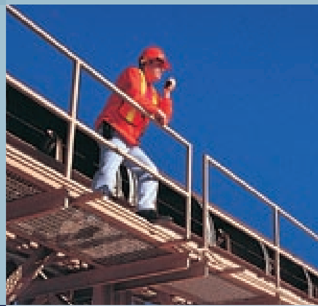
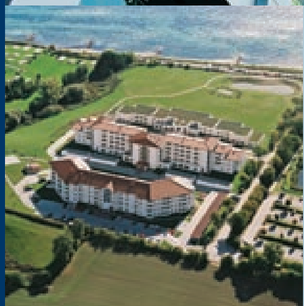
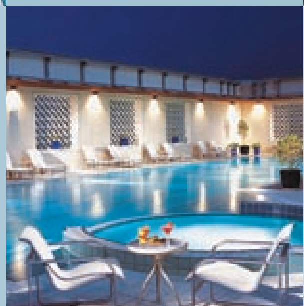
# SALHIA



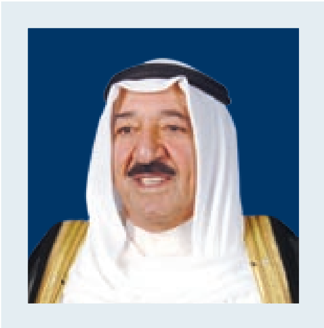




Annual Report 2007

To download a pdf version of Salhia Annual Report 2007, please visit www.salhia.com

HH Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait



HH Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

HH Sheikh
Nasser Al-Mohammad Al-Ahmad Al-Jaber Al-Sabah
Prime Minister of the State of Kuwait

## Dear shareholders,

## On behalf of the members of the Board of Directors, I wish to express my deep gratitude to you for the trust you have placed in us. Your support and appreciation have been the foundation of our successful real estate investments at local, regional and global levels this year.

Locally, Salhia Real Estate Company has gone a long way in implementing the Al-Asima Project, owned by Al-Asima Real Estate Company, in which your Company owns 50% of its capital, amounting to 80 million Kuwaiti Dinars. Salhia was entrusted with the project management, design, implementation and operation works, which led the Company to develop the required plans and initiate implementation once it obtained the necessary approvals. Accordingly, the Ministry of Finance notified the Kuwait Municipality to issue the building license and the building permit for the project, and to confirm that proceedings were underway to prepare the contract between the Company and the Ministry of Finance, a customary procedure for such large-scale projects.

However, the difficulties facing the project grew after receiving a letter from the Ministry of Finance dated 13/03/2007 requesting the cessation of construction works on the project until the required contracting procedures were completed. Naturally, Salhia adhered to the instructions of the official authorities. However, as a result of the delay in progress on the part of the Ministry towards the completion of the required contract, and as management was fully aware that the delay would cause damages to the investors' interests, Al-Asima Company's Board of Directors called for convening a General Meeting in mid December, during which all the details were discussed. The assembly considered the hurdles facing the project and raised alternative suggestions regarding how to deal with the current status, including cancelling the project altogether and selling the real estate in order to avoid investment losses associated with the lapse of time during which no progress on the project could be made.

The Board of Directors of Al-Asima Real Estate Company was authorised to sell the land of the Al-Asima project in accordance with a mechanism to be drawn up in agreement with Salhia, while Al-Asima's Board of Directors reserved the right to forgo the land sale if it saw any chance of a solution.

Since the Company is not obliged to decide on the sale, Al-Asima is still working to resolve the problem at the highest official levels. At the same time, the Company has filed a lawsuit against the Ministry of Finance, demanding completion of the contracting formalities without any further delay. The case is based on the formal approvals that were secured by the Company. By obtaining authorisation to sell the land if required to protect its funds, the Company has taken all precautions to prevent it from incurring any losses.

Also at local level, the Company conducted a feasibility study, which led to the strategic decision to sell the Super Block project on Fahad Al Salem Street. This sale made a net profit of KD 25 million, a 232% return.

At regional level, Salhia participated in the Bahrain Bay project; a US$ 2.5 billion development located northeast of the coast of Manama City, the capital of the Kingdom of Bahrain. The Company purchased a 5,119 $m^2$ plot of land for construction of a multi-storey tower, which will include 7,550 $m^2$ of space for retail outlets, approximately 36,300 $m^2$ for commercial office space including a multi-storey car park covering 36,000 $m^2$. Salhia has signed a contract with Skidmore, Owings and Merrill (SOM); with the latter undertaking the engineering consulting works for the planning and design of the project. The construction work is scheduled for completion by the end of 2010.

Internationally, considering the length of time between the allocation of investment resources and realisation of optimal returns, the Company has taken a strategic decision to diversify the nature of its investments and expand into other investment areas. Salhia's Board of Directors has allocated a greater share of resources for investments that will realise excellent returns within a shorter period of time. This is an investment route that complements the Company's real estate investments while they progress to maturity and generate returns.

Salhia formulates its investment plans to create a positive balance between risk and return. The investment resources have been allocated to varied sectors and markets spread around the world with the objective to spread risk to avoid being affected by normal fluctuations that may influence an entire sector or area from time to time. Although the returns are not fully shown in the report on the 2007 results, the quality of the diversification plan will contribute largely to improving the Company's future financial performance.

In the United Kingdom real estate market, the Company has bought prime land in the centre of Birmingham city (Digbeth), measuring 8,094 $m^2$. This land has been allocated to provide retail outlets, and will also provide offices, residential units, and a world-class hotel.

Salhia's UK activities are run by two joint venture companies; Key Property Investments Company (KPI) and Drawbridge Securities. KPI has developed a detailed master plan for a site measuring 14,864 $m^2$ to provide offices and a light industrial park in the Trafford Park area. The site comprises more than 33,445 $m^2$ allocated for storage and Adidas Company's main offices in the UK. KPI have also recently started work on a project to regenerate Farnborough Town Centre, in the Southern UK, at a total cost of £80 million.

**Our valuable shareholders,**

During 2007 Salhia announced its new identity, which reflects the Company's modern trends and operations. The Company has adopted the English letter 'S' in a three-dimensional, semi-transparent form, with classical components of English and Arabic calligraphy. This reconfirms Salhia's reputation for reliability, characterised by high professional standards and expert knowledge. The Company's new identity highlights our next stage of growth and expansion.

In all our operations, the Company's direction is guided by its total commitment to realising the best returns for its investors based on our firm belief that our Human Resources are the true creators of its success. It is therefore only natural that the Company works to ensure that the members of our corporate family have at their disposal the highest standards of skills, knowledge and capabilities, to enable them to attain the highest standards of performance.

In conclusion, I wish to express my appreciation and gratitude to all shareholders of Salhia, its Board of Directors and employees. I pray to Allah for the sustained blessings of safety and security for our beloved country, Kuwait, under our progressive leader His Highness Sheikh Sabah Al-Ahmed Al-Sabah, the Amir of Kuwait, the Crown Prince His Highness Nawaf Al-Ahmed Al-Jaber Al-Sabah, and His Highness the Prime Minister Sheikh Nasser Al-Mohammed Al-Ahmed Al-Sabah.

Ghazi F. Alnafisi
Chairman & Managing Director

**Total Assets** KD Million


**Shareholders' Equity** KD Million

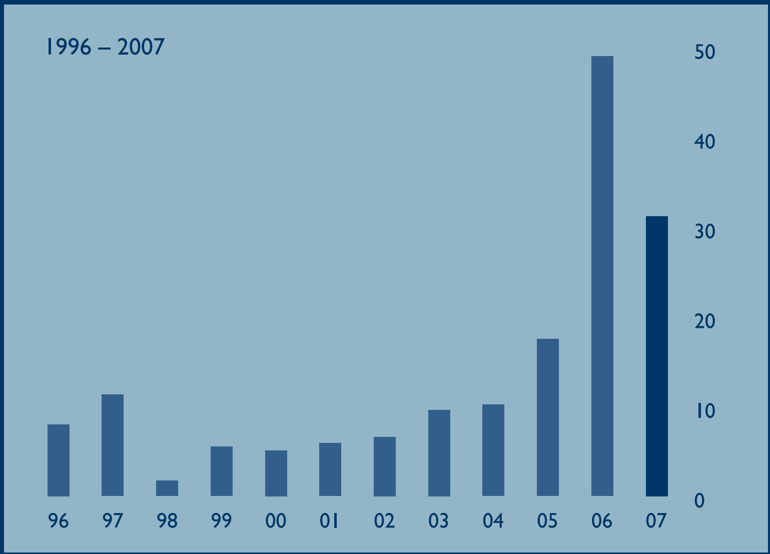

# KD324.7M

Total Assets

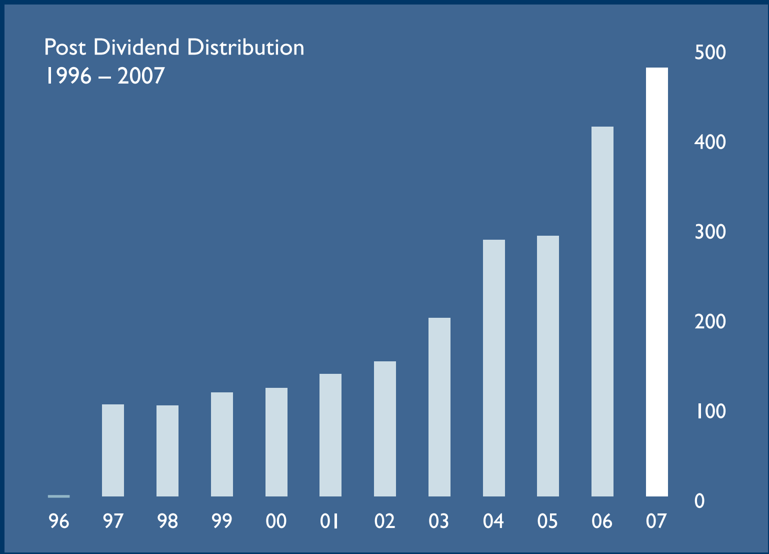
# KD152.3M

Shareholders' Equity

Net Profit KD Million




Accumulated Shareholders' Growth Rate %




# KD31.2M

NET PROFIT

# 13%

SHAREHOLDERS' GROWTH RATE


SALHIA

## Dear shareholders,

On the financial scale, Salhia Real Estate Company realised operational revenues of 40.5 million Kuwaiti Dinars; an increase by 12% compared to the previous financial year. The total assets of the company amounted to 324 million Kuwaiti Dinars, while the return on assets amounted to approximately 10%. Shareholders' equity increased to 152 million Kuwaiti Dinars, compared with around 135 million Kuwaiti Dinars; a rise by 13% compared to the previous fiscal year.

