# Annual Report 2007

صكوك
SOKOUK

شركة صكوك القابضة ش.م.ك.م

Sokouk Holding Company K.S.C.C

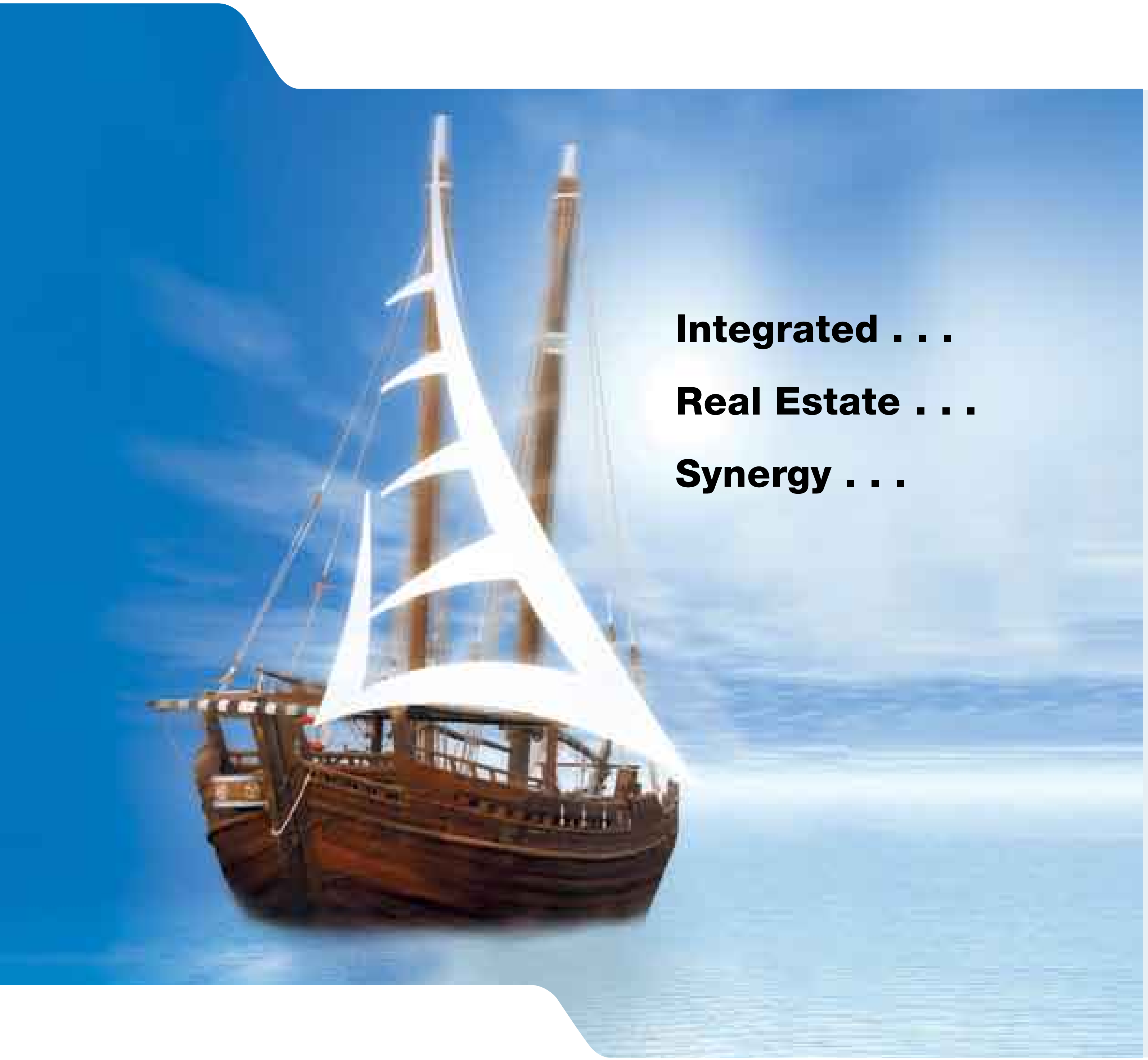
*“And whosoever fears of God and keeps his duty to Him, He will make a way for him to get out (from every difficulty), and He will provide him from (sources) he never could imagine, and whosoever puts his trust in God, then He will suffice him. Verily, God will accomplish his purpose”.*

Surah: 65, 2-3

H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh Nawaf Al-Ahmad Al-Sabah
Crown Prince of the State of Kuwait

H.H. Sheikh Naser Al-Mohammad Al-Sabah
Prime Minister of the State of Kuwait



**Integrated . . .**

**Real Estate . . .**

**Synergy . . .**



صكوك العقارية
SOKOUK REAL ESTATE

بيت المال الخليجي
Gulf Money House Co.

بيت الإعمار الخليجي
Gulf Development House

منشآت
قيمة متنامية

MAS
شركة مساس العالمية
Mas International Co.
الرائدة في التسويق العقاري

تداول

قطاف
Q I T A F

SIA SOKOUK INVESTMENT ADVISORY
Cayman Island

صكوك
S O K O U K
شركة صكوك القابضة ش.م.ك.م
Sokouk Holding Company K.S.C.C

Establish date 23 August 1998

Paid-up Capital
KD 100,000,000

Divided into
1,000,000,000 shares

Nominal value per share 100 Fils

# Contents

# The Company's Mission

We are committed to become a leading real estate investment group at the regional level in terms of maximizing the wealth of our shareholders. We always seek to do only whatever we can do best, following the best professional practices. We identify and pursue the acquisition of projects that give us competitive advantage, and expand our activities prudently and carefully in such fields as would enable us to employ our skills in order to gain added value for our companies by providing new products that would serve to augment that value. We take pride in our commitment to the noble values firmly rooted in our religion and deeply embedded in our heritage.



## The Board of Directors
Sokouk Holding Company K.S.C.C

Mr. Fawaz Sulaiman Al-Ahmed
Chairman

Mr. Feras Fahed Al-Bahar
Vice Chairman

Mr. Abdulrahman Abdullah Al-Kooheji
Board Member

Mr. Ahmed Ghazi Al-Omani
Board Member

Mr. Abdulsamad Haji Mohamed
Board Member

# Chairman's Statement

# Chairman's Statement

Mr. Fawaz Sulaiman Al-Ahmed
Chairman

***Thanks be to Allah and prayer and peace be upon Allah's Messenger.***

It gives me a great honor, in the name of the Board of Directors, to present the annual report and audited financial statements of Sokouk Holding Company, for the year 2007, the year that witnessed a substantial progress by the company in setting up the infra-structure for implementing the strategy it has more recently adopted. Today, Sokouk Holding Company and its subsidiary and affiliate companies stand ready to go proceed with implementing its strategy of becoming a major specialized real estate conglomerate at the regional level.

## Investment Expansion and Increasing the Capital

Since 2004, Sokouk has been operating with a fully-paid up capital of KD 30 million. In view of the expansion of its activities, it has now become a holding company that enjoys the support and blessing of its shareholders, and against a background of local and regional challenges in many fields, mainly in the real estate investment sector. In order to achieve further expansion that would only promote the interests of the shareholders, the general assembly approved on 30 September 2007 the proposal made by the Board of Directors to increase the capital to KD 100 million. The increase was fully subscribed to by the existing shareholders during the period from 11 to 25 November 2007.

The increase of the Sokouk's capital to KD 100 million was prompted by several considerations, mainly the following:

- To diversity the company's investments by expanding its geographical reach and scope.
- To undertake local and foreign investments that would give the company a new regional dimension through its subsidiary and affiliate companies.
- To capitalize on the steady growth of the real estate market and increasing the company's market share.
- To acquire shares in effective companies that would help the company achieve its strategic objectives, mainly to acquire a 25% interest in Munshaat Real Estate Projects Company, which is listed on the Kuwait Stock Exchange and 15% in the Sokouk Exchange Center in the Kingdom of Bahrain.
- To maximize the returns on investment for the shareholders of the company and strengthen its financial position.

We would like to tank our honorable shareholders for ensuring the success of the subscription to the capital increase which was accomplished exclusively through our existing shareholders, which is a clear indication of their determination to ensure the success of the management's strategy of developing and strengthening the company's resources, expanding into new real estate markets, increasing its ability to compete in markets that require huge capital funds and promoting its readiness to seize suitable real estate investment opportunities.

It is worth mentioning that Sokouk Holding Company, through its subsidiary and affiliate companies, works steadily toward establishing a fully integrated real estate conglomerate that would strengthen its dominant position with regard to vital projects at the Arab and global levels. To this end, the company acquired influencing shares in each of Munshaat Real Estate Projects and Company and MAS International Company. Munshaat undertakes huge real estate development projects that match its real size in this sector, while continuing to carry out a number of world-class projects at the regional and global levels. Foremost among these projects are the Zamzam Tower Project, one of Mecca's Towers in the project of the King Abdulaziz Foundation in the holy city, and the Dar Al-Qiblah Project in Al-Madinah, which is currently being constructed. These projects are implemented by using Sokouk utilization rights marketed by MAS International Company through a smart and effective marketing scheme designed for this new kind of Islamic securities in order to enable it to penetrate the world markets. Having acquired these interests, Sokouk Holding Company now has leading real estate investment and marketing arms that led to its forging strategic alliances with a number of leading real estate companies. We have every reason to expect achievement of further growth and expansion for our group during the coming period.

**Strategic Focus**

One of Sokouk Holding Company's main aspects of strength is its ability to identify future trends and improve its strategy in order to seize new opportunities, while distancing itself from undertaking activities in saturated markets where development has already peaked out. Over the past year, the company has focused on developing its new strategy by conducting a self-analysis process and undertaking a complete revision of its plans and operations, in participation with its main shareholders. The results of that process provided the platform for the company's subsequent expansion drive that aims to acquire shares in companies which enjoy specific experience and steady growth in the local and regional markets in the field of acquiring new projects at the regional levels.

