
Interest received		248,428	328,760
Dividend received		25,000	63,855
Release (blocking) of fixed deposits		1,787,630	(1,787,630)
Net cash from (used in) investing activities		3,288,084	(4,921,083)
Financing Activities			
Proceeds from term loan		-	1,445,700
Term loan repayment		(1,445,700)	-
Purchase of treasury shares		(44,982)	-
Proceeds from sale of treasury shares		25,887	-
Net cash (used in) from financing activities		(1,464,795)	1,445,700
Increase (Decrease) In Cash And Cash Equivalents			
Cash and cash equivalents at beginning of the year		3,087,087	6,614,365
Cash And Cash Equivalents At End Of The Year	6	4,911,205	3,087,087

The attached notes 1 to 24 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

1. Activities

The group comprises Aqar Real Estate Investments Company K.S.C. (Closed) (the 'parent company') and its wholly owned consolidated subsidiary, Al Ro'oya International Real Estate Company K.S.C. The parent company was established in April 1997 and listed on the Kuwait Stock Exchange on 11 April 2005. The group is engaged in real estate development and other real estate investment activities.

The consolidated financial statements of the group for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the parent company's board of directors on 27 March 2008. The general assembly of the equity holders of the parent company has the power to amend these consolidated financial statements after issuance.

The address of the parent company's registered office is PO Box 20017, Safat 13061, State of Kuwait.

2. Significant Accounting Policies

Basis of preparation

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments and investment properties.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been presented in Kuwaiti Dinars.

Changes in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in previous year except that the group has adopted IFRS 7 Financial Instruments: Disclosures and amendment to International Accounting Standard (IAS) 1 – Capital disclosures. As a result the additional disclosures are made that will enable users to evaluate:

- a. the significance of financial instruments for the group's financial position and performance;
- b. the nature and extent of risks arising from financial instruments to which the group is exposed during the period and at the reporting date, and how the group manages those risks; and
- c. the group's objectives, policies and processes for managing capital.

The group has also adopted a new policy related to treasury shares noted below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2. Significant Accounting Policies (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2007, and the financial statements of its subsidiary prepared to that date, using consistent accounting policies.

All significant inter-company balances and transactions have been eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition, or upto the date of disposal, as appropriate.

Minority interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent company's shareholders' equity. Acquisition of minority interests are accounted for using the parent company extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognised directly in the consolidated income statement in the year of acquisition.

Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Income from sale of investment properties

Income from the sale of investment properties is recognised when the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property;
- The group's receivable is not subject to future subordination; and
- The group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

2 Significant Accounting Policies (continued)

Income from pre-completion real estate sales

Revenue on pre-completion real estate sales is recognised on the basis of percentage completion based on an independent survey of work performed or cost incurred to date as a proportion of total estimated cost or other suitable methods depending on the nature of the contract, as and when all the following conditions are met:

- The buyer's investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property;
- The construction contract execution is finished;
- The buyer is irrecoverably committed; and
- The aggregate sales proceeds and costs can be reasonably estimated.

Financing income on pre-completion real estate assets

Financing income on pre-completion real estate assets are recognised on an effective yield basis.

Interest income

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable.

Rental income

Rental income is accounted for on a straight line basis over the lease terms.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Finance costs

Finance costs are recognised on an effective yield basis taking into account the outstanding balance payable and applicable interest rate.

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and short-term deposits maturing within three months from the date of inception net of any overdraft balances and balances secured for the term loans.

Investments

The group classifies non-trading investments upon initial recognition into the following two categories:

- Investments carried at fair value through income statement
- Available for sale

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2 Significant Accounting Policies (continued)

Investments at fair value through income statement

Investments classified as “Investments at fair value through income statement” are initially recognised at fair value, excluding transaction costs. After initial recognition, investments are remeasured at fair value and unrealised gains and losses are included in the income statement.

Available for sale investments

These are financial assets acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate or equity prices. After initial recognition, available for sale investments are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value are reported as a separate component of equity until the investment is sold or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement for the year.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Impairment of financial assets

An assessment for a financial asset or a group of financial assets is made at each balance sheet date to determine whether there is an objective evidence that a financial asset or a specific group of financial assets may be impaired. If such an evidence exists, an impairment loss is recognised in the consolidated income statement.

Impairment is determined as follows:

- a. for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective rate of return;
- b. for assets carried at fair value, impairment is the difference between cost and fair value; and
- c. for assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for equity instruments classified as available for sale, reversals of impairment losses are recognised in the consolidated income statement to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Reversals in respect of equity instruments classified as available for sale are recognised in the fair value reserve.