### Board of Directors

| | |
|---|---|
| Ghazi Fahad Alnafisi | Chairman and Managing Director |
| Salah Fahad Al-Marzouk | Vice Chairman |
| Anwar Abdulaziz Al-Usaimi | Deputy Managing Director |
| Ahmad Faisal Al-Zabin | Board Member |
| Hassan Abdullah Al-Mousa | Board Member |
| Abdulaziz Saud Al-Babtain | Board Member |
| Abdulaziz Ghazi Alnafisi | Board Member |
| Abdul Latif Abdul Karim Al-Munayyes | Board Member |
| Faisal Abdul Mohsen Al-Khatrash | Board Member |
| Marzouk Fajhan Al-Mutairi | Board Member |
| Youssef Essa Al-Othman | Board Member |

TOTAL EQUITY

# KD152M

13% HIGHER THAN LAST YEAR

## Kuwait Investments

Since the Company's formation in 1974, Kuwait City has been at the core of our property investment and development activities. This portfolio has consistently been the mainstay of the Company's year-on-year growth in assets and profitability, and continues to be so, although Salhia has now expanded very successfully beyond the home borders. Mature developments in Kuwait, along with new projects, remain a vital constituent of Salhia's ongoing success.

### Salhia Commercial Complex

The Company's flagship development has maintained its position as one of Kuwait's most elegant shopping and office complexes for more than 25 years, complemented by the Sahab Tower, which soars 20 storeys as a dominant feature of the city's skyline. The entire complex, established in 1978, is an outstanding example of impressive architecture designed and built with a modern vision that has maintained its enduring status as Kuwait's most luxurious shopping mall. During 2007, the second year of planned renovations, final stages were reached in replacing the 16 elevators, whilst in 2008, approved designs for new external lighting will be implemented. Extensive upgrading has further enhanced Salhia Commercial Complex's appeal to shoppers and tenants, as reflected in the 100% occupancy which it has achieved over 14 successive years.

### Salhia Plaza

Completed in 2007, Salhia Plaza has rapidly become an integral component of Salhia Commercial Centre. The Plaza came into being on completion of the Salhia Car Park, where the spacious area above provided a perfect strip for cafés and restaurants. Extensive landscaping and outdoor plants set the tone to establish Salhia Plaza as a popular meeting place for families and friends alike.

### Arraya Commercial Centre

Arraya Commercial Centre is a luxurious Salhia development comprising a contemporary mall, four-star hotel, offices, conference centre and multi-storey car park. The three-storey shopping mall is tenanted by premium retailers offering the finest brands of jewellery, clothing, accessories and beauty products, complemented by fine restaurants and cafés for a stylish dining and shopping experience.

The Arraya Car Park accommodates 1,400 vehicles over six floors, serving visitors to the Arraya Commercial Centre and the surrounding commercial area.

### Sahab Tower

Opened in 1997, Sahab Tower is Salhia's 20-storey office block with three floors of retail space. It is occupied by local and international companies that enjoy the benefits of a prime city-centre location and the facilities offered by the neighbouring Salhia Commercial Complex and Salhia Plaza, as well as spectacular views over Kuwait City.

## Kuwait Investments

### JW Marriott Hotel

In partnership with Kuwait Marriott Hotels, Salhia has developed the JW Marriott and Marriott Courtyard hotels, providing top-class accommodation and conference facilities. The Arraya Ballroom, the main convention facility in the hotel development, has formerly hosted the NATO Conference, one of the largest conferences to take place in Kuwait.

Major renovations were completed at the JW Marriott Hotel during 2007, with 14 floors converted into luxury suites. La Brasserie restaurant was also refurbished to create a fresh new look, while infrastructural maintenance upgraded service systems such as drainage, water supply, exhaust ducting, and emergency lighting – all without disrupting the hotel's normal operations. New external lighting will be installed during 2008.

### Courtyard Marriott Hotel

The Courtyard Marriott is recognised as one of the finest business hotels in Kuwait, conveniently located near embassies and the financial and business districts. Spacious guest rooms are equipped with a work desk, high-speed internet connection, satellite TV, mini-bar and safe.

During 2007, a dedicated business centre was added on the third floor, complemented by four additional private meeting rooms, each catering for up to 10 people. The number of parlour suites also increased, along with a special bridal suite and a crew lounge for airline personnel. Renovations will continue during 2008, and will include the construction of a café in the ground floor lobby.

### Arraya Tower II Project

At 300 metres high, the Arraya Tower will be one of Kuwait's tallest buildings when completed in 2009, with 60 floors serviced by 16 elevators. The open plan design with no intervening columns will allow for very flexible office layouts, with floor areas ranging from 520 m² to 740 m². Total project cost is estimated at KD 32 million.

During 2007, contracts were awarded for most of the construction elements. Work is proceeding on schedule for completion in the first quarter of 2009 with the topping out of the pyramid-shaped upper level and mast. The entire building is designed to incorporate the latest information technology systems, as well as luxurious fittings and finishes.

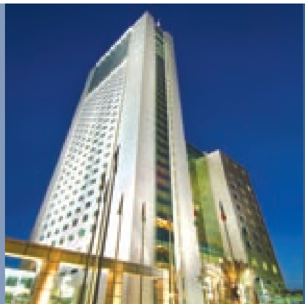
### Al-Asima Project

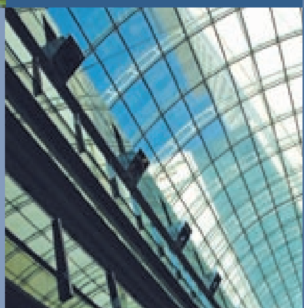
Salhia retained a 50% stake of the Al-Asima Real Estate Company, which owns the Al-Asima project. The site is located in Kuwait's Sharq district on a total area of 40,152 m², of which 21,400 m² are company property and the balance state-owned. Development proposals were approved for a project comprising a business and hotel section and a 75-floor commercial and office tower. Site work began after securing all formal approvals, but was halted by notification from the Ministry of Finance pending execution of an utilisation agreement affecting state-owned land.

Salhia has worked hard with the Ministry of Finance and other concerned authorities to obtain approval to resume work. In the absence of a positive response, and because continued suspension of work is damaging to the interests of the company and its investors, the Directors of Al-Asima called for a General Meeting to discuss the obstacles facing the project and the option of selling the property. The EGM members authorised the Board to sell the land, which was earlier purchased from Salhia. This authorisation remains in force until resolution is reached on going ahead with the development as originally planned.

### Super Block Project

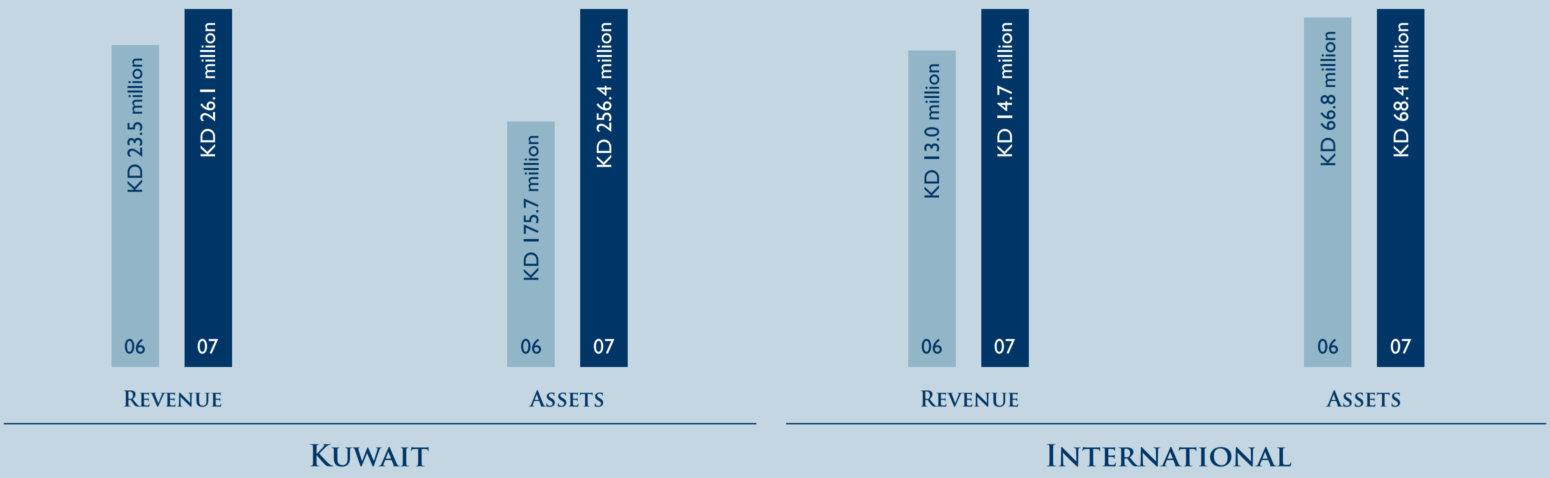
During 2007, Salhia concluded a transaction to sell its property located on Fahad Al-Salem Street, more than 3,605 m² in area. This development was scheduled to include retail and office premises, as well as a multi-storey car park. In line with the principle of trading in real estate and seeking new investment opportunities, the sale of the site realised KD 25,143,123, a return of 232% on the original investment.





At home and abroad, Salhia is a name synonymous with fine commercial real estate. Established in 1974, the company has grown to become a major player in Kuwait's retail and leisure, hotels and office markets.

Geographical Revenue and Asset Growth



TOTAL ASSETS

# KD325M

**34% INCREASE OVER 2006**

## International Investments

International investment has become an increasingly important component of Salhia's portfolio. The original holdings in the UK and Germany are now joined by a series of new opportunities and the company is actively investigating further expansion – geographically and by project type. Salhia has concluded negotiations for the first projects in Bahrain and Oman, and furthermore is currently assessing potential joint ventures in the USA.

### United Kingdom

**KPI Properties**

KPI is a UK joint venture between Salhia and St Modwen Properties PLC. It has a diversified portfolio of income-producing investments, refurbishment and redevelopment opportunities. The properties include shopping malls, offices, residential and industrial sites throughout the UK. Among them are the 90-hectare Elephant & Castle regeneration project in South London, the redevelopment of Farnborough Town Centre and a mixed use development in Rugby.