Today, the company focuses on rapidly growing sectors and avoid involvement with slow growing sectors. As we continue to pursue our new objectives, we will focus on the emerging markets of the region as part of a geographical drive that covers the Gulf region and areas in North and Central Africa and South East Asia, while keeping an eye on attractive opportunities in Southern and Eastern Europe on the medium term.

**Financial Performance**

The financial performance in the year ended 31 December 2007 reflects the present stage of the company as was experienced during 2007. Net profit amounted to KD 6.2 million, compared to KD 8.5 million for the previous year. This is due to the fact that capital increase was not benefited from during the year, for it was paid in full at the end of 2007, and the clear impact was a doubling of the assets of the company and shareholders' equity. Total assets stood at KD 173 million on 31 December 2007 against KD 83 million at the end of 2006, with an increase of 109%, and shareholders' equity increased by 196.5%, from KD 45 million in 2006 to KD 134 million at the end of 2007. Earnings per share reached to 14.06 Fils compared to 23.52 Fils in 2006. We are confident that the company is capable of optimizing its financial performance during the coming years.

In conclusion, and in the name of the board of directors, I would like to thank our partners, shareholders, customers and employees for their continued support and trust, and look forward to meet the challenges and reap the results of our success in the year 2008, if Allah wills.



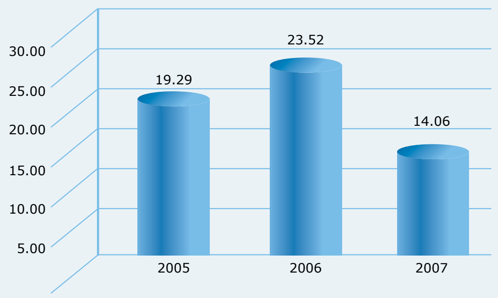
# Report of the Executive Management

# Report of the Executive Management

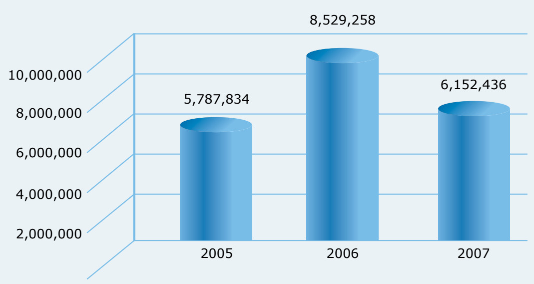
## Financial Performance

The financial performance in the year ended 31 December 2007 reflects the present stage of the company as was experienced during 2007. Net profit amounted to KD 6,152,436 and total assets stood at KD 173,008,523 compared to KD 82,700,692 as at 31 December 2006, with an increase of 109%. Shareholders' equity rose by 196.5%, from KD 45,197,138 in 2006 to KD 134,035,103 at the end of 2007. Earnings per share 14.06 Fils compared to 23.52 Fils in 2006.

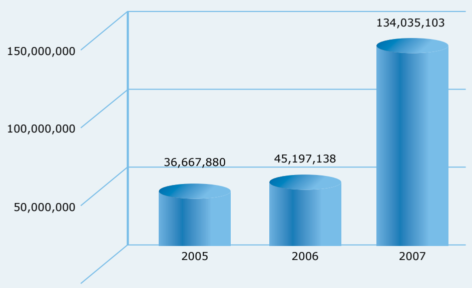
EPS (Fils)



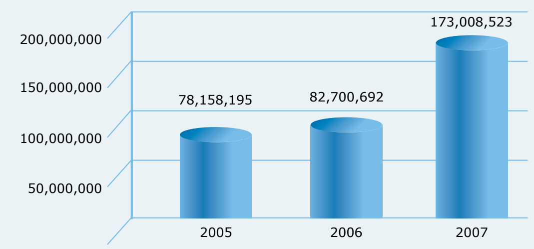

Net Profit for the Year (KD)




Total Shareholders Equity (KD)



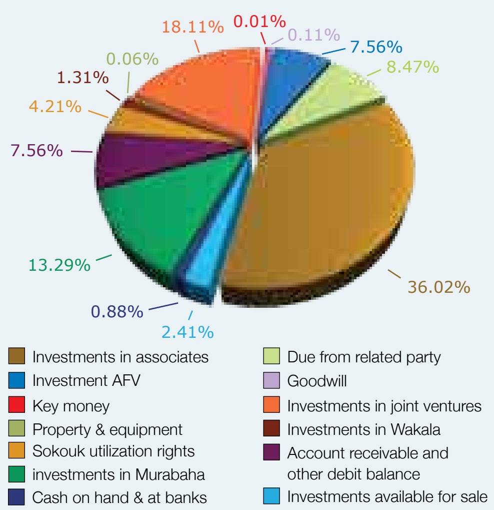

Total Assets (KD)



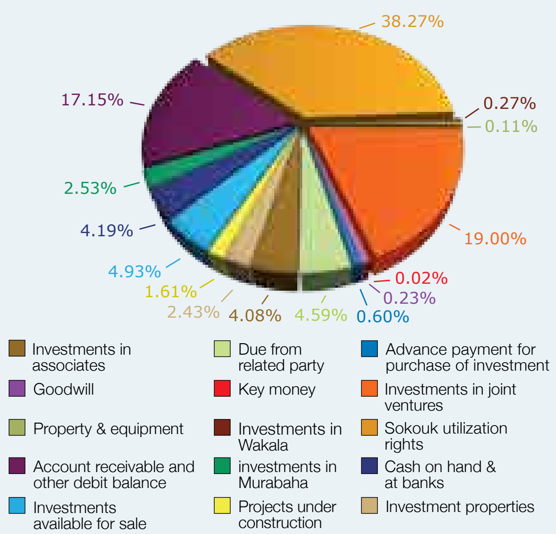

## Development of the Company's Assets

Assets grew by 109% during 2007, and stood at KD 173 million at the end of the year. The company's policy in diversifying and increasing its investments, both direct and indirect, have had a market effect on the structure of its assets. For example, investments in Sokouk utilization rights accounted for 4% of total assets during 2007 against 38% in 2006. The company made short and medium term investments in the form of investment morabaha deals for KD 23 million in 2007, representing 13% of total assets during the year, compared to 3% in 2006, while direct investments in affiliate companies increased to form a bigger portion of the company's assets in line with the company's new strategy of relying on steady-growth companies which will play a major role in achieving the company's future objectives. The increase in the assets was mainly financed by increasing the company's capital during the year in order to achieve its goal of maximizing the return on investment for its shareholders. This policy seeks to minimize risk exposure and ensuring that financing decisions are taken strictly within an optimum funding structure that regulates the shareholders' wealth and reduces the cost of capital. For this purpose the company takes into consideration the relationship between the risk profile and the expected rise in the share price in all its financing decisions.

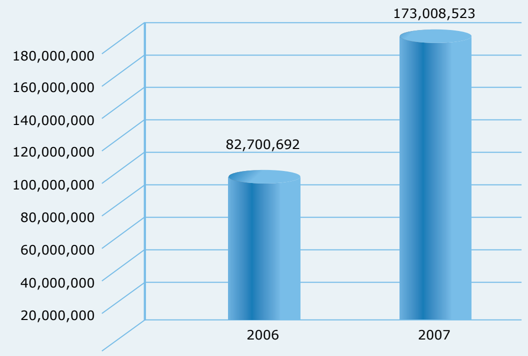
Assets Classification 2007




Assets Classification 2006




Average growth of the companies assets: 109%

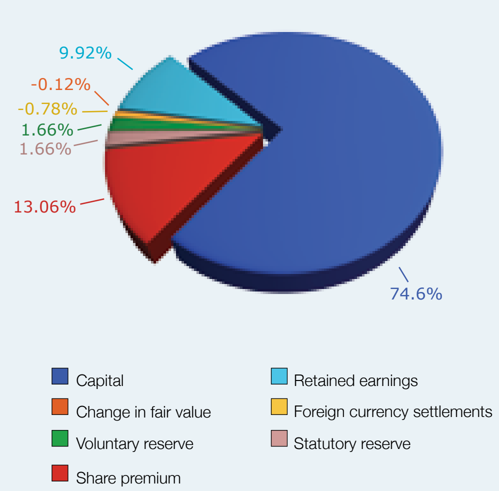


# Report of the Executive Management

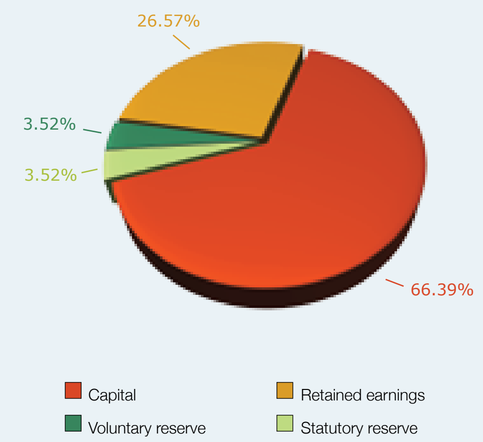
## Development of the Shareholders' Equity

Shareholders' equity rose by 196.5% from KD 45,197,138 in 2006 to KD 134,035,103 in 2007. This is mainly attributed to a 233.33% increase in capital, for the company raised its capital from KD 30 million to KD 100 million during the year, in addition to a premium that totaled KD 17.5 million. The shareholders' equity was negatively impacted by certain variables, for the amount of the negative change in the foreign currency value of investments available for sale amounted to KD 166,810 and that of the change in the fair value was KD 1,047,661.