2 Significant Accounting Policies (continued)

Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. A financial asset is de-recognised either when the contractual rights to cash flows from the financial asset expire, the group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards, but no longer has control over the asset or a proportion of the asset. A financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

Investments in associates

An associate is an entity over which the group exerts significant influence. Investment in associates is accounted for under the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale under IFRS 5.

Under the equity method, the investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of the associate's equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The group recognises in the consolidated income statement its share of the total recognised profit or loss of the associate from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate arising from changes in the associate's equity. The group's share of those changes is recognised directly in equity.

Unrealised gains on transactions with associate are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The associate's financial statements are prepared either to the parent company's reporting date or to a date not earlier than three months of the parent company's reporting date using consistent accounting policies. Where practicable, adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of the associates and the parent company's reporting date.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part

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At 31 December 2007

2 Significant Accounting Policies (continued)

Investment properties (continued)

of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are remeasured at fair value on an individual basis based on a valuation by independent registered real estate valuer. The valuation reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement.

Investment properties are derecognised when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

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.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the group as an owner occupied property becomes an investment property, the group accounts for such property at depreciated cost less cumulative impairment losses up to the date of change in use. For a transfer from properties under development inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement. When the group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

Properties under development

Properties acquired, constructed or in the course of construction for sale are classified as properties under development. Unsold properties are stated at the lower of cost or net realizable value. Sold properties in the course of development are stated at cost. The cost of properties under development includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed. As that stage, cost, attributable profit and progress billings are eliminated from properties under development.

2 Significant Accounting Policies (continued)

Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. 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 (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. After such reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provision for end of service benefit

Provision for end of service benefit is calculated on the employees' accumulated periods of service at the balance sheet date in accordance with the Kuwait labour law for the private sector and the company's bye-laws.

Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and the fair value estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2 Significant Accounting Policies (continued)

Fair values (continued)

Underlying the definitions of fair value is the presumption that the group is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms.

Investments

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value, if any.

Investment properties

Fair value is determined based on external valuation by independent, registered real estate valuers which have relevant experience in the real estate market.

Other financial assets and liabilities

For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

Judgements

In the process of applying the group's accounting policies, the parent company's directors have made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.

The group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

2 Significant Accounting Policies (continued)

Judgements (continued)

The group classifies property as property under development if it is acquired with the intention of development.

The group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held for trading, at fair value through income statement, or available for sale.

The group classifies investments as trading if they are acquired primarily for the purpose of making a short-term profit by the dealers.

Classification of investments as fair value through income statement depends on how the directors monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as at fair value through income statement.

All other investments are classified as available for sale.

Impairment of investments

The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty

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:

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple or industry specific earnings multiple;

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At 31 December 2007

- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result these investments are carried at cost less any impairment in value.

Valuation of investment properties

Valuation of foreign investment properties is based on one valuation by an independent valuer who holds a recognised and relevant professional qualifications and relevant experience.

Future changes in accounting policies

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the group:

IFRS 8 Operating Segments

IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the group discloses information about its operating segments.

IAS 1 Presentation of Financial Statements

The Group has not adopted the revised IAS 1 Presentation of Financial Statements which will be effective for the year ending 31 December 2009. The application of this standard will result in amendments to the presentation of the financial statements.

3 Real Estate Income

	2007 K.D.	2006 K.D.
Sales	2,089,576	898,200
Cost of sales	(1,842,495)	(770,781)
Trading profit	247,081	127,419
Finance income	188,346	205,899
	435,427	333,318

The average interest rate attributable to the sale of pre-completion assets is 10.49% (2006: 12.55%). The project percentage of completion used to calculate the trading profit has been determined at 100% based on the costs incurred to date as a proportion of the total projected costs.

4 Gain on Disposal of Property Under Development

During the year, the group sold a property under development for KD 2,700,000 resulting in a gain on disposal of KD 750,000.

5 Basic and Diluted Earnings Per Share

Basic and diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2007	2006
Profit for the year (KD)	1,734,959	760,379
Weighted average number of shares outstanding during the year	214,769,425	215,000,000
Basic and diluted earnings per share	808 f ls	354 f ls

6 Cash and Cash Equivalents

	2007 K.D.	2006 K.D.
Cash and bank balances	386,766	183,892
Fixed deposits	4,524,439	4,690,825
	4,911,205	4,874,717
Less: fixed deposits blocked against term loan	-	(1,787,630)
	4,911,205	3,087,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

6 Cash and Cash Equivalents (continued)

Bank balances represent balances in non-interest bearing current accounts with high credit quality financial institutions.