Whilst KPI was not selected for the redevelopment of the Elephant & Castle Shopping Centre, KPI's intention is to remain closely involved as the project represents an exciting redevelopment opportunity within the wider regeneration area. Scope exists to create a significant mixed-use scheme comprising retail, leisure, offices and residential units that could provide in excess of 1 million square feet of development. KPI also continues to asset manage the scheme to maximise income. The shopping centre is now over 95% let and the offices that sit above the scheme which are currently being refurbished to provide short-term income are now over 70% let.

In 2007, KPI obtained planning consent to further develop its properties in Rugby. This venture will involve constructing 480 residential apartments, a new campus for Warwickshire College, a Do-It-Yourself store and a garden centre. The plan includes retention of the main industrial building, enabling the existing operations to continue.

In Farnborough, excellent progress has been made to complete the scheme proposals that has seen demolition works start on site in 2007. The Development Agreement with Rushmoor Borough Council was exchanged and planning permission secured for a cinema and additional restaurant floor space. The scheme will be delivered in a series of phases with the first new shop units trading in 2009. Attention has also turned to the retained assets. A series of minor refurbishments saw enhancement of the existing residential stock that sits above the retail area. Plans are being prepared for a major refurbishment of the existing multi-storey car park and Kingsmead Shopping Centre.

At Trafford Park in Manchester, KPI purchased a 10.1 hectare industrial estate in 2001. During 2007, one 33,500 m² building incorporating warehousing and 1,900 m² of office space was sold to the National Farmers Union Mutual Insurance Society, having earlier been pre-let to Adidas for a term of 15 years. Plans are currently being finalised for KPI's redevelopment of other areas of the estate that will involve construction of further light industrial units and offices.

Part of KPI's 20 hectare Petre Court property in Accrington was sold this year for £25.1 million, with a 1.62-hectare section retained and redeveloped as a business park. During the year this work was completed, including 2,788 m² of offices and 3,625 m² of light industrial units that are now available for lease or sale.

## International Investments

KPI has gained planning permission for its 1-hectare plot of land in Hemel Hempstead's industrial area to build a 4,000 m² courtyard development of offices and warehousing. Demolition was completed and the main construction contract will shortly be placed, with completion due by mid-2008.

**Salhia International Investments Ltd.** (under formation)
Salhia's new UK entity is in the process of concluding the acquisition of a two-acre site in the Digbeth district of Birmingham, England's second biggest city. The area is famous for its historical nature and is also one of Europe's prominent business focal points. Close to Selfridge's city-centre store, the site will be developed as a mixed-used project comprising retail and residential elements, as well as a luxury hotel. The company is being encouraged to submit an application during 2008 and aims to commence construction during 2009.

**Drawbridge Securities**
Drawbridge Securities was established by Salhia to acquire options for land and maximise value through planning negotiations and consent. During 2007, options were purchased on 137.7 hectares of freehold land on the edge of Peterborough to develop 278,000 m² of rail related distribution warehousing.

Gazeley (part of Wal Mart), one of the UK's largest and leading Distribution Warehouse developers, has purchased a sub option to undertake the development that is expected to commence early in 2009.

Having obtained planning permission for 79,000 m² of new rail related distribution warehousing in Widnes, this project was sold in March 2007 to Westbury, a logistics operator.

The Dorset Street Partnership, a joint venture between Drawbridge and the Deeley Group, has completed a new 2,323 m² office building, and has let the majority of the building to the accountancy firm Grant Thornton.

## Germany

### Haddia Holding

Haddia Holding GMBH, 89.72% owned by Salhia, is a specialist in high-quality care for the elderly. The company owns and operates 17 nursing homes and 4 senior residences in Hanover, Hamburg, Neustadt and Bad Pyrmont districts of Northern Germany. Headquartered in Hanover and employing around 900 staff, Haddia comprises two businesses: SAREC, the property company, and DANA, the operations company. Haddia's aim is to combine outstanding personal care with exclusive surroundings to provide a superb quality of life for its guests. In 2007, Haddia's average occupancy rate across its 17 properties improved from 77.6% to 82.5%, and turnover rose by approximately 5%.

## Bahrain

A land sale agreement was signed in 2007 for a site in the Bahrain Bay development, where an office tower and multi-storey car park will be built at a project cost of KD 32 million. The office tower will have 36,000 m² of rentable office space, 7,900 m² retail space, complemented by 891 car parking spaces. Skidmore, Owings, and Merrill – the architecture, engineering and urban planning consultancy, – have been appointed to design the project and are expected to complete preparatory work by the third quarter of 2008.

### Information Technology

Salhia utilises sophisticated IT systems to meet the needs of the Company's current and future business operations. An integrated IT department is fully equipped with modern technology and staffed by highly qualified and experienced personnel.

The year 2007 saw the creation and launch of a new corporate website, www.salhia.com providing detailed information on the company's history, philosophy, management team and projects. Currently, the IT department is connecting all Salhia properties to the Company's fibre optic network, and is installing state-of-the art IT systems in the Arraya Tower now under construction. All services are undertaken in-house, without the need for third party involvement.

### Human Resources

During the year, the Company's HR function was redefined to reflect a more focused delegation of responsibilities. This applied to the identification and allocation of specific tasks, so that services can be delivered more effectively and efficiently. Automation has resulted in the streamlining of procedures that were previously handled manually, such as computation of leave periods, indemnities, medical insurance and expiry of important HR documents. Further advances with the electronic recording of employee data are planned in the coming year.

## Executive Management

| | |
|---|---|
| **Ghazi Fahad Alnafisi** | Chairman and Managing Director |
| **Anwar Abdulaziz Al-Usaimi** | Deputy Managing Director |
| **Abdulaziz Ghazi Alnafisi** | Investment Group Head |
| **Hany A. Abdelnour** | Finance and Accounting Group Head |
| **Eng. Saud Al-Sager** | Real Estate Manager and Development Group Head |
| **Nasser Bader Al-Ghanim** | Senior Manager, Foreign Investment |
| **Eng. Kifah Georges** | Senior Manager, Construction |
| **Abdul Nasser Al-Turkait** | Senior Manager, IT |
| **Eng. Bader Khalifah Al-Adsani** | Manager, Real Estate |
| **Mohammed Khalil Al-Musaihbeeh** | Senior Manager, Accounting |

# Financial Statements

# Independent Auditors' Report to the Shareholders of Salhia Real Estate Company K.S.C. (Closed)

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

**Directors' Responsibility for the Consolidated Financial Statements**

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

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

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

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

**WALEED A. AL OSAIMI**
LICENCE NO. 68 A
OF ERNST & YOUNG

**ALI A. AL HASAWI**
LICENCE NO. 30 A
BDO BURGAN
INTERNATIONAL ACCOUNTANTS

12 March 2008
Kuwait

# Salhia Real Estate Company K.S.C. (Closed) and Subsidiaries
## Consolidated Income Statement
Year ended 31 December 2007

| | Notes | *2007* *KD* | *2006* *KD* |
|---|---|---|---|
| Revenues | | **40,802,911** | 36,503,370 |
| Operating costs | | **(17,225,126)** | (16,179,798) |
| Gross profit | | **23,577,785** | 20,323,572 |
| Share in joint venture's results | 10 | **755,382** | 1,667,576 |
| Share of associate's results | 16 | **(447,996)** | - |
| General and administrative expenses | | **(7,385,664)** | (5,322,741) |
| Depreciation | | **(5,201,549)** | (5,200,448) |
| Sales and marketing expenses | | **(978,591)** | (986,940) |
| Investment income | 3 | **6,129,855** | 884,544 |
| Gain on sale of properties | 4 | **26,780,863** | 49,056,614 |
| Foreign exchange gain | | **2,364,837** | 30,282 |
| Interest income | | **781,140** | 131,375 |
| Other income | | **157,909** | 285,219 |
| Provision for impairment of available for sale investments | | **(4,861,886)** | (200,000) |
| Finance costs | | **(7,500,382)** | (8,846,378) |
| Profit before tax | | **34,171,703** | 51,822,675 |
| Foreign tax | | **(1,715,775)** | (971,917) |
| **PROFIT BEFORE CONTRIBUTION TO KFAS, NLST, ZAKAT AND DIRECTORS' FEES** | | **32,455,928** | 50,850,758 |
| | | | |
| Contribution to Kuwait Foundation for the Advancement of | | | |
| Sciences (KFAS) | | **(290,167)** | (457,657) |
| National Labour Support tax (NLST) | | **(789,129)** | (1,271,269) |
| Zakat | | **(19,703)** | - |
| Directors' fees | | **(165,000)** | (165,000) |
| **PROFIT FOR THE YEAR** | | **31,191,929** | 48,956,832 |
| | | | |
| Attributable to: | | | |
| Equity holders of the parent company | | **30,976,727** | 49,030,836 |
| Minority interest | | **215,202** | (74,004) |
| | | **31,191,929** | 48,956,832 |
| | | | |
| **Basic and diluted earnings per share attributable to equity holders of the parent company** | 6 | **89 fils** | 142 fils |

The attached notes 1 to 27 form part of these consolidated financial statements.

## Salhia Real Estate Company K.S.C. (Closed) and Subsidiaries

## Consolidated Balance Sheet

**At 31 December 2007**

| | Notes | 2007 KD | 2006 KD |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 7 | **4,459,505** | 2,458,249 |
| Fixed deposits | 7 | **5,886,303** | 20,000,000 |
| Inventories | | **350,717** | 462,308 |
| Accounts receivable and other assets | 8 | **43,026,740** | 8,369,777 |
| Available for sale investments | 9 | **102,672,764** | 36,819,030 |
| Investment in associate | 16 | **-** | - |
| Investment in joint venture | 10 | **14,407,638** | 18,575,195 |
| Investment properties | 11 | **43,696,409** | 51,812,449 |
| Property and equipment | 12 | **110,196,107** | 103,955,924 |
| **TOTAL ASSETS** | | **324,696,183** | 242,452,932 |
| | | | |
| **LIABILITIES, DEFERRED GAIN AND TOTAL EQUITY** | | | |
| **LIABILITIES** | | | |
| Due to banks and financial institution | 13 | **62,276,228** | 6,925,347 |
| Accounts payable and other liabilities | 14 | **19,848,731** | 11,559,613 |
| Bank loans | 15 | **80,735,805** | 79,875,419 |
| **TOTAL LIABILITIES** | | **162,860,764** | 98,360,379 |
| **DEFERRED GAIN** | 16 | **9,504,610** | 9,056,614 |
| | | | |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | | |
| Share capital | 17 | **36,216,226** | 31,492,370 |
| Share premium | | **27,524,906** | 27,524,906 |
| Treasury shares | 18 | **(7,093,274)** | (9,439,596) |
| Treasury shares reserve | | **1,033,002** | 994,242 |
| Statutory reserve | 19 | **18,259,091** | 15,035,055 |
| Voluntary reserve | 19 | **18,259,091** | 15,035,055 |
| General reserve | | **4,250,000** | 4,250,000 |
| Foreign currency translation reserve | | **3,758,396** | 3,376,005 |
| Cumulative changes in fair value | | **(4,302,706)** | (2,695,527) |
| Retained earnings | | **53,217,737** | 48,537,767 |
| | | **151,122,469** | 134,110,277 |
| Minority interest | | **1,208,340** | 925,662 |
| **TOTAL EQUITY** | | **152,330,809** | 135,035,939 |
| **TOTAL LIABILITIES, DEFERRED GAIN AND TOTAL EQUITY** | | **324,696,183** | 242,452,932 |

**Ghazi Fahad Alnafisi**
Chairman and Managing Director

**Salah Fahad Almarzouk**
Vice Chairman

The attached notes 1 to 27 form part of these consolidated financial statements.