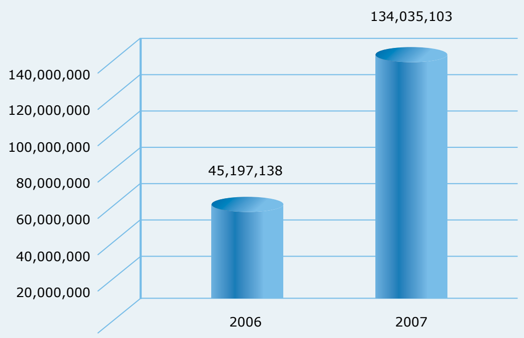
Shareholder Equity 2007




Shareholder Equity 2006




Average growth of shareholders equity: 109%






## Development of the Company's Internal Network

Sokouk Holding Company seeks to build up and modernize its internal system and structure in order to be able to face challenges and achieve time savings in completing assignments and realizing its objectives through a strong structure of human, technical and managerial resources that would enable it to do so.

### Human Resource Development

To enrich the company with talented and experienced human resources in various fields, particularly in the field of investment and collection, and with skilled technical, financial, accounting and legal resources that eventually had a very positive effect on its performance in the various specializations and activities, thereby building up an effective multi-discipline and integrated team which has become the company's most valuable resource.

### Developing the Information Technology Systems

This was achieved by identifying the internal procedures, controls and processes of the IT Department, developing the infra-structure for the infranet, upgrading the accounting systems, sale regulations and linking them to the infranet.

### Sharia and Legal Control of Transactions

Al-Raya Sharia Advisory Company performs the functions of Sharia supervisor and appointing a Sharia supervision panel for the company. The following distinguished persons have been appointed as members of the panel:

- Dr. Khaled Al-Mathkour
- Dr. Abdul Aziz Al-Qassar
- Dr. Essa Zaki
- Dr Anwar Shuaib

The panel carries on its duties by supervising the works of the company and providing Sharia advice. The office of Mishari Al-Ghazali Consulting and Legal Office is retained for providing legal advice for all legal aspects of the company's activities and deals. In view of the expansion of the company's activities, the work team is supported by a legal advisor whose duty is to follow up the finalizing of urgent matters, coordinating with the law offices and the Sharia Supervision Panel and following up the procedural aspects of the company's dealings.

# Report of the Executive Management
## Development of the Company's Internal Network

**Internal Control and Audit**

Howarth Al-Mohanna Office undertakes the internal audit and control functions of the company, and provides recommendations on the various procedures in order to ensure a smooth and proper progress of the financial operations on sound financial and legal bases, control the quick performance of administrative formalities, after reviewing all the by-laws and regulations and comparing them against the work applications. The company's Internal Follow up and Control Department follows up the implementation of the Office's recommendations.

**External Control and Audit**

The external auditors of the company are Al-Bazie and partners  and Al-Waha External Audit Bureau, who are in charge of conducting the external audit functions  preparing the data and financial reports.

**Developing the Financial and Accounting Systems**

The company has sought to develop its financial and accounting system with a view to ensure the integrity and accuracy of financial transactions related to Sales, collection, preparation of the balance sheets and accounting processes. An automated accounting system is used for financial management. This system is currently being linked to the collection and operations management system.



Sokouk Holding Company's
## Subsidiaries and Affiliates

### Sokouk Real Estate Company

Sokouk Real Estate Company KCSC was established in June 2006 with a capital of KD 5 million. Sokouk Holding Company is the major shareholder. The company's vision  is to attain leadership and specialization in high quality real estate projects in order to achieve added value for its investors and employees. It undertakes direct investments in present and future projects of the Group in order to achieve capital returns through restructuring them and offering them investors in the secondary market. The company trades in freehold real estates, develops and manages real estate investment portfolios and funds that are Sharia compliant and consistent with its articles of association.

## Gulf Money House Company

Established in March 2006, with a capital of KD 250,000, this is a Kuwaiti limited liability company in which Sokouk Holding Company is the major partner. Gulf Money House Company's main objective is to manage fund collections related to the credit sales of the portfolios owned by Sokouk Holding Company Group companies and other portfolios in the future in a step that the company is preparing for. The company develops collection systems and provides quality services in internal and external operations in order to cover the needs of investment and real estate companies in the areas of its operation.



Salmiya Hotel - One of Gulf Development House's Projects

## Gulf Development House

A Kuwaiti closed shareholding company with an authorized capital of KD 6 million of which KD 3million is paid up, Gulf Development House is 75% owned by Sokouk Holding Company, and is Sokouk's major arm for specialized real estate development business, in addition to real estate investment and trading projects, and managing real estate investment funds and portfolios. Gulf Development House is active in various real estate-related activities such as acquisition, development and sale or real estates in Kuwait. The company is currently building the Salmiya Hotel on an area 6000 square meters in Salmiya at the intersection of the Fahaheel Expressway and the Fourth Ring Road, which is a prime location very important for all the districts of Kuwait. The building will have a total floor area of 69,000 square meters covering the complete range of hotel services. The Hotel, whose estimated cost is around KD 36 million, will provide all services, restaurants, multi-purpose halls, a spacious banqueting and wedding ceremonies hall, a health and fitness club which will be managed by a specialized operator, a superb swimming pool of exquisite design, and other amenities, and will yield a good return on investment. The hotel will consist of 24 floors, including 3 basement floors, a ground floor, two mezzanine floors, and 18 floors of guest rooms. There will be more than 300 rooms, ranging from studios to hotel suits. The project will provide a parking area for 200 cars for the hotel guests.

The building of the project skeleton structure is almost completed now within the present, Phase 2, of the project. Many different works have already been awarded to specialized contractors in Kuwait, and special attention is being given to ensuring that the best is achieved in terms of design and quality. To this end, a world-famous hotel designer has been retained to develop the internal designs. At the end of 2007, the company signed a contract with Five Continents, the exclusive agents of Wyndham Corporation, one of the world's five largest hotel management chains, in order to manage the hotel for a period of ten years as a first class hotel. The project building, furnishing and operation as a four-star hotel is expected to be completed during the second half of 2009 and will operate under the name Ramada Plaza.

Dar Al-Qibla, Madina - One of Munshaat Real Estate Projects Company K.C.S.C.'s Projects

## Mushaat Real Estate Projects Company K.C.S.C.

Munshaat Real Estate Projects Company K.C.S.C. was established on 8 April 2003 with a capital of KD 28 million as at 31 December 2007. Sokouk Holding Company, Aref Investment Group and International Leasing and Investment Company are is major shareholders.

Munshaat's activity focuses on the local and international real estate sector. The company undertakes the development and management of real estate products and projects in an unconventional and professional manner, enabling it to occupy a prominent position in the field of real estate and investment through use of the best unconventional investment tools compliant with the provisions of the Sharia. Sokouk Holding Company owns 25% of the shares of Munshaat which is Sokouk's most important investment made during the year 2007.

Bakkah Tower, Makkah - One of Munshaat Real Estate Projects Company K.C.S.C.'s Projects

**Activity of the Company**

Munshaat's Real Estate Projects Company's activity focuses on the local and international real estate sector. The company undertakes the development and management of real estate products and projects in an unconventional and professional manner and in unconventional markets, through use of the best unconventional investment tools compliant with the provisions of the Sharia. This has positioned Munshaat, over the short period since its establishment, as a leader among global companies that operate according to the Sharia.

Munshaat creates and manages real estate investment funds, provides advisory services to real estate projects, supervises project construction and development, establishes local and regional companies that serve the objectives and strategic plans of the company in order to achieve the desired degree of investment integration and diversification, acquires shares in real estate companies and participates in investment projects through B.O.T. arrangements.

Munshaat possesses a growing wealth of cumulative experience in innovating and developing value-added investment tools and products, thereby qualifying to occupy a leading position in the field of real estate and investment.



**The Company's Projects**

***1- Zamzam Tower in Makkah***

**Location:** Makkah, Kingdom of Saudi Arabia. This is one of the towers of Al-Beit Towers Compound located within the Holy Mosque squares in Makkah, facing the King Abdulaziz Gate.

**The value of the investment:** US $ 390 million.

**Project operation:** The project operation during the month of Ramadan 1427 AH (September 2006) for 24 Higera years under the management by the international company ACCOR which is specialized in hotel management and operation.

**Units of the project:** The tower consists of 33 floors and contains 1314 residential units of the following categories: studio, mini-suite, large suite 1, large suite 2, Amiri suite and Royal suite, most of which overlooks the Holy Mosque of Mecca.

**Benefiting from the tower units:** According to the Sokouk utilization rights system.

***2- Dar Al-Qibla in Madina***

| | |
|---|---|
| **Location:** | Madina, Kingdom of Saudi Arabia, 150 meters from the Prophet’s Holy Mosque. The project was concluded as a BOT project for period of 24 Hijri years. |
| **The value of the investment:** | US $ 180 million. |
| **Project operation:** | The project operation is expected to start in 1430 AH, the beginning of 2009 AD. The project will be managed and operated by an international company specialized in hotel management and operation, for a period of 20 Hijri years. |
| **Units of the project:** | The project consists of 835 residential units. It is designed in according to an architectural style that matches the location and the holy city of Madina. The suites and furniture have five-star quality furniture. The Dar Al-Qibla project contains more than 170 shops on the first floor and 162 shops on the mezzanine floor. |

***3- Bakkah Tower, Makkah***

| | |
|---|---|
| Location: | Makkah, Kingdom of Saudi Arabia, directly overlooking the squares of the Holy Makkah Mosque, at a distance of 50 meters from the King Abdulaziz Gate. |
| The value of the investment: | US $ 86 million. |
| Project operation: | The project operation is expected to start in 1430 AH, corresponding to 2009 AD. Management will be entrusted by world-class company specialized in hotel management and operation for twenty Hijri years. |
| Units of the project: | The project consists of 230 residential units. |

***4- “Al-Mehrab Tower” Company, REIT***

Munshaat owns about 17% of its shares.