Fixed deposits are with local banks and yield an effective interest rate ranging from 6.25% per annum to 6.75% per annum (2006: 5.75% to 6.25%) and have a maturity of less than three months .

7. Investments at Fair Value through Income Statement

This represents an investment in an unquoted mutual fund investing in real estate.

8 Accounts Receivable and Other Assets

	2007 K.D.	2006 K.D.
Accounts receivable	3,867,125	1,479,318
Amounts due from associates	387,607	53,550
Accrued interest and other assets	32,978	41,313
	4,287,710	1,574,181

Included in accounts receivable is a long term receivable amounting to KD 6,371,096 due from the American School of Kuwait on sale of property under development. The amount is net of deferred interest income of KD 2,667,066.

9 Available-For-Sale Investments

	2007 K.D.	2006 K.D.
Managed portfolios comprising quoted securities	1,072,678	953,831
Unquoted investment in real estate fund	222,577	1,445,700
Unquoted equity investments	2,782,500	3,246,000
	4,077,755	5,645,531

Managed portfolios comprising quoted securities are managed by related parties.

Unquoted equity investments are carried at cost because fair value can not be reliably measured. In the opinion of management, there are no circumstances that would indicate any impairment in the value of these securities at the balance sheet date.

10 Investments in Associates

The group's associates consist of the following companies:

Name	Country of Incorporation	% equity interest		Activities
		2007	2006	
Al Mal & Aqar Joint Projects Company W.L.L	Kuwait	33.3%	33.3%	Real estate development
Al Barsha Real Estate Company K.S.C.C	Kuwait	35.5%	35.0%	Real estate development
Gulf Spring Kuwait Real Estate Development Company W.L.L.	Kuwait	26.79%	-	Real estate development

	2007 K.D.	2006 K.D.
<i>Carrying amount of investments in associates:</i>		
At 1 January	6,293,347	4,527,784
Additions	1,071,600	1,308,655
Share of results	-	484,693
Reclassified to amounts due from associates		(27,785)
At 31 December	7,364,947	6,293,347

	2007 K.D.	2006 K.D.
Share of associates' assets and liabilities:		
Assets	7,364,947	6,347,768
Liabilities	-	(54,421)
Net assets	7,364,947	6,293,347

	2007 K.D.	2006 K.D.
Share of associates' revenue and results:		
Revenue	-	500,000
Prof ts	-	484,693

Since the associates are recently formed companies, the fair value of these associates is not materially different from the carrying value.

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At 31 December 2007

11. Investment Properties

	2007 K.D.	2006 K.D.
Balance at 1 January	4,257,000	6,184,087
Addition	583,625	-
Transfers to properties under development (note 12)	(1,095,000)	(1,950,000)
Change in fair value	936,600	22,913
Balance at 31 December	4,682,225	4,257,000

The group's investment properties were revalued at 31 December 2007 by an independent professionally qualified valuer. Valuation was based on current prices.

12 Properties Under Development

	2007 K.D.	2006 K.D.
At 1 January	2,780,027	56,390
Additions	1,804,249	773,637
Transferred from investment properties (note 11)	1,095,000	1,950,000
Disposal during the year	(4,563,276)	-
At 31 December	1,116,000	2,780,027

During the year the parent company sold two properties under development that were carried at KD 2,613,276 and KD 1,950,000, realising a gain of KD 247,081 and KD 750,000 respectively.

13 Accounts Payable and Other Liabilities

	2007 K.D.	2006 K.D.
Accounts payable	12,886	11,023
Other liabilities	774,813	159,494
Employees' end of service benefits	79,183	53,889
	866,882	224,406

14 Share Capital

The authorised, issued and fully paid share capital as of 31 December 2007 comprised 215,000,000 (2006: 215,000,000) shares of 100 f.l.s each.

15 Reserves

a. Statutory reserve

In accordance with the Commercial Companies Law and the parent company's Articles of Association, 10% of the profit for the year before directors fees, contribution to Kuwait Foundation for the Advancement of Sciences, and National Labour Support and Zakat. The parent company may discontinue such transfer when the reserve totals 50% of paid-up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the payment of dividend of that amount.

b. General reserve

In accordance with the parent company's Articles of Association, 10% of the profit for the year before directors fees, contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and Zakat has been transferred to the general reserve. The parent company may resolve to discontinue such annual transfers in accordance with a resolution of the parent company's ordinary general meeting based on proposal submitted by the parent company's board of directors.