# Salhia Real Estate Company K.S.C. (Closed) and Subsidiaries
## Consolidated Statement of Cash Flows
Year ended 31 December 2007

| | Note | *2007* *KD* | *2006* *KD* |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit for the year | | **32,455,928** | 50,850,758 |
| Adjustments for: | | | |
| Share in joint venture's results net of tax | | **255,457** | (789,228) |
| Share in associate's results | | **447,996** | - |
| Depreciation | | **5,201,549** | 5,200,448 |
| Provision for employees' terminal benefits | | **1,057,335** | 284,084 |
| Investment income | | **(6,129,855)** | (884,544) |
| Gain on sale of properties | | **(26,780,863)** | (49,056,614) |
| Foreign exchange gain | | **(2,364,837)** | (30,282) |
| Interest income | | **(781,140)** | (131,375) |
| Finance costs | | **7,500,382** | 8,846,378 |
| Provision for impairment of available for sale investments | | **4,861,886** | 200,000 |
| | | **15,723,838** | 14,489,625 |
| Changes in operating assets and liabilities | | | |
| Inventories | | **111,591** | (32,086) |
| Accounts receivable and other assets | | **(641,497)** | (2,431,815) |
| Accounts payable and other liabilities | | **5,910,168** | 142,823 |
| Cash from operations | | **21,104,100** | 12,168,547 |
| Employees' terminal benefits paid | | **(221,693)** | (189,666) |
| KFAS paid | | **(457,657)** | (403,114) |
| Provision for National Labour Support Tax paid | | **(1,265,823)** | (163,985) |
| Directors' fees paid | | **(165,000)** | (110,000) |
| Net cash from operating activities | | **18,993,927** | 11,301,782 |
| | | | |
| INVESTING ACTIVITIES | | | |
| Purchase of available for sale investments | | **(118,348,410)** | (20,457,131) |
| Proceeds from sale of investments | | **49,803,432** | 9,254,178 |
| Additions to investment properties and property and equipment | | **(19,355,890)** | (16,138,861) |
| Proceeds from sale of investment properties and property and equipment | | **12,549,179** | 115,257,366 |
| Additions to investment in associate | | **-** | (39,000,000) |
| Dividend income received | | **2,451,136** | 738,350 |
| Dividend received from joint venture | | **3,158,967** | - |
| Interest income received | | **781,140** | 131,375 |
| Net cash (used in) from investing activities | | **(68,960,446)** | 49,785,277 |
| | | | |
| FINANCING ACTIVITIES | | | |
| Purchase of treasury shares | | **-** | (694,065) |
| Sale of treasury shares | | **2,385,082** | - |
| Proceeds from loans obtained | | **52,483,796** | 2,232,583 |
| Loans repaid | | **(15,440,001)** | (4,035,507) |
| Finance costs paid | | **(6,894,845)** | (8,846,378) |
| Dividends paid | | **(15,124,829)** | (15,040,830) |
| Net cash from (used in) financing activities | | **17,409,203** | (26,384,197) |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | **(32,557,316)** | 34,702,862 |
| | | | |
| Cash and cash equivalents at the beginning of the year | | **17,765,485** | (16,937,377) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 7 | **(14,791,831)** | 17,765,485 |

The attached notes 1 to 27 form part of these consolidated financial statements.

# Salhia Real Estate Company K.S.C. (Closed) and Subsidiaries
## Consolidated Statement of Changes In Equity
For the year ended 31 December 2007

| | *Attributable to equity holders of the parent company* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Share capital KD* | *Share premium KD* | *Treasury shares KD* | *Treasury shares reserve KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *General reserve KD* |
| At 1 January 2007 | 31,492,370 | 27,524,906 | (9,439,596) | 994,242 | 15,035,055 | 15,035,055 | 4,250,000 |
| Net movement in cumulative change in fair values | - | - | - | - | - | - | - |
| Realised on sale of available for sale investments | - | - | - | - | - | - | - |
| Foreign currency translation adjustments | - | - | - | - | - | - | - |
| Net income (expense) recognised directly in equity | - | - | - | - | - | - | - |
| Profit for the year | - | - | - | - | - | - | - |
| Total recognised income and (expense) for the year | - | - | - | - | - | - | - |
| Cash dividend distributed | - | - | - | - | - | - | - |
| Issue of bonus shares (Note 20) | 4,723,856 | | | | | | |
| Sale of treasury shares | - | - | 2,346,322 | 38,760 | - | - | - |
| Transfer to reserves | - | - | - | - | 3,224,036 | 3,224,036 | - |
| **At 31 December 2007** | **36,216,226** | **27,524,906** | **(7,093,274)** | **1,033,002** | **18,259,091** | **18,259,091** | **4,250,000** |
| | | | | | | | |
| At 1 January 2006 | 31,492,370 | 27,524,906 | (8,745,531) | 994,242 | 9,942,579 | 9,942,579 | 4,250,000 |
| Net movement in cumulative change in fair values | - | - | - | - | - | - | - |
| Foreign currency translation adjustments | - | - | - | - | - | - | - |
| Net income (expense) recognised directly in equity | - | - | - | - | - | - | - |
| Profit for the year | - | - | - | - | - | - | - |
| Total recognised income and (expense) for the year | - | - | - | - | - | - | - |
| Cash dividend distributed | - | - | - | - | - | - | - |
| Purchase of treasury shares | - | - | (694,065) | - | - | - | - |
| Transfer to reserves | - | - | - | - | 5,092,476 | 5,092,476 | - |
| At 31 December 2006 | 31,492,370 | 27,524,906 | (9,439,596) | 994,242 | 15,035,055 | 15,035,055 | 4,250,000 |

The attached notes 1 to 27 form part of these consolidated financial statements.

# Salhia Real Estate Company K.S.C. (Closed) and Subsidiaries
## Consolidated Statement of Changes In Equity
For the year ended 31 December 2007

| | *Attributable to equity holders of the parent company* | | | | *Minority interest KD* | *Total equity KD* |
|---|---|---|---|---|---|---|
| | *Foreign currency translation reserve KD* | *Cumulative change in fair values KD* | *Retained earnings KD* | *Subtotal KD* | | |
| At 1 January 2007 | 3,376,005 | (2,695,527) | 48,537,767 | 134,110,277 | 925,662 | 135,035,939 |
| Net movement in cumulative change in fair values | - | 2,071,540 | - | 2,071,540 | - | 2,071,540 |
| Realised on sale of available for sale investments | - | (3,678,719) | - | (3,678,719) | - | (3,678,719) |
| Foreign currency translation adjustments | 382,391 | - | - | 382,391 | 67,476 | 449,867 |
| Net income (expense) recognised directly in equity | 382,391 | (1,607,179) | - | (1,224,788) | 67,476 | (1,157,312) |
| Profit for the year | - | - | 30,976,727 | 30,976,727 | 215,202 | 31,191,929 |
| Total recognised income and (expense) for the year | 382,391 | (1,607,179) | 30,976,727 | 29,751,939 | 282,678 | 30,034,617 |
| Cash dividend distributed | - | - | (15,124,829) | (15,124,829) | - | (15,124,829) |
| Issue of bonus shares (Note 20) | | | (4,723,856) | - | - | - |
| Sale of treasury shares | - | - | - | 2,385,082 | - | 2,385,082 |
| Transfer to reserves | - | - | (6,448,072) | - | - | - |
| **At 31 December 2007** | **3,758,396** | **(4,302,706)** | **53,217,737** | **151,122,469** | **1,208,340** | **152,330,809** |
| | | | | | | |
| At 1 January 2006 | 1,897,798 | (66,452) | 24,732,713 | 101,965,204 | 939,917 | 102,905,121 |
| Net movement in cumulative change in fair values | - | (2,629,075) | - | (2,629,075) | - | (2,629,075) |
| Foreign currency translation adjustments | 1,478,207 | - | - | 1,478,207 | 59,749 | 1,537,956 |
| Net income (expense) recognised directly in equity | 1,478,207 | (2,629,075) | - | (1,150,868) | 59,749 | (1,091,119) |
| Profit for the year | - | - | 49,030,836 | 49,030,836 | (74,004) | 48,956,832 |
| Total recognised income and (expense) for the year | 1,478,207 | (2,629,075) | 49,030,836 | 47,879,968 | (14,255) | 47,865,713 |
| Cash dividend distributed | - | - | (15,040,830) | (15,040,830) | - | (15,040,830) |
| Purchase of treasury shares | - | - | - | (694,065) | - | (694,065) |
| Transfer to reserves | - | - | (10,184,952) | - | - | - |
| At 31 December 2006 | 3,376,005 | (2,695,527) | 48,537,767 | 134,110,277 | 925,662 | 135,035,939 |

The attached notes 1 to 27 form part of these consolidated financial statements.

## 1 ACTIVITIES

The consolidated financial statements of Salhia Real Estate Company K.S.C. (Closed) (the "parent company") and Subsidiaries (collectively "the group") for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the parent company's Board of Directors on 12 March 2008. The general assembly of the shareholders of the parent company has the power to amend these consolidated financial statements after issuance.

The group comprises Salhia Real Estate Company K.S.C. (Closed) and its subsidiaries set out in Note 21.

The parent company is a Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. The group's main activities comprise dealing in various real estate activities, in particular the owning and renting out of commercial property, including hotel accommodation in Kuwait and the operation of care homes in Germany. Surplus funds are invested in real estate and securities portfolios managed by specialist investment managers.

The parent company's registered address is Salhia Complex, Fahad Al Salem Street, P.O. Box 23413 Safat 13095 Kuwait.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

The consolidated financial statements have been presented in Kuwaiti Dinars and are prepared under the historical cost convention except for the measurement at fair value of available for sale investments.