Al-Mehrab Company REIT owns Al-Mehrab Tower, one of Al-Safwa residential and commercial project towers.

| | |
|---|---|
| Location: | Makkah, Kingdom of Saudi Arabia, directly overlooking the squares of the Holy Makkah Mosque, at a distance of 50 meters from the King Abdulaziz Gate. |
| The value of the investment: | US $ 93 million. |
| Project operation: | The project operation is expected to start in 1430 AH, corresponding to 2009 AD. Management will be entrusted by world-class company specialized in hotel management and operation for twenty Higera years. |
| Units of the project: | The project consists of 496 residential units. |

Zamzam Grand Suites, Makkah - One of MAS International Company's Projects

## MAS International Company

MAS International Company is a Kuwaiti company is a Kuwaiti limited liability company established in 2003 with a capital of KD 450,000 which has been increased in several stages to stand now at KD 3 million through a strategic alliance between Munshaat Real Estate Projects Company (60%) and Sokouk Holding Company (40%). MAS specializes in providing innovative high quality real estate marketing services, focusing on the sale and management of sokooks (Islamic securities). It is the marketing arm for the Sokouk utilization rights for many major projects whose marketing is undertaken by the company for a specific number of years.



**Main Activities and Objectives**

Marketing of all real estate services and solutions.

**Projects and Achievements of MAS International Company during the Current Period:**

**1- Zamzam Grand Suites, Makkah**

MAS current markets and sells Sokouk utilization rights for Zamzam Tower in Makkah, one of Al-Beit Towers. The tower overlooks the Holy Mosque in Makkah and has five different classes of hotel suits that sit all tastes and needs. It has 1314 hotel suits in 33 floors.

## Sukouk Exchange Center

تداول
TADAWUL

The center is an Islamic investment bank established in the Kingdom of Bahrain with an authorized capital of US Dollars 500 million, of which US$ 200 million is paid up. Sokouk Holding Company holds 15% of the company's shares. It is the region's largest investment bank specializing in dealing in Sokouk, and is the result of a strategic alliance among International Leasing and Investment Companies, Aref Investment Group, Kuwait Investment Company, Islamic Development Bank and Qatar Islamic Bank). It specializes in the financial markets through the issuing of Islamic capital instruments, mainly Sokouk utilization rights, which is a benefit and direct investment tool. As such, it creates new markets at the regional and global levels. The establishment of Center was approved by the Central Bank of Bahrain in October 2006 and all the establishment formalities were completed and actual operation as an Islamic investment bank started in June 2007.



## Qitaf Pan GCC Real Estate Company

قطاف
QITAF

Qitaf Pan GCC Real Estate Company is a special purpose company that was established in the Cayman Islands for the purpose of real estate investment in the GCC countries, acting through various sectors in the field of real estate development.

Established with a capital of  US $ 100 million for the purpose of investing in a diversified real estate portfolio focusing on the GCC countries, the company is supported by a specialized team of real estate investment professionals. Qitaf Pan GCC Real Estate Company succeeded in obtaining a number of vital real estate projects in the GCC countries during a record short time. These projects provide an excellent opportunity to develop the company's capital and are associated with a number of high quality income-generating opportunities and projects.

## Sokouk Investment Advisory Company

Sokouk Investment Advisory Company's main activity is to provide advisory services to Sokouk Holding Company and its subsidiary companies.

A wholly-owned subsidiary of Sokouk Holding Company, it receives full support and back-office services from the strength and resources of Sokouk Holding Company and its Group. Sokouk Investment Advisory Company was established in January 2006 as a limited liability company under the laws of the Cayman Islands, with a capital of US$ 50,000.



# The Shariah Supervisory Board Report

شركة الراية الدولية للاستشارات والتدريب
Al Rayah Int'l. Consulting & Training

**The Sharia Report of Sokouk Holding Company**

In the name of Allah the merciful,

We, Al Raya Int'l Consulting & Training, confirm that we have verified all applied principles and relevant contracts pertaining to all transactions carried out by Sokouk Holding Company for the financial year ending in 31/12/2007. We have performed all relevant assessments and given the appropriate guidance to ensure whether or not the company's activities comply with the Sharia principles, and which also eliminate the Company from participating in all Non-Sharia activities and profits.

Through our Sharia Management, we have revised the Company's transactions, by reviewing both the contracts and the procedures being implemented.

Al Raya Int's Consulting & Training concludes the following:

1. All transactions and business matters executed by the company during the financial year ending in 31/12/2007 have been conducted in accordance with the Sharia principles.
2. Profit distributions and sustained losses in investment accounts adhere to the Sharia Principles.
3. We would like to indicated that the Company does not implement Zakat payments on its shares, the Zakat is to be borne by the shareholders and the owners.

We seize this opportunity to express our gratitude and appreciation to the Company's Management for its collaboration and compliance with Al Raya Int'l Consulting and Training and it Sharia Management, and also, we would like to express our high regards to all the Company's shareholders and clientele.

**Regards,**

**Dr. Abdul Aziz Khalifa Al Qassar**
**Chairman of the Sharia Committee**

**Dr. Issa Zaki Issa**
***Shaira Committee Member***

**Dr. Anwar Shuaib Al-AbdullSalam**
***Shaira Committee Member***

الكويت – المرقاب – شارع السور – برج جاسم العصفور – الدور السابع – تلفون: ٢٩٦٠٥٥٥ فاكس: ٢٩٦٠٥٥٦
Kuwait - Al Mirqab - Al-Sour Street - Jassam Al Asfour Tower - 7th Floor - Tel: 2960555 - Fax: 2960556
Email: alrayaconsultant@yahoo.com

# CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2007**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

AL-WAHA
AUDITING OFFICE
ALI OWAID RUKHAEYES

Member of The International Group of Accounting Firms

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

Albazie & Co.
Member of RSM International
Public Accountants
Kuwait Airways Building, 7th Floor
Shuhada Street, P.O. Box 2115 Safat
13022 – State of Kuwait
T + 965 2410010
F + 965 2412761
www.albazie.com

# INDEPENDENT AUDITORS' REPORT

The Shareholders
Sokouk Holding Company
Kuwaiti Shareholding Company (Holding)
State of Kuwait

## Report on the financial statements

We have audited the accompanying consolidated financial statements of Sokouk Holding Company - Kuwaiti Shareholding Company (Holding) (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 statement of the associate Munshaat Real Estate Projects Co. K.S.C (Closed). The investment in the associate and the share of results from that associate constitute 28.98% and 1.25 % of the respective consolidated assets and revenues. The financial statements of the above mentioned associate for the year ended December 31, 2007 were audited by other auditors and our opinion in so far as it relates to the amounts included in the consolidated financial statements related to this associate is based solely on the report of the other auditors.

## Management's responsibility for the 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 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 auditor's 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 report of other auditors, is sufficient and appropriate to provide a basis for our audit opinion of the consolidated financial statements.

AL-WAHA
AUDITING OFFICE
ALI OWAID RUKHAEYES

Albazie & Co.
Member of RSM International

**Opinion**

In our opinion and based on the report of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Sokouk Holding Company - Kuwaiti Shareholding Company (Holding) 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 stocktaking 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.

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

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

State of Kuwait
February 19, 2008



## SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEET
## DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

| ASSETS | Note | 2007 | 2006 |
|---|---|---|---|
| Cash on hand and at banks | | 1,524,732 | 3,465,760 |
| Investments at fair value through income statement | 3 | 13,075,514 | - |
| Accounts receivable and other debit balances | 4 | 13,081,605 | 14,184,061 |
| Sokouk utilization rights | 5 | 7,284,200 | 31,650,632 |
| Due from related parties | 6 | 14,649,812 | 3,795,702 |
| Investments in Murabaha | 7 | 23,000,000 | 2,095,250 |
| Investments in Wakala | 8 | 2,261,938 | 219,267 |
| Investment in associates | 10 | 62,316,346 | 3,371,330 |
| Investment in joint ventures | 11 | 31,334,141 | 15,711,905 |
| Investments available for sale | 9 | 4,172,707 | 4,080,126 |
| Advance payment for purchase of investments | 12 | - | 492,998 |
| Investment properties | 13 | - | 2,005,888 |
| Project under construction | 14 | - | 1,335,000 |
| Property and equipment | 15 | 109,028 | 88,273 |
| Key Money | | 10,500 | 16,500 |
| Goodwill | | 188,000 | 188,000 |
| Total assets | | 173,008,523 | 82,700,692 |
| **LIABILITIES AND EQUITY** | | | |
| Liabilities: | | | |
| Accounts payable and other credit balances | 16 | 725,784 | 560,905 |
| Due to related parties | 6 | 11,635,608 | 16,535,590 |
| Murabaha payable | 17 | 25,673,758 | 19,511,358 |
| Provision for end of service indemnity | 18 | 69,242 | 39,828 |
| Total liabilities | | 38,104,392 | 36,647,681 |
| Equity: | | | |
| Capital | 19 | 100,000,000 | 30,000,000 |
| Share premium | 20 | 17,500,000 | - |
| Statutory reserve | 21 | 2,229,106 | 1,593,017 |
| Voluntary reserve | 22 | 2,229,106 | 1,593,017 |
| Foreign currency translation adjustments | | (1,047,661) | - |
| Cumulative changes in fair value | | (166,810) | - |
| Retained earnings | | 13,291,362 | 12,011,104 |
| Total equity attributable to parent company's shareholders | | 134,035,103 | 45,197,138 |
| Minority interest | | 869,028 | 855,873 |
| Total equity | | 134,904,131 | 46,053,011 |
| Total liabilities and equity | | 173,008,523 | 82,700,692 |