16 Treasury Shares

	2007	2006
Number of shares	240,000	-
Percentage of issued shares	0.11%	-
Cost (KD)	27,618	-
Market value (KD)	36,960	-

The parent company has realised a profit of KD 8,523 on sale of treasury shares during the year, which has been shown as treasury share reserve. The balance in the Treasury share reserve account is not available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

17. Related Party Transactions

These represent transactions with certain parties (major shareholders, directors and executive officers of the parent company, close members of their families and companies of which they are principal owners or over which they are able to exercise significant influence) entered into by the group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the group's management.

The income and expenses in respect of related parties included in the consolidated income statement are as follows:

	2007	2006
Management fees	2,792	1,480

Compensation of key management personnel

The remuneration of key management personnel of the group during the year were as follows:

	2007	2006
	K.D.	K.D.
Short-term benefits	150,742	139,150
Employees' end of service benefits	15,679	15,086
	166,421	154,236

18 Segment Information

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment) which is subject to risks and rewards that are different from those of other segments. The majority of the group's assets and operations are in the real estate business and are located in the State of Kuwait. The segmental revenues earned by the assets and operation in business segment other than real estate and/or outside the State of Kuwait are immaterial.

19 Risk Management

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into interest rate risk and foreign currency risk. It is also subject to operating risks.

The Board of Directors are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

19 Risk Management (continued)

19.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Maximum exposure to credit risk

The group's policy is to enter into arrangements only with recognised, creditworthy third parties. The maximum exposure with respect to credit risk arising from financial assets of the company, which comprise bank balances and cash, fixed deposits and receivables, is equal to the carrying amount of these instruments as shown in notes 6 and 8.

Risk concentrations of the maximum exposure to credit risk

The maximum credit exposure to any client or counterparty as of 31 December 2007 was KD 3,704,030 (2006: KD 1,479,318).

The group's receivable is to clients located in Kuwait.

Collateral and other credit enhancements

The group does not hold any collateral.

Credit quality for class of financial assets

Neither internal credit grading system nor external credit grades are used by the group to manage the credit quality of receivables. Receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant.

19.2 Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Liquidity requirements are monitored on a regular basis and the directors ensure that sufficient funds and borrowing lines are available to meet any commitments as they arise. The group is not significantly exposed to liquidity risk as it has no borrowings or significant liabilities.

19.3 Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

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At 31 December 2007

19 Risk Management (continued)

19.3 Market risk (continued)

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and the directors' estimate of long and short term changes in fair value.

19.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The group does not have any borrowings and has a fixed deposit with a maturity within 3 months, and holds non-interest bearing bank balances. Consequently the group is not exposed to interest rate risk.

19.3.2 Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The group is not exposed to foreign exchange risk as its assets and liabilities are denominated in the reporting currency.

19.3.3 Equity price risk

Equity price risk is the risk that the fair values of equity investments decrease as a result of the changes in the level of equity indices and the value of the individual stocks.

The effect of a change in the fair value of the equity instruments held as investments carried at fair value through income statement at 31 December 2007 due to a reasonable possible change in the equity indices, with all other variables held as constant, is as follows:

	% change in equity price	2007 Effect on income statement K.D. 000s	2006 Effect on income statement K.D. 000's
Market indices			
Kuwait Stock Exchange	+5	39	22

20 Proposed Distribution

For the year ended 31 December 2007, the parent company's Board of Directors has proposed a bonus share of 8% (2006: 7.5%) of paid up capital as of 31 December 2007 amounting to KD 1,720,000 (2006: KD 1,500,000). The proposed distribution is subject to the approval of the shareholders at the Annual General Assembly Meeting.

21. Fair Value Of Financial Instruments

Except for the available for sale investments carried at cost (Note 9), in the opinion of the parent company's directors the carrying amounts of financial assets and liabilities as at 31 December 2007 approximated their fair values.

22 Commitments And Contingencies

The group has commitments in respect of future capital expenditure amounting to KD Nil (2006: KD 1,494,639) relating to capital work in progress.

23 Fiduciary Assets

The aggregate value of assets held in a trust or fiduciary capacity by the group at 31 December 2007 amounted to KD Nil (2006: 2,891,400).

24 Capital Management

The group's objectives regarding capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders value.

The group manages its capital structure and makes adjustments to it in light of changes in business conditions. The group's strategy is unchanged from last year.

Capital is calculated as equity, as shown in the consolidated balance sheet and amounts to KD 25,860,070 (2006: KD 24,045,232).