The accounting policies are consistent with those used in the previous financial year except as discussed below:

### Adoption of new and revised International Financial Reporting Standards and International Financial Reporting Interpretations Committee ("IFRIC").

The group has adopted the following new applicable and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the group. They did however give rise to additional disclosures.

- IFRS 7 "Financial Instruments: Disclosures"
- IAS 1 "Amendment—Presentation of Financial Statements"
- IFRIC 8 Scope of IFRS 2
- IFRIC 10 Interim Financial Reporting and Impairment

*IFRS 7: Financial Instruments Disclosures*

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for annual periods beginning on or after 1 January 2007. The standard requires additional disclosures that enable users to evaluate the significance of the group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the consolidated financial statements. While there has been no effect on the group's financial position or results, comparative information has been revised where necessary.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of preparation** (continued)

*IAS 1: Presentation of financial Statements (amended)*

Amendments to IAS 1 presentation of financial statements were issued by the IASB as capital disclosures in August 2005. They are required to be applied for annual periods beginning on or after 1 January 2007. These amendments require the group to make new disclosures to enable users of the financial statements to evaluate the group's objectives, policies and processes for managing capital.

*IFRIC 8: Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. This interpretation had no impact on the financial position or performance of the group.

*IFRIC 10 Interim Financial Reporting and Impairment*

The group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the group has not reversed any impairment losses previously recognised on such items, the interpretation had no impact on the financial position or performance of the group.

**International Accounting Standards Board (IASB) Standards and interpretations issued but not yet adopted:**

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

IFRS 8 "Operating Segments"

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

IAS 1 "Presentation of Financial Statements "(Revised)

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

IAS 23 "Borrowing Cost" (Revised)

The application of IAS 23 (Revised), which will be effective for the annual periods beginning on or after 1 January 2009, will require an entity to capitalise borrowing costs attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset and removes the option of expensing these borrowing costs in the consolidated income statement. The application of the revised IAS 23 will not impact the group's financial statements as the group currently capitalises bank borrowing costs.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2007 and the financial statements of its subsidiaries prepared of that date or to a date not earlier than three months of the parent company's year end.

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

The financial statements of the subsidiary companies are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Some of the consolidated subsidiaries use accounting policies other than these adopted in the consolidated financial statements for certain transactions and assets. Appropriate adjustments are made to their financial statements when used in preparing the consolidated financial statements to bring these in line with group accounting policies.

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

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

### Income recognition

- Rental income from investment properties is recognised on an accrual basis.
- Interest income is recognised on a time apportionment basis taking into account the outstanding balance and applicable interest rate.
- Hotel and care home income represent the invoiced value of services provided during the year.
- Dividend income is recognised when the group's right to receive payment is established.
- Gain on sale of property is recognised when the sale has been consummated and the contracts have been signed, the significant risks and rewards of ownership have passed to the buyers and the group has no continuing involvement in the property.
- Gain on sale of investments is recognised on a trade date basis.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Finance costs

Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

### Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances, fixed deposits maturing within three months from the balance sheet date net of due to banks contractually due within three months.

### Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. A financial asset (or where applicable a part of a financial asset or a part of group of financial assets) is de-recognised either:

- when the rights to receive cash flows from the asset have expired;
- the group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of income.

### Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

### Available for sale investments

After initial recognition at cost, being the fair value of the consideration given including acquisition charges associated with the investment, available for sale investments are remeasured at fair value, unless fair value cannot be reliably measured.

Changes in fair value are reported in the cumulative changes in fair values reserve within equity until the investment is either sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the changes in fair value as previously reported are removed from equity and are included in the consolidated income statement within investment income.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair values

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

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

*Investments*

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

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

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

*Other financial assets and liabilities*

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

### Impairment and uncollectibility of financial assets

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

(a) For assets carried at fair value, impairment is the difference between cost and fair value;
(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
(c) For assets carried at amortised cost, impairment is the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment and uncollectibility of financial assets** (continued)

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

**Inventories**

Inventories of food and beverages are valued at the lower of cost and net realisable value after making due allowance for any expired or slow-moving items. Cost is determined by the first-in, first-out method.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on sale.

Inventories of operating supplies are valued at cost less due allowance for any obsolete or slow-moving items. Cost is determined on a weighted average basis.

**Accounts receivable**

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

**Investment in joint venture**

The group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

The investment in joint venture is accounted for under the equity method of accounting using the latest audited financial statements. Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognise the group's share of profits or losses and other changes in equity of the joint venture. Distributions received from joint venture reduce the carrying amount of the investment.

The joint venture's financial statements are prepared either to the parent company's reporting date or to a date not earlier than three months of the parent company's reporting date using consistent accounting policies. Where practicable, adjustments are made to the joint venture entity's audited financial statements to bring them in line with group accounting policies.

An assessment of the investment in joint venture is performed when there is an indication that the investment has been impaired or the impairment losses recognised in prior years no longer exists.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment in associate

An associate is an entity over which the group exerts significant influence. Investment in associates is accounted for under the equity method of accounting.

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

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

The associate's financial statements are prepared to the parent company's reporting date or of a date not earlier than three months of the parent company's reporting date. Where practicable, adjustments are made to the associate's audited financial statements to bring them in line with group accounting policies.

### Investment properties

Investment properties are recorded at depreciated cost less impairment in value. Freehold land is not depreciated. Buildings are depreciated using the straight line method over their estimated useful lives which vary between 10 to 50 years.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, properties are written down to their recoverable amount.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

### Property and equipment

Property and equipment are stated at depreciated cost less impairment in value. Freehold land is not depreciated. Depreciation is provided on a straight line basis at rates calculated to write-off the cost of each asset over its expected useful life as follows:

| | |
|---|---|
| • Buildings and related immovable equipment | 10 to 50 years |
| • Furniture and equipment | 10 years |
| • Motor vehicles | 5 years |

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property and equipment (continued)

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

The useful economic lives of property and equipment are reviewed at each financial year and revised for significant change where necessary.

### Impairment of non-financial assets

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

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

### Accounts payable

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

### Taxation

Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the group operates.

### Treasury shares

The parent company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares. The issuance of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Provisions

A provision is recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

### Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

### Foreign currency translation

The consolidated financial statements are presented in Kuwaiti Dinars, which is the parent company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

*Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

*Group companies*

As at the reporting date, the assets and liabilities of foreign subsidiaries, and the carrying values of foreign associates and joint venture investments, are translated into the parent company's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated income statement.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Judgements**

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

*Classification of real estate*

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

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

The group classifies property as property under development if it is acquired with the intention of development. Properties under development are classified under capital work in progress within property, plant and equipment.

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

*Classification of investments*

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

All investments are classified as available for sale.

*Impairment of investments*

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

*Impairment of receivables*

An estimate of the collectible amount of receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Estimation uncertainty**

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

*Valuation of unquoted equity investments*

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

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple or industry specific earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

## 3 INVESTMENT INCOME

| | ***2007 KD*** | *2006 KD* |
|---|---|---|
| Gain on sale of investments | **3,678,719** | 146,194 |
| Dividend income | **2,451,136** | 738,350 |
| | **6,129,855** | 884,544 |

## 4 GAIN ON SALE OF PROPERTIES

During the year, the parent company disposed of real estate with a carrying value of KD 10,495,077 and recorded a gain of KD 25,143,122. The sale consideration was collected in full subsequent to the balance sheet date.

In addition, during the year, the group's United Kingdom based subsidiary disposed of a real estate property with a carrying of KD 10,816,229 and recorded a gain of KD 1,633,168 before accounting for tax and minority interest.

## 5 NET GAIN OR LOSS ON FINANCIAL ASSETS

Net gain or loss on financial assets, analysed by category, is as follows:

| | *2007* *KD* | *2006* *KD* |
|---|---|---|
| Loans and receivables: | | |
| Cash and bank balances and fixed deposits | **781,140** | 131,375 |
| Available for sale investments: | | |
| Recognised in equity | **2,071,540** | (2,629,075) |
| Recycled from equity to consolidated statement of income | **3,678,719** | 146,194 |
| Recognised directly in consolidated statement of income | **2,451,136** | 738,350 |
| Provision for impairment | **(4,861,886)** | (200,000) |
| | **4,120,649** | (1,813,156) |
| | | |
| Net gain recognised in the consolidated statement of income | **2,049,109** | 815,919 |
| Net loss recognised in the consolidated statement of changes in equity | **2,071,540** | (2,629,075) |
| | **4,120,649** | (1,813,156) |

## 6 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic and diluted earnings per share attributable to equity holders of the parent company is computed by dividing the profit for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares).

| | *2007* | *2006* |
|---|---|---|
| Profit for the year attributable to equity holders of the parent company (KD) | **30,976,727** | 49,030,836 |
| Weighted average number of ordinary shares outstanding during the year (excluding treasury shares) | **348,108,085** | 344,754,579 |
| Basic and diluted earnings per share attributable to equity holders of the parent company | **89 fils** | 142 fils |

The comparative earnings per share have been restated due to issuance of bonus shares during the year (see note 20).

## 7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated cash flows statement include the following balance sheet amounts:

| | 2007 KD | 2006 KD |
|---|---|---|
| Cash and bank balances | 4,459,505 | 2,458,249 |
| Fixed deposits | 5,886,303 | 20,000,000 |
| Due to banks contractually due within three months (Note 13) | (25,137,639) | (4,692,764) |
| Cash and cash equivalents | (14,791,831) | 17,765,485 |

Fixed deposits are placed with local banks and yield an effective interest rate of 5.25% to 6.25% per annum and mature within three months of the placement date.

## 8 ACCOUNTS RECEIVABLE AND OTHER ASSETS

| | 2007 KD | 2006 KD |
|---|---|---|
| Hotel guests and care home residents receivables | 1,785,120 | 2,436,208 |
| Rent receivable | 199,685 | 343,269 |
| Due from related parties (Note 22) | 2,049,337 | 2,247,075 |
| Staff receivables (Note 22) | 655,366 | 1,217,782 |
| Deposits and prepaid expenses | 2,602,706 | 515,059 |
| Advance payments to contractors | 1,064,734 | 1,172,550 |
| Other receivables | 654,326 | 437,834 |
| Receivable from sale of real estate properties (Note 4) | 34,015,466 | - |
| | 43,026,740 | 8,369,777 |

As at 31 December 2007 and 31 December 2006, the group did not have significant receivables that were impaired and fully provided for.

The maximum credit exposure to a single counter party is KD 637,589 (2006: KD 1,223,975).

Hotel guests and care home residents receivables are non-interest bearing and are generally on 30-90 days terms.