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

Fawaz S. Al-Ahmed
Chairman

Firas F. Al-Bahr
Vice Chairman

## SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF INCOME
## FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

| | Note | 2007 | 2006 |
|---|---|---|---|
| Operating revenue | 23 | 29,795,591 | 65,960,561 |
| Operating cost | 23 | (23,622,177) | (62,454,737) |
| Gross profit | | 6,173,414 | 3,505,824 |
| Other operating income | 24 | 2,354,229 | 4,330,873 |
| Expenses and charges: | | | |
| General and administrative | 25 | 1,543,499 | 1,199,335 |
| Depreciation and amortization | | 48,063 | 35,187 |
| | | 1,591,562 | 1,234,522 |
| Operating profit | | 6,936,081 | 6,602,175 |
| Gain on sale of investment in subsidiary | | - | 1,887,089 |
| Investments income | 26 | 93,894 | 519,053 |
| Share of results from associates | 10 | 589,104 | 371,330 |
| Share of results from joint ventures | 11 | (98,650) | 578,292 |
| Gain from investments in Murabaha | | 83,010 | 48,209 |
| Gain from investments in Wakala | | 82,986 | - |
| Gain on sale of investment property | 13 | 200,065 | - |
| Finance charges | | (1,954,241) | (886,180) |
| Foreign currency exchange gain (loss) | | 534,139 | (43,204) |
| Profit for the year before contribution to Zakat, Kuwait Foundation for the Advancement of Sciences , National Labor Support Tax and Board of Directors' remuneration | | 6,466,388 | 9,076,764 |
| Contribution to Kuwait Foundation for the Advancement of Sciences | 28 | - | (61,017) |
| National Labor Support Tax | 29 | (148,449) | (355,917) |
| Board of Directors' remuneration | 30 | (60,000) | (60,000) |
| Net profit for the year | | 6,257,939 | 8,599,830 |
| Attributable to : | | | |
| Parent company's shareholders | | 6,152,436 | 8,529,258 |
| Minority interest | | 105,503 | 70,572 |
| Net profit for the year | | 6,257,939 | 8,599,830 |
| | | Fils | Fils |
| Earnings per share attributable to the parent company's shareholders | 31 | 14.06 | 23.52 |

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



## SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

| | Attributable to the parent company's shareholders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Share premium | Statutory reserve | Voluntary reserve | Foreign currency translation reserve | Cumulative changes in fair value | Retained earnings | Total equity attributable to the parent company's shareholders | Minority interest | Total |
| Balance at December 31, 2005 | 30,000,000 | - | 692,398 | 692,398 | - | - | 5,283,084 | 36,667,880 | 3,750,010 | 40,417,890 |
| Net profit for the year | - | - | - | - | - | - | 8,529,258 | 8,529,258 | 70,572 | 8,599,830 |
| Total recognized income for the year | - | - | - | - | - | - | 8,529,258 | 8,529,258 | 70,572 | 8,599,830 |
| Transfer to reserves | - | - | 900,619 | 900,619 | - | - | (1,801,238) | - | - | - |
| Due to disposal of a consolidated subsidiary | - | - | - | - | - | - | - | - | (2,964,709) | (2,964,709) |
| Balance at December 31, 2006 | 30,000,000 | - | 1,593,017 | 1,593,017 | - | - | 12,011,104 | 45,197,138 | 855,873 | 46,053,011 |
| Change in fair value | - | - | - | - | - | (166,810) | - | (166,810) | - | (166,810) |
| Foreign currency translation adjustments | - | - | - | - | (1,047,661) | - | - | (1,047,661) | - | (1,047,661) |
| Net loss recognised directly in equity | - | - | - | - | (1,047,661) | (166,810) | - | (1,214,471) | - | (1,214,471) |
| Net profit for the year | - | - | - | - | - | - | 6,152,436 | 6,152,436 | 105,503 | 6,257,939 |
| Total recognized (loss) income for the year | - | - | - | - | (1,047,661) | (166,810) | 6,152,436 | 4,937,965 | 105,503 | 5,043,468 |
| Rights issue – 233.34% | 70,000,000 | 17,500,000 | - | - | - | - | - | 87,500,000 | - | 87,500,000 |
| Transfer to reserves | - | - | 636,089 | 636,089 | - | - | (1,272,178) | - | - | - |
| Cash dividend (subsidiary) | - | - | - | - | - | - | - | - | (92,348) | (92,348) |
| Cash dividend (Note 35) | - | - | - | - | - | - | (3,600,000) | (3,600,000) | - | (3,600,000) |
| **Balance at December 31, 2007** | **100,000,000** | **17,500,000** | **2,229,106** | **2,229,106** | **(1,047,661)** | **(166,810)** | **13,291,362** | **134,035,103** | **869,028** | **134,904,131** |

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

## SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

| | 2007 | 2006 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit for the year before contribution to Zakat, KFAS, NLST and Board of Directors' remuneration | 6,466,388 | 9,076,764 |
| Adjustments for: | | |
| Depreciation and amortization | 48,063 | 35,187 |
| Gain on sale of investment in subsidiary | - | (1,887,089) |
| Investments income | (93,894) | (519,053) |
| Group's share of results from associates | (589,104) | (371,330) |
| Group's share of results from joint ventures and elimination of profit on intercompany transactions | 2,252,594 | (578,292) |
| Gain from investments in Murabaha | (83,010) | (48,209) |
| Gain from investments in Wakala | (82,986) | - |
| Gain on sale of investment properties | (200,065) | - |
| Finance charges | 1,954,241 | 886,180 |
| Provision for end of service indemnity | 53,976 | 38,114 |
| | 9,726,203 | 6,632,272 |
| Changes in operating assets and liabilities: | | |
| Sokouk utilization rights | 24,366,432 | 12,944,615 |
| Accounts receivable and other debit balances | 1,102,456 | 19,371,283 |
| Due from related parties | (10,247,817) | (2,466,807) |
| Accounts payable and other credit balances | 606,446 | 114,960 |
| Due to related parties | (4,209,117) | (34,599,523) |
| Cash generated from operations | 21,344,603 | 1,996,800 |
| Payment of KFAS | (64,817) | (51,964) |
| Payment of NLST | (225,155) | (130,762) |
| Payment for end of service indemnity | (24,562) | (25,775) |
| Net cash generated from operating activities | 21,030,069 | 1,788,299 |
| **Cash flows from investing activities:** | | |
| Net paid for investments in Murabaha | (20,894,720) | (2,095,250) |
| Net paid for investments in Wakala | (2,000,000) | (219,267) |
| Gain from investment in Murabaha received | - | 46,754 |
| Paid for purchase of investments at fair value through income statement | (13,000,000) | - |
| Paid for purchase of investments available for sale | (362,143) | (5,175,951) |
| Proceeds from sale of investments available for sale | 121,132 | 3,451,438 |
| Paid for purchase of investment in associates | (58,797,662) | (3,000,000) |
| Paid for purchase of investment in joint venture | (18,500,000) | (15,150,600) |
| Paid for purchase of investment in subsidiary | - | (2,600,000) |
| Proceeds from sale of investment in subsidiary | - | 7,500,000 |
| Paid for acquisition of investment properties | - | (1,164,500) |
| Proceeds from sale of investment properties | 2,205,953 | - |
| Advance payments for purchase of investments | - | (392,998) |
| Paid for project under construction | - | (17,950) |
| Proceeds from sale of project under construction | 1,335,000 | 1,165,000 |
| Paid for purchase of property and equipment | (62,818) | (53,337) |
| Net cash used in investing activities | (109,955,258) | (17,706,661) |



## SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTD.)
## FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

| | 2007 | 2006 |
|---|---|---|
| **Cash flows from financing activities:** | | |
| Proceeds from rights issue | 87,500,000 | - |
| Proceeds from murabaha payables | 3,536,553 | 18,758,729 |
| Finance charges paid | (360,044) | (886,180) |
| Cash dividend paid | (3,600,000) | - |
| Cash dividend paid (subsidiary) | (92,348) | - |
| Net cash generated from financing activities | 86,984,161 | 17,872,549 |
| Net (decrease) increase in cash on hand and at banks | (1,941,028) | 1,954,187 |
| Cash on hand and at banks at the beginning of the year | 3,465,760 | 1,511,573 |
| Cash on hand and at banks at the end of the year | 1,524,732 | 3,465,760 |

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

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

1. Incorporation and activities

Sokouk Holding Company – Kuwaiti Shareholding Company (Holding) "the parent company", (previously known as Sokouk Real Estate Development Company – Kuwaiti Shareholding Company (Closed) and prior before as Al-Wasta Real Estate Development Company – Kuwaiti Shareholding Company (Closed)), is registered in the State of Kuwait and was incorporated and authenticated at the Ministry of Justice – Real Estate Registration and Authentication Department under Ref. No. 1909/Volume 1 on August 23, 1998 and registered on commercial register under Ref. No. 74323 dated August 29, 1998.

According to the memorandum issued by the Ministry of Commerce and Industry under Ref. No. 259/2005 dated August 29, 2005 and based on the extraordinary General Assembly held on August 28, 2005, it was approved and recorded in the commercial register the following:

1. Amending the 2nd item of the article of incorporation and the first item of the company's article of association to become as follows:

   The company's name is: Sokouk Holding Company – Kuwaiti Shareholding Company (Holding).

2. Amending the 5th item of the article of incorporation and the 4th item of article of association attributable to main activities of the company would be as follows:

   1. Ownership of shares of Kuwaiti or foreign shareholding companies or units in Kuwaiti or foreign limited liability companies, or establishing, managing, financing and sponsoring such companies.
   2. Financing and sponsoring entities in which the Company has an ownership interest of not less than 20% of those entities.
   3. Owning industrial rights such as patents, industrial trademarks, sponsoring foreign companies or any other related industrial rights and leasing such rights for the benefit of companies inside or outside the State of Kuwait.
   4. Ownership of movable assets or real estates required to pursue the Company's activities within the limits acceptable by law.
   5. Utilizing available surplus funds by investing these funds in portfolios managed by specialized parties.

