

**SOKOUK HOLDING COMPANY
KUWAITI SHAREHOLDING COMPANY (HOLDING)
AND SUBSIDIARIES
STATE OF KUWAIT**

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

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INDEPENDENT AUDITORS' REPORT

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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.



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 Rukheyas
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

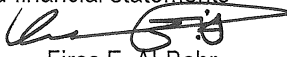
SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2007

(All amounts are in Kuwaiti Dinars)

<u>ASSETS</u>	<u>Note</u>	<u>2007</u>	<u>2006</u>
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		<u>173,008,523</u>	<u>82,700,692</u>
<u>LIABILITIES AND EQUITY</u>			
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		<u>38,104,392</u>	<u>36,647,681</u>
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		<u>134,035,103</u>	<u>45,197,138</u>
Minority interest		869,028	855,873
Total equity		<u>134,904,131</u>	<u>46,053,011</u>
Total liabilities and equity		<u>173,008,523</u>	<u>82,700,692</u>

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							Total equity attributable to the parent company's shareholders	Minority interest	Total
	Capital	Share premium	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Cumulative changes in fair value	Retained earnings			
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	-	-	-	-	-	(166,810)	6,152,436	4,937,965	105,503	5,043,468
Rights issue - 233.34%	70,000,000	17,500,000	-	-	(1,047,661)	-	-	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
	<u>9,726,203</u>	<u>6,632,272</u>
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	<u>21,030,069</u>	<u>1,788,299</u>
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	<u>(109,955,258)</u>	<u>(17,706,661)</u>

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)

	<u>2007</u>	<u>2006</u>
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	<u>86,984,161</u>	<u>17,872,549</u>
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	<u>1,524,732</u>	<u>3,465,760</u>

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.

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

(All amounts are in Kuwaiti Dinars)

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.

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

(All amounts are in Kuwaiti Dinars)

(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.

SOKOUK HOLDING COMPANY - KUWAITI SHAREHOLDING COMPANY (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

(All amounts are in Kuwaiti Dinars)

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.

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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

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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:

	<u>Years</u>
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.

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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.

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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.

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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".

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(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.

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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.

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3. Investments at fair value through income statement

	<u>2007</u>
Funds – held for trading	<u>13,075,514</u>

The movement during the year is as follows:

	<u>2007</u>
Additions during the year	<u>13,000,000</u>
Change in fair value	<u>75,514</u>
Balance at the end of the year	<u>13,075,514</u>

4. Accounts receivable and other debit balances

	<u>2007</u>	<u>2006</u>
Trade receivables	<u>12,891,591</u>	<u>13,976,117</u>
Other receivables	<u>190,014</u>	<u>207,944</u>
	<u>13,081,605</u>	<u>14,184,061</u>

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:

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

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.

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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:

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

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:

	<u>2007</u>	<u>2006</u>
<u>Assets:</u>		
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	<u>14,649,812</u>	<u>3,795,702</u>
Purchase of investment in associates	58,797,662	-
Investments in Murabaha	-	2,095,250
Investments in Wakala	2,261,938	219,267
<u>Liabilities:</u>		
Due to associates	<u>11,631,486</u>	296,196
Due to joint ventures	-	2,186,024
Due to other related parties	4,122	14,053,370
Total due to related parties	<u>11,635,608</u>	<u>16,535,590</u>
Murabaha payables	12,621,485	12,855,019

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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

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9. Investments available for sale

	<u>2007</u>	<u>2006</u>
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
	<u>4,172,707</u>	<u>4,080,126</u>

The movement during the year is as follows:

	<u>2007</u>	<u>2006</u>
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	<u>4,172,707</u>	<u>4,080,126</u>

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	<u>2007</u>	<u>2006</u>
US Dollar	2,912,707	2,820,126
KD Dinar	1,260,000	1,260,000
	<u>4,172,707</u>	<u>4,080,126</u>

10. Investment in associates

The investment in associates consists of the following:

Name of the associate	Country of Incorporation	Ownership Percentage %		2007	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	-
				<u>62,316,346</u>	<u>3,371,330</u>

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The movement during the year was as follows:

	<u>2007</u>	<u>2006</u>
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	<u>62,316,346</u>	<u>3,371,330</u>

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		Liabilities		Net Assets	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
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	-
	<u>83,731,629</u>	<u>4,471,947</u>	<u>46,128,769</u>	<u>2,555,174</u>	<u>37,602,860</u>	<u>1,916,773</u>

Name of the associate	Revenues		Results	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
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	-
	<u>4,430,602</u>	<u>916,546</u>	<u>589,104</u>	<u>371,330</u>

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

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

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	2006	2007	2006
Joint Venture – Zamzam Tower	Kuwait	<u>45.94</u>	28.88	<u>28,436,483</u>	12,710,181
Joint Venture – Al-Salmiya Hotel Project	Kuwait	<u>24.25</u>	25.00	<u>2,897,658</u>	3,001,724
				<u>31,334,141</u>	<u>15,711,905</u>

The movement during the year was as follows:

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

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

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

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

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12. Advance payments for purchase of investments

	<u>2007</u>	<u>2006</u>
Sokouk Al Tdawl Company - B.S.C (Closed)	-	492,998

13. Investment properties

	<u>2007</u>	<u>2006</u>
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

	<u>2007</u>	<u>2006</u>
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.

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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

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16. Accounts payable and other credit balances

	<u>2007</u>	<u>2006</u>
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
	<u>725,784</u>	<u>560,905</u>

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.

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

Murabaha payables are presented as follows:

	<u>2007</u>	<u>2006</u>
Current:		
Murabaha payable	13,818,974	8,680,824
Non Current:		
Murabaha payables	11,854,784	10,830,534
	<u>25,673,758</u>	<u>19,511,358</u>

18. Provision for end of service indemnity

	<u>2007</u>	<u>2006</u>
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	<u>69,242</u>	<u>39,828</u>

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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.

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24. Other operating income

	<u>2007</u>	<u>2006</u>
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
	<u>2,354,229</u>	<u>4,330,873</u>

25. General and administrative expenses

	<u>2007</u>	<u>2006</u>
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
	<u>1,543,499</u>	<u>1,199,335</u>

26. Net investments income

	<u>2007</u>	<u>2006</u>
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
	<u>93,894</u>	<u>519,053</u>

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.

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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:

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

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

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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.

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Maturity Table for financial liabilities

2007

<u>Financial Liability</u>	<u>1 month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>Total</u>
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

<u>Financial Liability</u>	<u>1 month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>Total</u>
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:

	<u>2007</u>		<u>2006</u>	
	<u>Change in equity price %</u>	<u>Effect on income statement</u>	<u>Change in equity price %</u>	<u>Effect on income statement</u>
Funds	±5	±653,776	±5	-

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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:

	<u>2007</u>	<u>2006</u>
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	<u>159,053,157</u>	<u>62,098,609</u>

34. Capital contingent commitments

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

	<u>2007</u>	<u>2006</u>
Project under construction	<u>1,505,907</u>	<u>876,714</u>

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.