Movement in the provision for impairment of hotel guests and care home residents receivables were as follows:

| | 2007 KD | 2006 KD |
|---|---|---|
| At 1 January | 62,648 | 53,865 |
| Charge for the year | 28,827 | 8,783 |
| At 31 December | 91,475 | 62,648 |

## 8 ACCOUNTS RECEIVABLE AND OTHER ASSETS (continued)

As at 31 December, the analysis of hotel guests and care home residents receivables that were past due but not impaired is as follows:

| | *Neither past due nor impaired KD* | Past due but not impaired | | | | | *Total KD* |
|---|---|---|---|---|---|---|---|
| | | *< 30 days KD* | *30 to 60 days KD* | *60 to 90 days KD* | *90 to 120 days KD* | *> 120 days KD* | |
| **2007** | **500,571** | **502,549** | **299,412** | **102,499** | **28,461** | **351,628** | **1,785,120** |
| | | | | | | | |
| 2006 | 312,365 | 872,299 | 434,038 | 87,476 | 98,312 | 631,718 | 2,436,208 |

Hotel guests and care home residents receivables include amounts denominated in the following major currencies:

| | ***2007 KD*** | *2006 KD* |
|---|---|---|
| Kuwaiti Dinar | **1,078,925** | 2,035,864 |
| EURO | **706,195** | 400,344 |
| | **1,785,120** | 2,436,208 |

## 9 AVAILABLE FOR SALE INVESTMENTS

| | ***2007 KD*** | *2006 KD* |
|---|---|---|
| Managed portfolios | **88,533,850** | 17,948,515 |
| Managed funds | **362,917** | 6,306,788 |
| Unquoted securities | **22,165,389** | 16,226,037 |
| | **111,062,156** | 40,481,340 |
| Less: Provision for impairment | **(8,389,392)** | (3,662,310) |
| | **102,672,764** | 36,819,030 |

| | ***2007 KD*** | *2006 KD* |
|---|---|---|
| Local | **29,481,799** | 20,093,919 |
| Foreign | **73,190,965** | 16,725,111 |
| | **102,672,764** | 36,819,030 |

## 9 AVAILABLE FOR SALE INVESTMENTS (continued)

Managed portfolios represent local and foreign equity instruments and are carried at market bid prices and fair values as reported by the portfolio managers.

Managed portfolios include an investment portfolio with a carrying value of KD 59,410,677 managed by a foreign financial institution which was partly funded by a short-term facility amounting to KD 37,138,589 obtained through the same foreign financial institution. The facility is secured by the investment portfolio (see note 13).

Managed funds amounting to KD 362,917 (2006: KD 362,917) are carried at cost since the fair values could not be reliably measured by the fund managers.

Unquoted securities amounting to KD 22,165,389 (2006: KD 16,226,037) are carried at cost less impairment since fair values cannot be reliably measured and the investment managers have been unable to indicate any estimates of the range within which fair values might lie. Management is not aware of any further indications of impairment in respect of these investments.

Unquoted securities amounting to KD 3,625,111 (2006; KD 4,163,056) are carried at cost as the acquisition price of these securities is determined to be the fair value as they relate to recently formed or acquired companies.

## 10 INVESTMENT IN JOINT VENTURE

This represent the group's 50% (2006: 50%) interest in a United Kingdom based joint venture entity, Key Property Investments, engaged in real estate leasing and development.

| | ***2007 KD*** | *2006 KD* |
|---|---|---|
| Carrying amount of the investment in the joint venture: | | |
| At 1 January | **18,575,195** | 15,446,824 |
| Dividend received | **(3,158,967)** | - |
| Share in the joint venture's results | **755,382** | 1,667,576 |
| Share in the joint venture's tax | **(1,010,839)** | (878,348) |
| Foreign currency translation adjustment | **(753,133)** | 2,339,143 |
| At 31 December | **14,407,638** | 18,575,195 |
| | | |
| *Share of joint venture entity's balance sheet:* | | |
| Current assets | **9,762,318** | 2,694,390 |
| Long-term assets | **51,194,480** | 70,390,190 |
| Current liabilities | **(1,333,795)** | (1,215,525) |
| Long-term liabilities | **(45,215,365)** | (53,293,860) |
| Net assets | **14,407,638** | 18,575,195 |
| | | |
| *Share of joint venture entity's revenue and profit:* | | |
| Revenues | **22,757,358** | 6,968,268 |
| (Loss) /profit after tax | **(255,457)** | 789,228 |

## 11 INVESTMENT PROPERTIES

| | *Freehold land KD* | *Buildings KD* | *Total KD* |
|---|---|---|---|
| Balance at 1 January 2007 | 23,121,219 | 28,691,230 | 51,812,449 |
| Additions | 5,744,891 | 35,023 | 5,779,914 |
| Transfer from capital work in progress | - | 52,418 | 52,418 |
| Transfer to property and equipment (Note 12) | (2,346,090) | - | (2,346,090) |
| Disposal (Note 4) | (10,495,077) | - | (10,495,077) |
| Depreciation for the year | - | (1,107,205) | (1,107,205) |
| Balance at 31 December 2007 | **16,024,943** | **27,671,466** | **43,696,409** |
| | | | |
| Cost | 16,024,943 | 41,127,673 | 57,152,616 |
| Accumulated depreciation | - | (13,456,207) | (13,456,207) |
| Balance at 31 December 2007 | **16,024,943** | **27,671,466** | **43,696,409** |

During the year, the parent company purchased a plot of land in the Kingdom of Bahrain at a cost of KD 5,744,891. Under the terms of the purchase agreement, 20% of value has been paid, and the remainder is payable within 12 months from the date of the purchase agreement (see note14).The title deed will be transferred upon the settlement.

Freehold land and buildings with a carrying value of KD 12,213,115 (2006: KD 14,717,963) are mortgaged against certain bank loans (see note 15).

The fair value of the investment properties amounted to KD 222,868,279 at the balance sheet date (2006: KD 231,779,178). The fair values have been determined by reference to independent third party valuations provided by professionally qualified valuers using acceptable methods of calculation such as sales comparison and income capitalisation.

## 12 PROPERTY AND EQUIPMENT

| | *Freehold land KD* | *Buildings KD* | *Furniture and equipment KD* | *Motor vehicles KD* | *Capital work in progress KD* | *Total KD* |
|---|---|---|---|---|---|---|
| Balance at 1 January 2007 | 8,772,733 | 65,091,524 | 13,168,385 | 116,733 | 16,806,549 | 103,955,924 |
| Additions | - | 14,783 | 594,782 | 63,715 | 12,902,699 | 13,575,979 |
| Disposals (Note 4) | - | - | (95,114) | (5,564) | (11,188,030) | (11,288,708) |
| Transfers from capital work in progress and investment properties | 2,346,090 | 8,960 | 163,710 | - | (225,088) | 2,293,672 |
| Depreciation charge for the year | - | (1,710,022) | (2,341,140) | (42,887) | - | (4,094,049) |
| Foreign currency translation adjustment | 663,821 | 4,864,099 | 241,158 | - | (15,789) | 5,753,289 |
| Balance at 31 December 2007 | **11,782,644** | **68,269,344** | **11,731,781** | **131,997** | **18,280,341** | **110,196,107** |
| | | | | | | |
| Cost | 11,782,644 | 87,135,403 | 28,518,477 | 377,623 | 18,280,341 | 146,094,488 |
| Accumulated depreciation | - | (18,866,059) | (16,786,696) | (245,626) | - | (35,898,381) |
| Net carrying amount at 31 December 2007 | **11,782,644** | **68,269,344** | **11,731,781** | **131,997** | **18,280,341** | **110,196,107** |

Freehold land and buildings with a carrying value of KD 31,612,981 (2006: KD 18,187,127) are mortgaged against certain loans (Note 15).

## 13 DUE TO BANKS AND FINANCIAL INSTITUTION

| | ***2007 KD*** | *2006 KD* |
|---|---|---|
| Due to banks (Note 7) | **25,137,639** | 4,692,764 |
| Due to financial institution | **37,138,589** | 2,232,583 |
| | **62,276,228** | 6,925,347 |

Due to banks include bank overdrafts subject to effective interest rates ranging from 7.75% to 8.25% per annum (2006: 7.75% to 8.25% per annum) and an unsecured short term facility of KD 15,812,492 obtained during the year from a local bank. The facility is repayable on 31 December 2008 and is subject to interest rate of 7.25% per annum.

Due to financial institution represents a short-term facility obtained during the year from a foreign financial institution to fund investments purchased through the same foreign financial institution (see note 9). The facility is secured by the investment portfolio with a carrying value of KD 59,410,677 managed by the foreign financial institution. Under the terms of the facility agreement, repayments of the facility will be funded by the proceeds from sale of investments in the portfolio.

## 14 ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | 2007 KD | 2006 KD |
|---|---|---|
| Accounts payable | **3,350,538** | 1,524,660 |
| Retentions payable | **1,267,491** | 57,535 |
| Accrued expenses | **2,743,011** | 2,480,300 |
| Deposits from tenants, hotel and care home guests | **764,271** | 2,166,173 |
| Rents received in advance | **618,301** | 732,615 |
| Employees' terminal benefits | **2,824,641** | 1,988,998 |
| Provisions | **131,119** | 133,071 |
| Kuwait Foundation for the Advancement of Sciences | **290,167** | 457,657 |
| National Labour Support Tax | **789,129** | 1,271,269 |
| Zakat | **19,703** | - |
| Directors fees | **165,000** | 165,000 |
| Other payables | **2,289,448** | 582,335 |
| Due on purchase of investment property (Note 11) | **4,595,912** | - |
| | **19,848,731** | 11,559,613 |

## 15 BANK LOANS

Bank loans are denominated in the following currencies:

| | 2007 KD | 2006 KD |
|---|---|---|
| Kuwaiti Dinars | **25,434,392** | 34,100,000 |
| Euro | **36,793,921** | 35,963,919 |
| Japanese Yen | **2,695,000** | 2,695,000 |
| US Dollars | **15,812,492** | - |
| Pound sterling | **-** | 7,116,500 |
| | **80,735,805** | 79,875,419 |

## 15 BANK LOANS (continued)

The loans are contractually due for repayment as follows:

| | *2007* *KD* | *2006* *KD* |
|---|---|---|
| Instalments payable within one year | **31,971,915** | 10,414,841 |
| Instalments payable within one year to two years | **9,646,463** | 11,035,812 |
| Instalments payable within two years to three years | **8,244,595** | 10,860,543 |
| Instalments payable within three years to four years | **2,348,467** | 8,351,989 |
| Instalments payable after four years | **28,524,365** | 39,212,234 |
| | **80,735,805** | 79,875,419 |

The loans are repayable in equal periodic installments over variable periods of time with maturities extending to 31 December 2015.