The Company shall have the right to have an interest or to take part in any manner with the authorities that practice similar operations, or that may help the Company to achieve its objectives inside and outside Kuwait. The Company shall also acquire these authorities or merge them with the Company. The objectives for which the Company was established shall be practiced according to Islamic Shari'a, and the Company shall not analyze the above objectives as it allows the Company directly or indirectly to deal in usury in the form of interest or any other form.

The parent company's registered address is P.O. Box 29110 Safat – Postal code 13152 - State of Kuwait.

The parent company was listed on Kuwait Stock Exchange on December 27, 2005.





SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

The Group's number of employees is 33 employees as at December 31,2007 (2006 - 26 employees).

The consolidated financial statements were authorized for issue by the Board of Director's on February 19, 2008. The shareholders' General Assembly has the power to amend the 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 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 stated at their fair value. The accounting policies applied by the Group are consistent with those used in the previous year .

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(u).

**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.

**Standards and Interpretations issued but not effective**

The following IASB Standard 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 capitalize 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 an equity-settled or cash-settled transaction.

b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of Sokouk Holding Company - Kuwaiti Shareholding Company (Holding) and the following subsidiaries:

| Subsidiaries | Country of incorporation | Percentage of holding % | |
|---|---|---|---|
| | | **2007** | 2006 |
| Gulf Real Estate Development House Co. K.S.C.C. | Kuwait | **75** | 75 |
| Sokouk Investment Advisory Company | Cayman Island | **100** | 100 |
| Sokouk Real Estate Co. – K.S.C.C. | Kuwait | **100** | 100 |
| Gulf Money House for Money Collection - W.L.L. | Kuwait | **100** | 100 |

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 alike 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 is able to make an additional investment to cover the losses.



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

c) Accounts receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective yield method, less provision for impairment. A provision for impairment of trade 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 are considered indicators that the trade 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 yield 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 within "general and administrative expense". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of income.

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.

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.

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 financial assets not carried at fair value through income statement.

After initial recognition, investment 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 income statement. 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 derecognised 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 the group :

(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 an 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 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) Sokouk utilization rights

Sokouk utilization rights represent Sokouks that are held by the group either for trading purposes or to keep as long term investment, and are stated at cost less impairment loss in value (if any).

f) Murabaha

Murabaha is an islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis.
Investments in murabaha is stated at amortized cost using the effective yield method.

g) Wakala

Wakala represents an agreement whereby the Group gives certain amount of cash to another party, and invests it according to specific conditions in return for certain fee.
Investments in wakala is stated at amortized cost using the effective yield method.

h) 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.

i) 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.

Where a Group undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the Group's financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of Group's interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

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 report 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 investment.

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.

j) Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at their fair value at the consolidated 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 off 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



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

k) Project under construction

Project under construction is valued at cost, which comprises those costs incurred by the group which are directly attributable to the construction of the asset.

l) Property and equipment

The initial cost of property and equipment 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 property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the 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 property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Property and equipment 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 a straight-line method over the estimated useful lives of these property and equipment as follows:

| | Years |
|---|---|
| Furniture and fixtures | 5 |
| Computer equipment & software | 3 |
| Office equipment | 5 |

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 property and equipment.

m) Key Money

Key money is stated at cost less accumulated amortization. Key money is amortized on a straight-line basis over 5 years.

n) Impairment of tangible and intangible assets excluding goodwill

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 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 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.

o) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investment in associates' in note 2(h).

Where there is an excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, the Group is required to reassess the identification and measurement of the net identifiable assets and measurement of the cost of the acquisition and recognize immediately in the consolidated statement of income any excess remaining after that remeasurement.



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

p) Accounts payable

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

q) Provision for 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.

r) Share capital

Ordinary shares are classified as equity.

s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of Sokouk and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

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.

**Sale of Sokouk**
Sales represent the total invoiced value of Sokouks sold during the year. Revenue from sale of Sokouks is recognized when the significant risks and rewards of ownership of Sokouk are transferred to the buyer.

**Wakala income**
Income of Wakala investment is accounted on a time proportion basis.

**Dividend income**
Dividend income is recognized when the group's right to receive payments is established.

**Rent**
Rental income is recognized, when earned, on a time apportionment basis.

**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.

t) 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 net profit or loss in the period in which they are incurred.

u) 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 "investment available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

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



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

(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.

**b) Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated 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 a financial asset 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 and inventories involves estimation process. Provision for doubtful debts is made when there is an 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 include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable are subject to management approval.

v) 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.

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the 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 income statement 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 the subsidiary 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 the consolidated income statement in the period in which the foreign operation 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.

w) Segment reporting

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 (geographical segment), which is subject to risks and returns that are different from those of other segments.

x) Financial instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash on hand and at banks, receivables, investments and payables. 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 buy the asset and settle the liability simultaneously.

y) 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.



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

3. Investments at fair value through income statement

| | 2007 |
|---|---|
| Funds – held for trading | 13,075,514 |

The movement during the year is as follows:

| | 2007 |
|---|---|
| Additions during the year | 13,000,000 |
| Change in fair value | 75,514 |
| Balance at the end of the year | 13,075,514 |

4. Accounts receivable and other debit balances

| | 2007 | 2006 |
|---|---|---|
| Trade receivables | 12,891,591 | 13,976,117 |
| Other receivables | 190,014 | 207,944 |
| | 13,081,605 | 14,184,061 |

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

Trade receivables are represented as follows:

| | 2007 | 2006 |
|---|---|---|
| **Current:** | | |
| Trade receivables | 3,114,003 | 3,245,478 |
| Deferred profit | (830,398) | (550,809) |
| | 2,283,605 | 2,694,669 |
| **Non current:** | | |
| Trade receivables | 11,295,972 | 11,986,701 |
| Deferred profit | (687,986) | (705,253) |
| | 10,607,986 | 11,281,448 |
| | 12,891,591 | 13,976,117 |

There is no impairment in the value of trade receivables as at December 31,2007.

The group preserve the deeds of the utilization rights that had been sold, as a guarantee of related amounts, and the deed is not transferred to the name of the buyer, until the settlement of the total amount.

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

5. Sokouk utilization rights

Sokouk utilization rights represent the subsidiary company's ownership of real estate sokouk in the Kingdom of Saudi Arabia. Sokouk are a certificate or deed that entitles its holder the right to utilize a specific real estate property for a specific duration of time per year over a determined number of years. This right is wholly owned by the Sokouk investor who is entitled to sell, grant, inherit or invest the Sokouk.

The movement during the year is as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance at the beginning of the year | 31,650,632 | 33,839,447 |
| Addition / sales return | 36,053 | 10,755,800 |
| Disposals | (24,402,485) | (12,944,615) |
| Balance at the end of the year | 7,284,200 | 31,650,632 |

During the year, the Group sold Sokouk utilization rights amounting to KD 22,921,441 for KD 30,379,723 to a joint venture resulting in a gain of KD 5,619,815 after eliminating intercompany profit (Note 11).

6. Related party balances and transactions

The Group has entered into various transactions with related parties, i.e. shareholders, key management personnel, associates, joint ventures and other related parties in the normal course of its business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. Significant related party transactions and balances are as follows:

| | 2007 | 2006 |
|---|---|---|
| **Assets:** | | |
| Due from associates | 3,160,251 | 2,786,695 |
| Due from joint ventures | 2,064,330 | 888,248 |
| Due from principal shareholders | 9,400,000 | - |
| Due from other related parties | 25,231 | 120,759 |
| Total due from related parties | 14,649,812 | 3,795,702 |
| Purchase of investment in associates | 58,797,662 | - |
| Investments in Murabaha | - | 2,095,250 |
| Investments in Wakala | 2,261,938 | 219,267 |

| **Liabilities:** | 2007 | 2006 |
|---|---|---|
| Due to associates | 11,631,486 | 296,196 |
| Due to joint ventures | - | 2,186,024 |
| Due to other related parties | 4,122 | 14,053,370 |
| Total due to related parties | 11,635,608 | 16,535,590 |
| Murabaha payables | 12,621,485 | 12,855,019 |



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

Due from / to related parties are represented as follows:

| | Current | Non current | 2007 | 2006 |
|---|---|---|---|---|
| Due from related parties | 12,489,033 | 2,160,779 | 14,649,812 | 3,795,702 |
| Due to related parties | 8,523,292 | 3,112,316 | 11,635,608 | 16,535,590 |

Due from / to related parties mainly result from purchase and sale of Sokouk utilization rights and investments.

| | 2007 | 2006 |
|---|---|---|
| **Statement of income:** | | |
| Operating revenue | 22,891,121 | 53,387,775 |
| Operating cost | (17,271,306) | (52,302,900) |
| General and administrative expenses | (384,890) | (666,338) |
| Gain from investments | - | 502,956 |
| Gain on sale of investment in subsidiary | - | 1,887,089 |
| Gain on sale of investment property | 64,815 | - |
| Finance charges | (1,312,343) | - |
| Other operating income | 1,618,713 | 813,586 |

| | 2007 | 2006 |
|---|---|---|
| **Compensation to key management personnel** | | |
| Short term benefits and Board of Directors' remuneration | 166,971 | 197,560 |
| Termination benefits | 9,091 | 31,455 |

7. Investments in Murabaha

Investments in Murabaha represents deposits held with a Kuwaiti financial institutions, related parties, which has experience in fund investment management in local and international market. These investments earn an average annual rate of return of 7.5%.