The Kuwaiti Dinar loans carry variable interest rates, which range from 1% to2.25% per annum (2006: 1% to 2% per annum) over the Central Bank of Kuwait discount rate. The interest rate on these loans reprices when the Central Bank of Kuwait discount rate changes. The foreign currency loans carry both variable and fixed interest rates which range from 1.5% to 1.75% per annum (2006: 1.5% to 1.75% per annum) over LIBOR. The variable interest rate loans are repriced every 3 to 6 months.

Bank loans of the group with a carrying value of KD 18,345,000 (2006: KD 25,195,000) are secured by investment properties with a carrying value of KD 12,213,115 (2006: KD 14,717,963) and freehold land and buildings with a carrying value of KD 31,612,981 (2006: KD 18,187,127) owned by the group. Loans amounting to KD 36,793,921 (2006: KD 34,238,029) have been obtained by subsidiaries under the terms of which lenders have no recourse to the parent company in the event of default.

## 16 INVESTMENT IN ASSOCIATE / DEFERRED GAIN

| | *2007* *KD* | *2006* *KD* |
|---|---|---|
| Investment in associate | **40,000,000** | 40,000,000 |
| Elimination of gain on sale of real estate asset | **(49,056,614)** | (49,056,614) |
| Share of associate's results | **(447,996)** | - |
| Deferred gain | **(9,504,610)** | (9,056,614) |

## 16 INVESTMENT IN ASSOCIATE / DEFERRED GAIN (continued)

The investment in associate represents the group's 50% equity interest in Al Asima Real Estate Company K.S.C. whose principal activity is real estate development.

During the year 2006, the parent company sold a real estate asset with a carrying value of KD 16,536,771 to its associate resulting in a gain of KD 98,113,228 of which the parent company recorded KD 49,056,614 after eliminating the share of the gain attributable to its interest in the associate's equity. The excess of the gain over the carrying value of the associate has been accounted for as a deferred gain. Deferred gain will be offset against future increases in the carrying value of the associate until the deferred gain is fully utilised.

| | *2007 KD* | *2006 KD* |
|---|---|---|
| *Share of associates' balance sheet:* | | |
| Assets | **61,751,242** | 58,938,342 |
| Liabilities | **(22,199,238)** | (18,938,342) |
| Net assets | **39,552,004** | 40,000,000 |
| Adjustment to properties under development | **(49,056,614)** | (49,056,614) |
| Net assets after adjustment | **(9,504,610)** | (9,056,614) |

## 17 SHARE CAPITAL

As at 31 December 2007, the parent company's authorised, issued and fully paid share capital consist of 362,162,253 shares of 100 fils each (2006: 314,923,698 shares of 100 fils each).

## 18 TREASURY SHARES

At 31 December 2007, the parent company held 13,123,519 of its own shares (2006: 15,137,108), equivalent to 1.9% (2006: 4.8%) of the total issued share capital at that date. The market value of these shares at the balance sheet date was KD 6,824,230 (2006: KD 8,476,780). Reserves of the parent company equivalent to the cost of the treasury shares have been ear-marked as non distributable.

## 19 STATUTORY AND VOLUNTARY RESERVES

As required by the Commercial Companies Law and the parent company's articles of association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and directors fees is transferred to statutory reserve. No transfer is required in the year losses are made or if there are losses brought forward. The parent company may resolve to discontinue such annual transfers when the reserve equals or exceeds 50% of paid-up share capital. Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

As required by the parent company's articles of association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and directors fees is transferred to voluntary reserve. Such transfer may discontinue by a resolution at the General Assembly.

## 20 DISTRIBUTED/PROPOSED DIVIDEND

At the annual general assembly of the shareholders of the parent company held on 11 April 2007, the shareholders approved the distribution of cash dividends of 50 fils (2005: 50 fils) per share amounting to KD 15,124,830 (2005: KD 15,040,830) and bonus shares of 15% (2005: Nil) of the paid up capital as at 31 December 2006 amounting to KD 4,723,856 (2005: Nil) for the year ended 31 December 2006.

For the year ended 31 December 2007, the parent company's board of directors proposed cash dividend of 50 fils (2006: 50 fils) per share and issuance of bonus shares of 10% (2006: 15%) of the paid up share capital. This proposal is subject to the approval of the annual general assembly of the shareholders of the parent company and completion of legal formalities.

## 21 SUBSIDIARIES

Details of subsidiaries are set out below:

| *Name of the company* | *Percentage of ownership 2007* | *Percentage of ownership 2006* | *Country of incorporation* | *Principal activity* |
|---|---|---|---|---|
| Haddia Holding GMBH | 89.72% | 89.72% | Germany | Holding company |
| SAREC GMBH | 89.72% | 89.72% | Germany | Leasing of properties |
| Dana GMBH | 89.72% | 89.72% | Germany | Care home operator |
| Dana ambulante GMBH | 89.72% | 89.72% | Germany | Care home service provider |
| Gredo GMBH | 89.72% | 89.72% | Germany | Care home catering service provider |
| Drawbridge Securities Limited | 50.00% | 50.00% | United Kingdom | Property development |
| Bunyan Al-Salhia Project Management Company W.L.L. | 100% | 100% | Kuwait | Project management |

## 22 RELATED PARTY TRANSACTIONS

Related parties represent the major shareholders, associates and joint venture entities, directors and key management personnel of the group, and companies which are controlled by them or over which they have significant influence. Pricing policies and terms of these transactions are approved by the parent company's management.

Transactions with related parties included in the consolidated income statement are as follows:

| | *Associate KD* | *Major shareholders KD* | *Other related parties KD* | ***Total 2007 KD*** | *Total 2006 KD* |
|---|---|---|---|---|---|
| Management income | 150,000 | - | - | **150,000** | - |
| Gain on sale of properties | - | - | - | **-** | 49,056,614 |

Balances with related parties included in the balance sheet are as follows:

| | *Associate KD* | *Major shareholders KD* | *Other related parties KD* | ***Total 2007 KD*** | *Total 2006 KD* |
|---|---|---|---|---|---|
| Amounts due from related parties | 1,624,114 | 425,223 | - | **2,049,337** | 2,247,075 |
| Staff receivables | - | 497,018 | 158,348 | **655,366** | 1,217,782 |

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

| | ***2007 KD*** | *2006 KD* |
|---|---|---|
| Short-term benefits | **2,022,246** | 1,101,196 |
| Employees' end of service benefits | **1,454,334** | 907,940 |
| | **3,476,580** | 2,009,136 |

## 23 SEGMENTAL INFORMATION

**Primary segment information**
The group is organised into functional divisions to manage its various lines of business. For the purposes of primary segment reporting, the parent company's management has grouped the group's products and services into the following business segments:

- Real estate operations: Consist of development and leasing of property.
- Hotel operations: Consist of the hotel hospitality services provided through JW Marriott Hotel – Kuwait, Courtyard Marriott Hotel-Kuwait and Arraya Ball Room - Kuwait.
- Care home operations: Consist of care home activities provided by subsidiary companies.

## 23 SEGMENTAL INFORMATION (continued)

The following is the detail of the above segments, which constitutes the primary segment information:

| | *31 December 2007* | | | | *31 December 2006* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Real estate operations KD* | *Hotel operations KD* | *Care home operations KD* | *Total KD* | *Real estate operations KD* | *Hotel operations KD* | *Care home operations KD* | *Total KD* |
| Segment revenue | **11,743,069** | **14,317,743** | **14,742,099** | **40,802,911** | 10,203,045 | 13,262,412 | 13,037,913 | 36,503,370 |
| Segment operating costs | **(1,898,717)** | **(5,132,385)** | **(10,194,024)** | **(17,225,126)** | (2,384,384) | (4,610,424) | (9,184,990) | (16,179,798) |
| Segment results | **9,844,352** | **9,185,358** | **4,548,075** | **23,577,785** | 7,818,661 | 8,651,988 | 3,852,923 | 20,323,572 |
| Share of associate's results | **(447,996)** | **-** | **-** | **(447,996)** | | | | |
| Share in joint venture's results | **755,382** | **-** | **-** | **755,382** | 1,667,576 | - | - | 1,667,576 |
| Depreciation | **(1,986,506)** | **(1,940,867)** | **(1,274,176)** | **(5,201,549)** | (3,975,820) | - | (1,224,628) | (5,200,448) |
| Other operating expenses | **(4,222,198)** | **(2,400,292)** | **(1,741,765)** | **(8,364,255)** | (1,155,262) | (3,927,946) | (1,226,473) | (6,309,681) |
| Foreign tax | **(1,010,838)** | **(387,816)** | **(317,121)** | **(1,715,775)** | (878,348) | - | (93,569) | (971,917) |
| Profit from operations | **2,932,196** | **4,456,383** | **1,215,013** | **8,603,592** | 3,476,807 | 4,724,042 | 1,308,253 | 9,509,102 |
| Interest income | | | | **781,140** | | | | 131,375 |
| Finance costs | | | | **(7,500,382)** | | | | (8,846,378) |
| Provision for impairment of available for sale investments | | | | **(4,861,886)** | | | | (200,000) |
| Other non-operating income | | | | **35,433,464** | | | | 50,256,659 |
| Profit before contribution to KFAS, NLST, Zakat and Directors' fees | | | | **32,455,928** | | | | 50,850,758 |
| Other non-operating expenses | | | | **(1,263,999)** | | | | (1,893,926) |
| Profit for the year | | | | **31,191,929** | | | | 48,956,832 |
| | | | | | | | | |
| Other information: | | | | | | | | |
| Segment assets | **252,270,645** | **4,082,442** | **53,935,458** | **310,288,545** | 171,824,245 | 3,837,086 | 48,216,406 | 223,877,737 |
| Investment in joint venture | **14,407,638** | **-** | **-** | **14,407,638** | 18,575,195 | - | - | 18,575,195 |
| Total assets | **266,678,283** | **4,082,442** | **53,935,458** | **324,696,183** | 190,399,440 | 3,837,086 | 48,216,406 | 242,452,932 |
| Segment liabilities | **119,816,957** | **4,082,442** | **38,961,365** | **162,860,764** | 63,122,459 | 3,837,086 | 31,400,834 | 98,360,379 |
| Capital expenditure | **19,221,192** | **-** | **134,701** | **19,355,893** | 5,070,222 | - | 10,859,334 | 15,929,556 |

## 23 SEGMENTAL INFORMATION (continued)

### Secondary segment information

The group operates in two geographic markets: Kuwait and Europe. The following table shows the distribution of the group's segment revenues, assets and capital expenditure.

| | *31 December 2007* | | | *31 December 2006* | | |
|---|---|---|---|---|---|---|
| | *Kuwait KD* | *Europe KD* | *Total KD* | *Kuwait KD* | *Europe KD* | *Total KD* |
| Revenue | **26,060,812** | **14,742,099** | **40,802,911** | 23,465,457 | 13,037,913 | 36,503,370 |
| Assets | **272,020,284** | **52,675,899** | **324,696,183** | 194,236,526 | 48,216,406 | 242,452,932 |
| Capital expenditure | **18,844,808** | **511,085** | **19,355,893** | 5,070,222 | 10,859,334 | 15,929,556 |

## 24 RISK MANAGEMENT

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities.