Investments in murabaha are presented as follows:

| | 2007 | 2006 |
|---|---|---|
| **Current:** | | |
| Investments in Murabaha | 23,000,000 | 2,095,250 |

8. Investments in Wakala

Investments in Wakala represent a Wakala investment contract with Kuwaiti Financial Institutions – related parties. Investment earns an average variable rate of return with a minimum percentage of 6% per annum.

Investments in Wakala are presented as follows:

| | 2007 | 2006 |
|---|---|---|
| **Current:** | | |
| Investments in wakala | 2,261,938 | 219,267 |

**SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2007**
(All amounts are in Kuwaiti Dinars)

9. Investments available for sale

| | 2007 | 2006 |
|---|---|---|
| **Quoted:** | | |
| Debt securities | 65,585 | 146,125 |
| Investments in funds & portfolios | 2,484,979 | 2,674,001 |
| **Unquoted:** | | |
| Equity securities | 287,895 | - |
| Investments in funds & portfolios | 1,334,248 | 1,260,000 |
| | 4,172,707 | 4,080,126 |

The movement during the year is as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance at the beginning of the year | 4,080,126 | 1,836,560 |
| Additions | 362,143 | 5,175,951 |
| Disposals | (102,752) | (2,932,385) |
| Changes in fair value | (166,810) | - |
| Balance at the end of the year | 4,172,707 | 4,080,126 |

It was not possible to reliably measure the fair value of unquoted investments amounting to KD 1,622,143 (2006 – KD 4,080,126) 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, if any.

Investments available for sale are denominated in the following currencies:

| Currency | 2007 | 2006 |
|---|---|---|
| US Dollar | 2,912,707 | 2,820,126 |
| KD Dinar | 1,260,000 | 1,260,000 |
| | 4,172,707 | 4,080,126 |

10. Investment in associates

The investment in associates consists of the following:

| Name of the associate | Country of Incorporation | Ownership Percentage % 2007 | Ownership Percentage % 2006 | 2007 | 2006 |
|---|---|---|---|---|---|
| MAS International Company for General Trading and Contracting-W.L.L. | Kuwait | 40 | 40 | 3,334,848 | 3,371,330 |
| Sokouk Al Tdawl Company-B.S.C. (Closed) | Bahrain | 15 | - | 8,435,123 | - |
| Munshaat Real Estate Projects Company-K.S.C.C. | Kuwait | 27.53 | - | 50,146,375 | - |
| Mas Holding Company-K.S.C. | Kuwait | 40 | - | 400,000 | - |
| | | | | 62,316,346 | 3,371,330 |



**SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2007**
(All amounts are in Kuwaiti Dinars)

The movement during the year was as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance at the beginning of the year | 3,371,330 | - |
| Acquisition of associates | 58,797,662 | 3,000,000 |
| Group's share of results from associates | 589,104 | 371,330 |
| Foreign currency translation adjustments | (441,750) | - |
| Balance at the end of the year | 62,316,346 | 3,371,330 |

Goodwill amounting to KD 1,454,557 and KD 22,708,874 are included in the investment in MAS International Company for General Trading and Contracting – W.L.L. and in the investment in Munshaat Real Estate Projects Co. K.S.C (Closed) respectively.

The Group share of results from associates represent the Group's share of results from MAS International Company for General Trading and Contracting – W.L.L. based on management accounts as of December 31,2006, Sokouk Al Tdawl B.S.C. (Closed) based on management accounts for the period from June 17, 2007 to December 31,2007, Munshaat Real Estate Projects Co. K.S.C (Closed) based on audited financial statements for the year ended September 30,2007.

The investment in Sokouk Al Tdawl Company – B.S.C (Closed) was recognized as an investment in associate even though it owns only 15% of the voting power, since the group is represented by two members in the associate's board of directors.

The Group's interests in its associates as at December 31, 2007 are as follows:

| Name of the associate | Assets 2007 | Assets 2006 | Liabilities 2007 | Liabilities 2006 | Net Assets 2007 | Net Assets 2006 |
|---|---|---|---|---|---|---|
| MAS International Company for General Trading and Contracting – W.L.L. | 4,471,947 | 4,471,947 | 2,555,174 | 2,555,174 | 1,916,773 | 1,916,773 |
| Sokouk Al Tdawl Company - B.S.C. (Closed) | 8,438,140 | - | 70,414 | - | 8,367,726 | - |
| Munshaat Real Estate Projects Company- K.S.C.C. | 70,821,542 | - | 43,503,181 | - | 27,318,361 | - |
| | 83,731,629 | 4,471,947 | 46,128,769 | 2,555,174 | 37,602,860 | 1,916,773 |

| Name of the associate | Revenues 2007 | Revenues 2006 | Results 2007 | Results 2006 |
|---|---|---|---|---|
| MAS International Company for General Trading and Contracting – W.L.L. | 916,546 | 916,546 | (36,482) | 371,330 |
| Sokouk Al Tdawl Company-B.S.C. (Closed) | 403,496 | - | 202,673 | - |
| Munshaat Real Estate Projects Company- K.S.C.C. | 3,110,560 | - | 422,913 | - |
| | 4,430,602 | 916,546 | 589,104 | 371,330 |

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

The goodwill arising from the acquisition of Munshaat Real Estate Projects Co. K.S.C (Closed) was calculated as follows:

| | 2007 |
|---|---|
| Paid consideration | 49,723,461 |
| Net fair value of group's share of equity | (27,014,587) |
| Goodwill | 22,708,874 |

The market value of the Investment in Munshaat Real Estate Projects Company – K.S.C (Closed) at the balance sheet date is KD 40,081,600 (2006 – KD Nil).

11. Investment in Joint Ventures

The investment in joint ventures consists of the following:

| Name of the joint venture | Country of Incorporation | Ownership Percentage % 2007 | Ownership Percentage % 2006 | 2007 | 2006 |
|---|---|---|---|---|---|
| Joint Venture – Zamzam Tower | Kuwait | 45.94 | 28.88 | 28,436,483 | 12,710,181 |
| Joint Venture – Al-Salmiya Hotel Project | Kuwait | 24.25 | 25.00 | 2,897,658 | 3,001,724 |
| | | | | 31,334,141 | 15,711,905 |

The movement during the year was as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance at the beginning of the year | 15,711,905 | - |
| Acquisition of joint venture | - | 15,150,600 |
| Joint venture's capital increase | 18,500,000 | - |
| Group's share of results from joint ventures | (98,650) | 578,292 |
| Elimination of profit on intercompany transactions | (2,153,944) | - |
| Foreign currency translation adjustments | (625,170) | - |
| Other equity movements | - | (16,987) |
| Balance at the end of the year | 31,334,141 | 15,711,905 |

The Group's interests in joint ventures as at December 31, 2007 are as follows:

| Name of the joint venture | Assets 2007 | Assets 2006 | Liabilities 2007 | Liabilities 2006 | Net Assets 2007 | Net Assets 2006 |
|---|---|---|---|---|---|---|
| Joint Venture – Zamzam Tower | 54,992,588 | 29,419,275 | 24,531,993 | 16,847,924 | 30,460,595 | 12,571,351 |
| Joint Venture – Al-Salmiya Hotel Project | 3,707,471 | 3,230,579 | 809,813 | 228,855 | 2,897,658 | 3,001,724 |
| | 58,700,059 | 32,649,854 | 25,341,806 | 17,076,779 | 33,358,253 | 15,573,075 |

| Name of the joint venture | Revenue 2007 | Revenue 2006 | Results 2007 | Results 2006 |
|---|---|---|---|---|
| Joint Venture – Zamzam Tower | 4,669,782 | 5,223,771 | (84,635) | 576,568 |
| Joint Venture – Al-Salmiya Hotel Project | 583 | 30,894 | (14,015) | 1,724 |
| | 4,670,365 | 5,254,665 | (98,650) | 578,292 |



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

12. Advance payments for purchase of investments

| | 2007 | 2006 |
|---|---|---|
| Sokouk Al Tdawl Company - B.S.C (Closed) | - | 492,998 |

13. Investment properties

| | 2007 | 2006 |
|---|---|---|
| Balance at the beginning of the year | 2,005,888 | - |
| Additions during the year | - | 2,005,888 |
| Disposal during the year | (2,005,888) | - |
| Balance at the end of the year | - | 2,005,888 |

During the year, the Group sold certain investment properties for KD 2,205,953 resulting in a gain of KD 200,065 .

14. Project under construction

| | 2007 | 2006 |
|---|---|---|
| Balance at the beginning of the year | 1,335,000 | 10,369,653 |
| Additions during the year | - | 17,950 |
| Disposals during the year | (1,335,000) | (1,165,000) |
| Relating to disposal of subsidiary | - | (7,887,603) |
| Balance at the end of the year | - | 1,335,000 |

During the year one of the subsidiaries sold its project under construction to a Joint Venture (related party) at carrying value without any gain or loss on the sale.

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

15. Property and equipment

| | Furniture and fixtures | Computer equipment & software | Office equipment | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| At December 31, 2006 | 65,239 | 55,255 | 17,034 | 137,528 |
| Additions during the year | 53,283 | 4,830 | 6,701 | 64,814 |
| Disposals | - | (4,332) | - | (4,332) |
| **At December 31, 2007** | **118,522** | **55,753** | **23,735** | **198,010** |
| **Accumulated depreciation:** | | | | |
| At December 31, 2006 | 15,255 | 25,925 | 8,075 | 49,255 |
| Charge for the year | 14,408 | 21,006 | 6,649 | 42,063 |
| Relating to disposals | - | (2,336) | - | (2,336) |
| **At December 31, 2007** | **29,663** | **44,595** | **14,724** | **88,982** |
| **Net book value:** | | | | |
| **At December 31, 2007** | **88,859** | **11,158** | **9,011** | **109,028** |
| At December 31, 2006 | 49,984 | 29,330 | 8,959 | 88,273 |



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

16. Accounts payable and other credit balances

| | 2007 | 2006 |
|---|---|---|
| Trade payables | 6,460 | 38,333 |
| Accrued staff leave | 55,027 | 176,400 |
| Excess capital increase payable | 11,771 | - |
| Other accrued expenses | 292,884 | - |
| Dividends payable | 50,689 | - |
| Revenues received in advance | 400 | - |
| Zakat Payable | 5,328 | - |
| KFAS payable | 94,776 | 61,017 |
| NLST payable | 148,449 | 225,155 |
| Board of Directors' remuneration | 60,000 | 60,000 |
| | 725,784 | 560,905 |

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

17. Murabaha payables

The balance of Murabaha payables represent payments received from Islamic Financing Company. Murabaha payables carries an annual average charge from 5% to 10.5%. The Murabaha are guaranteed against notes payable.

| | 2007 | 2006 |
|---|---|---|
| Payables | 28,811,738 | 20,525,429 |
| Deferred expenses | (3,137,980) | (1,014,071) |
| | 25,673,758 | 19,511,358 |

Murabaha payables are presented as follows:

| | 2007 | 2006 |
|---|---|---|
| **Current:** | | |
| Murabaha payable | 13,818,974 | 8,680,824 |
| **Non Current:** | | |
| Murabaha payables | 11,854,784 | 10,830,534 |
| | 25,673,758 | 19,511,358 |

18. Provision for end of service indemnity

| | 2007 | 2006 |
|---|---|---|
| Balance at the beginning of the year | 39,828 | 27,489 |
| Charge for the year | 53,976 | 38,114 |
| Paid during the year | (24,562) | (25,775) |
| Balance at the end of the year | 69,242 | 39,828 |

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

19. Capital

Authorized, issued and fully paid-up capital consist of 1,000,000,000 shares (2006 - 300,000,000 shares) of 100 fils each.

The ordinary shareholders' general assembly held on September 30, 2007 and the extra ordinary shareholders' general assembly held on October 22, 2007 approved to increase the parent company's capital by 233.34% from KD 30,000,000 (300,000,000 shares) to KD 100,000,000 (1,000,000,000 shares) by an increase of KD 70,000,000 (700,000,000 shares with nominal value of 100 fils each) and share premium of 25 fils.

This amendment was registered in the Commercial register on November 1, 2007.

20. Share premium

This represents cash received in excess of the par value of the shares issued.
Based on the capital increase approved by the ordinary shareholders' general assembly meeting held on September 30, 2007 and the extra ordinary shareholders' general assembly meeting held on October 22, 2007, the share premium amounted to KD 17,500,000. The share premium is not distributable except under specific circumstances as provided in Kuwait Commercial Companies Law.

21. 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.

22. Voluntary reserve

As required by 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 KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors.

23. Operating revenue and cost

Operating revenue and cost consist mainly of revenue and cost from sokouk utilization rights that were sold and bought during the year.



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

24. Other operating income

| | 2007 | 2006 |
|---|---|---|
| Gain from financing activities | 690,065 | 814,223 |
| Commission income on sale of utilization rights | 218,203 | - |
| Income from consulting services | 502,004 | 2,842,500 |
| Investment structure revenue | - | 302,725 |
| Management fees | 814,114 | 270,000 |
| Others | 129,843 | 101,425 |
| | 2,354,229 | 4,330,873 |

25. General and administrative expenses

| | 2007 | 2006 |
|---|---|---|
| Salaries and wages | 435,423 | 325,510 |
| Bonus | 320,756 | 145,231 |
| Other employees' benefits and allowances | 73,372 | 128,738 |
| Marketing and advertisement expenses | 97,468 | 304,311 |
| Other general and administrative expenses | 616,480 | 295,545 |
| | 1,543,499 | 1,199,335 |

26. Net investments income

| | 2007 | 2006 |
|---|---|---|
| Unrealized gain from changes in fair value of investments at fair value through income statement | 75,514 | - |
| Realized gain on sale of investment available for sale | 18,380 | 519,053 |
| | 93,894 | 519,053 |

27. Contribution to Zakat

Contribution to Zakat is calculated at 1% of the profit of the Parent Company after deducting its share of income from shareholding subsidiaries and associates in accordance with Ministry of Finance resolution No. 58/2007 effective December 10, 2007.

Contribution to Zakat had not been calculated for the year ended December 31, 2007 since there was no profit after deducting the Group's share of income from shareholding subsidiaries on which contribution to Zakat could be calculated.

28. 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 net profit of the Parent Company after deducting its share of income from shareholding subsidiaries and associates and transfer to statutory reserve.

Contribution to Kuwait Foundation for the Advancement of Sciences had not been calculated for the year ended December 31, 2007 since there was no profit after deducting the Group's share of income from shareholding subsidiaries on which contribution to Kuwait Foundation for the Advancement of Sciences could be calculated.

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

29. National Labor Support Tax

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

National Labor Support Tax for the year ended December 31, 2006 included KD 130,762 pertaining to the year ended December 31, 2005 paid during the prior year.

30. Board of Directors' remuneration

The proposed Board of Directors remuneration is subject to the approval of the shareholder's General Assembly.

31. Earnings per share

There are no potential dilutive ordinary shares. The information necessary to calculate basic earnings per share based on the weighted average number of shares outstanding during the year is as follows:

| | 2007 | 2006 (Restated) |
|---|---|---|
| Net profit for the year attributable to equity holders of the parent company | 6,152,436 | 8,529,258 |
| | Shares | Shares |
| Number of shares outstanding: | | |
| Number of issued shares at the beginning of the year | 300,000,000 | 300,000,000 |
| Adjusted outstanding shares due to right issue | 137,596,562 | 62,709,395 |
| Weighted average number of shares outstanding | 437,596,562 | 362,709,395 |
| | Fils | Fils |
| Earnings per share | 14.06 | 23.52 |

Earnings per share attributable to Parent Company's shareholders for the year ended December 31, 2006 was 28.43 before retroactive adjustment relating to rights issue.

32. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash on hand and at banks, receivables, investments, and payables 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.

**a) Rate of return risk**
Financial instruments are subject to the risk of changes in value due to changes in the level of rate of return. The effective rate of return and the periods in which rate of return bearing financial assets and liabilities are repriced or mature are indicated in the respective notes. The Group currently does not have any exposure to such risks.

**b) 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



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

principally of receivables and investments in murabaha and wakala. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of receivables and due from related parties.

**c) 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 Group has translational currency exposure on account of significant investment in foreign operations.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between USD, AED, SAR, QAR and Kuwaiti Dinar.

| Year | Increase / (Decrease) against KD | Effect on consolidated income statement | Effect on equity |
|---|---|---|---|
| 2007 | | | |
| USD | ±5% | ±1,159,903 | ±2,093,262 |
| AED | ±5% | ±2,026 | - |
| SAR | ±5% | ±497 | - |
| QAR | ±5% | ±5 | - |
| 2006 | | | |
| USD | ±5% | ±771,839 | ±777,365 |
| AED | ±5% | ±47 | - |
| SAR | ±5% | ±210 | - |
| QAR | ±5% | ±231 | - |

**d) 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 invests in investments that are readily realizable.

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

**Maturity Table for financial liabilities**

**2007**

| Financial Liability | 1 month | 1-3 months | 3-12 months | 1-3 years | 3-5 years | Total |
|---|---|---|---|---|---|---|
| Accounts payable and other credit balances | 19,478 | 427,576 | 278,730 | - | - | 725,784 |
| Murabaha payable | - | 11,122,627 | 2,696,347 | 11,854,784 | - | 25,673,758 |
| Due to related parties | - | 262,323 | 8,260,969 | 3,112,316 | - | 11,635,608 |
| Total | 19,478 | 11,812,526 | 11,236,046 | 14,967,100 | - | 38,035,150 |

2006

| Financial Liability | 1 month | 1-3 months | 3-12 months | 1-3 years | 3-5 years | Total |
|---|---|---|---|---|---|---|
| Accounts payable and other credit balances | 199,154 | 286,172 | 59,303 | 16,276 | - | 560,905 |
| Murabaha payable | 1,769,947 | 4,928,454 | 1,982,423 | 10,830,534 | - | 19,511,358 |
| Due to related parties | - | 296,197 | 5,820,415 | 10,418,978 | - | 16,535,590 |
| Total | 1,969,101 | 5,510,823 | 7,862,141 | 21,265,788 | - | 36,607,853 |

**e) Equity price risk**

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in equity securities classified as 'at fair value through profit or loss' 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 at December 31, 2007:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Change in equity price % | Effect on income statement | Change in equity price % | Effect on income statement |
| Funds | ±5 | ±653,776 | ±5 | - |



SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

**f) 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. Fair values are obtained from current bid prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their carrying amounts, except that it was not possible to reliably measure the fair value of most of the available-for-sale investments as indicated in Note 9.

33. Capital risk management

The Group's objectives when managing capital resources 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 resources 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 |
|---|---|---|
| Murabaha Payables | 25,673,758 | 19,511,358 |
| Less: cash on hand and at banks | (1,524,732) | (3,465,760) |
| Net debt | 24,149,026 | 16,045,598 |
| Total equity | 134,904,131 | 46,053,011 |
| **Total capital resources** | 159,053,157 | 62,098,609 |

34. Capital contingent commitments

Capital commitments arising from the Group's interest in Joint Venture were as follows:

| | 2007 | 2006 |
|---|---|---|
| Project under construction | 1,505,907 | 876,714 |

35. Proposed dividend

The Board of Directors did not propose any cash dividends for the year ended December 31,2007. This proposal is subject to the approval of the shareholders' General Assembly.

The shareholders' General Assembly held on April 16, 2007 approved the cash dividends of 12 fils per share for the year ended December 31, 2006.

36. Comparative figures

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