The group's principal financial liabilities comprise non-derivatives financial instruments such as bank loans, due to bank and financial institution and account payables. The main purpose of these financial liabilities is to fund the group's operations. The group has various financial assets such as account receivables, cash and bank balances and short-term deposits, which arise directly from its operations.

The group does not use derivative financial instruments.

The main risk arising from the group's financial instruments are credit risk, cash flow interest rate risk, foreign currency risk, liquidity risk and equity price risk.

The parent company's board of directors and executive committee are ultimately responsible for overall risk management including setting, reviewing and agreeing policies for managing each of these risks which are summarised below.

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group manages credit risk by setting limits for individual counter-parties, and groups of counter-parties and for geographical and industry segments. The group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the group obtains security where appropriate and limits the duration of exposures.

## 24 RISK MANAGEMENT (continued)

### Credit risk (continued)

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the balance sheet date, as summarised below:

| | 2007 KD | 2006 KD |
|---|---|---|
| Bank balances | **4,459,505** | 2,458,249 |
| Fixed deposits | **5,886,303** | 20,000,000 |
| Accounts receivable (Note 8) | **1,785,120** | 2,436,208 |
| | **12,130,928** | 24,894,457 |

The credit risk exposure for bank balances and fixed deposits is considered negligible, since the counterparties are reputable, high credit quality financial institutions.

The group trades only with recognised, creditworthy third parties. It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant. The maximum exposure to a single counter party is disclosed in Note 8. There are no significant concentrations of credit risk within the group.

None of group's financial assets are secured by collateral or other credit enhancements.

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk with respect to its bank balances, fixed deposit, due to banks and financial institution and bank loans which are both at fixed rate and floating interest rate. The risk is managed by the group by maintaining an appropriate mix between floating rate and fixed rate borrowings.

Positions are monitored on a regular basis to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit for the year to reasonable possible change of interest rate in terms of basis points with effect from the beginning of the year. The calculation is based on the group's financial instruments held at each balance sheet date. All other variables are held constant. There is no impact on group's equity.

## 24 RISK MANAGEMENT (continued)

### Interest rate risk (continued)

| | *Increase/decrease in basis points* | *Effect on profit before KFAS, NLST, Zakat and directors' fees KD* |
|---|---|---|
| **2007** | | |
| **Kuwaiti Dinar** | **+25** | **(1,097,687)** |
| **Kuwaiti Dinar** | **-50** | **2,195,375** |
| **Euro** | **+25** | **(920,708)** |
| **Euro** | **-25** | **920,708** |
| **US Dollar** | **+25** | **(395,312)** |
| **US Dollar** | **-75** | **1,185,937** |
| | | |
| 2006 | | |
| Kuwaiti Dinar | +25 | (1,144,038) |
| Kuwaiti Dinar | -50 | 3,693,770 |
| Euro | +25 | (852,848) |
| Euro | -25 | 852,848 |
| US Dollar | +25 | (58,750) |
| US Dollar | -75 | 176,250 |

### Foreign currency risk

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

Foreign currency risk is managed on the basis of limits determined by the parent company's board of directors and executive committee and a continuous assessment of the groups' open positions. The group, where possible, matches currency exposures inherent in certain assets with liabilities in the same currency or correlated currency.

Currency risk principally arises from the group's exposure to investments in overseas markets and borrowings in foreign currency. The group is exposed to changes rates of US Dollar, Japanese Yen, Euro and Pound Sterling. To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored. The group does not hedge foreign currency exposures.

The group's significant net exposure to foreign currency denominated monetary assets less monetary liabilities at the balance sheet date, translated into Kuwaiti Dinars at the closing rates are as follow:

| | ***2007 KD Equivalent*** | *2006 KD Equivalent* |
|---|---|---|
| US Dollar | **(52,951,081)** | 12,546,541 |
| Japanese Yen | **(2,695,000)** | (2,695,000) |
| Euro | **(36,828,313)** | 11,381,493 |
| Pound Sterling | **5,588,457** | 469,955 |

## 24 RISK MANAGEMENT (continued)

### Foreign currency risk (continued)

The effect on profit and equity as a result of change in currency rate which is attributed to changes in the fair value of monetary assets and liabilities, with all other variables held constant is shown below:

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| Currency | Change in currency rate in % | Effect on profit KD | Effect on equity KD | Change in currency rate in % | Effect on profit KD | Effect on equity KD |
| US Dollar | **(5.5%)** | **2,535,344** | **(3,524,022)** | (1%) | 29,641 | (134,791) |
| Japanese Yen | **-** | **-** | **-** | (2%) | 41,845 | - |
| Euro | **7%** | **63,351** | **1,087,085** | 10% | (14,834) | 1,087,713 |
| Pound Sterling | **(4%)** | **(133,987)** | **2,592,951** | 12% | (10,254) | 3,346,085 |

### Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the parent company's board of directors has diversified funding sources and manages assets with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable investments.

The table below summarises the maturity profile of the group's financial liabilities at 31 December 2007 and 31 December 2006 based on contractual undiscounted payments:

| **Year ended 31 December 2007** | Within 3 months KD | 3 to 6 months KD | 6 to 12 months KD | Over one year KD | Total KD |
|---|---|---|---|---|---|
| Due to banks and financial institution | **24,766,457** | **-** | **37,509,771** | **-** | **62,276,228** |
| Accounts payable and accruals | **996,031** | **3,622,800** | **7,544,001** | **7,685,899** | **19,848,731** |
| Bank loans | **7,579,036** | **1,938,956** | **1,924,056** | **81,853,350** | **93,295,398** |
| **TOTAL LIABILITIES** | **33,341,524** | **5,561,756** | **46,977,828** | **89,539,249** | **175,420,357** |

| Year ended 31 December 2006 | Within 3 months KD | 3 to 6 months KD | 6 to 12 months KD | Over one year KD | Total KD |
|---|---|---|---|---|---|
| Due to banks and financial institution | 6,925,347 | - | - | - | 6,925,347 |
| Accounts payable and accruals | 448,465 | 3,890,930 | 2,907,739 | 4,312,479 | 11,559,613 |
| Bank loans | 7,469,186 | 3,371,009 | 3,337,345 | 79,117,858 | 93,295,398 |
| **TOTAL LIABILITIES** | 14,842,998 | 7,261,939 | 6,245,084 | 83,430,337 | 111,780,358 |

## 24 RISK MANAGEMENT (continued)

### Liquidity risk (continued)

The table below shows the contractual expiry by maturity of the group's contingent liabilities and commitments.

| Financial liabilities | *Within 3 months KD* | *3 to 12 months KD* | *1 to 5 years KD* | *Total KD* |
|---|---|---|---|---|
| **2007** | | | | |
| **Contingent liabilities** | **-** | **20,469,340** | **-** | **20,469,340** |
| **Commitments** | **3,000,000** | **9,000,000** | **4,254,738** | **16,254,738** |
| **Total** | **3,000,000** | **29,469,340** | **4,254,738** | **36,724,078** |
| | | | | |
| 2006 | | | | |
| Contingent liabilities | - | 3,509,410 | 20,369,430 | 23,878,840 |
| Commitments | - | 8,757,972 | 1,218,777 | 9,976,749 |
| Total | - | 12,267,382 | 21,588,207 | 33,855,589 |

### Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the parent company through diversification of investments in terms of geographical distribution and industry concentration. The group's quoted investments include securities listed on the Kuwait Stock Exchange and a portfolio of foreign investments (managed by a foreign financial institution) sensitive to recognised international indices such as the Tokyo index.

The effect on equity (as a result of a change in the fair value of available for sale investments at 31 December 2007) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

| | *2007* | | *2006* | |
|---|---|---|---|---|
| Market indices | *Change in equity price %* | *Effect on equity KD* | *Change in equity price %* | *Effect on equity KD* |
| Kuwait | **+/-5** | **1,313,924** | +/-5 | 641,798 |
| International | **+/-5** | **3,068,240** | +/-5 | 341,749 |

There is no impact on the group's income statement as all investments are classified as available for sale.

## 25 FAIR VALUE OF FINANCIAL INSTRUMENTS

In the ordinary course of business the group uses non-derivative financial instruments. The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The carrying values of variable rate short-term and long-term loans approximates their fair values because of the short- term repricing of interest rates. Fixed rate long term loans approximate their fair values because prevalent interest rates for similar loans are not significantly different from contractual rates. In the opinion of the parent company's management, carrying values of all other financial instruments are not significantly different from fair values except as noted in Note 9.

## 26 CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may review the dividend payment to shareholders, return capital to shareholders or issue new shares.

The group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The group includes within net debt, interest bearing loans and borrowings and other liabilities, less cash and bank balances and fixed deposits. Capital includes equity attributable to the equity holders of the parent less cumulative changes in fair values.

| | **2007 KD** | *2006 KD* |
|---|---|---|
| Interest bearing loans and borrowings | **143,012,033** | 86,800,766 |
| Other liabilities | **19,848,731** | 11,559,613 |
| Less: cash and bank balances and fixed deposits | **(10,345,808)** | (22,458,249) |
| Net debt | **152,514,956** | 75,902,130 |
| | | |
| Equity attributable to the equity holders of the parent | **151,122,469** | 134,110,277 |
| Less:- Cumulative changes in fair values | **4,302,706** | 2,695,527 |
| Total capital | **155,425,175** | 136,805,804 |
| **Capital and net debt** | **307,940,131** | 212,707,934 |
| Gearing ratio | **50%** | 36% |

## 27 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At the balance sheet date, the group had the following contingencies and capital commitments:

| | **2007 KD** | *2006 KD* |
|---|---|---|
| Letters of guarantee | **20,469,340** | 23,878,840 |
| Uncalled capital of an unquoted investments | **4,254,738** | 1,218,777 |
| Construction project | **12,000,000** | 8,757,972 |
| | **36,724,078** | 33,855,589 |