البحرين الأولى

First Bahrain

INSPIRED RESULTS FROM A PIONEERING YEAR

FINANCIAL REPORT 2007

INSPIRED RESULTS FROM A PIONEERING YEAR

FINANCIAL REPORT 2007

OUR SUCCESSES CAN BE ATTRIBUTED TO THE EFFORTS OF OUR PROFESSIONAL AND DEDICATED MANAGEMENT TEAM AND OF ALL OUR EMPLOYEES

AHMED AL BAHAR

MOVING FORWARD WITH PIONEERING INVESTMENTS

OUR CHAIRMAN'S STATEMENT

Ahmed Al Bahar
Chairman

Dear Shareholders

On behalf of the Board of Directors and myself, I am pleased to present to you our annual report for the year ending December 31st 2007 for your review. This past year was an eventful year for First Bahrain and our most productive and profitable one so far.

I am pleased to advise you that our organisation efforts over the past two years have been successful and have led us to become a more focused and dynamic business. This has been a key factor in our posting a net profit KD 4.85 million for 2007. Total revenue for the past year amounted to KD 5.5 million, representing a significant increase of 41% from KD 3.9 million in 2006. We were able to achieve a respectable increase in total assets, which reached KD 41.2 million in 2007, up more than 10% from KD 37 million in 2006, while Earnings per Share rose to 16.18 fils from 12.56 fils in the previous year. The book value reached 136 fils per share by the end of 2007 and the Return on Equity rose by 12.5% compared to 10.8% in 2006.

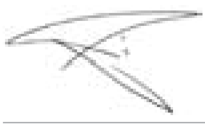
Based on the results of our financial performance, the Board of Directors recommends the payment of dividends to shareholders amounting to 10% in total; where 5% of this will be in the form of a cash dividend and the other 5% will be in the form of share dividend. We have strategically established two headquarters for First Bahrain, with the Kuwait City based headquarter focusing more on strategic business relationships and investor relations and the Manama based headquarter focusing more on the business development and operations aspects. With the appointment of a new General Manager in 2007, Mr. Amin Al Arrayed has brought a wealth of experience to the operation, as well as a strong goal oriented approach to our business. We are delighted that he has already established a proficient and dedicated team that have been driving results in a short period of time.

Our efforts are strategically designed to place us in a position to be eligible for public listing on the Kuwait Stock Exchange in 2009 subject to the continuation of favourable market conditions. We do not anticipate the sub-prime mortgage crisis that is adversely affecting many Western markets to have more than a nominal influence on the Middle Eastern economy. We expect the economy to maintain a buoyant if more volatile status in the coming year, aided by a continued higher oil price which is decisively feeding the liquidity of our markets. First Bahrain is indebted to both Kuwait and Bahrain for providing an environment full of opportunities and consequently it is our aim to ensure that the projects we undertake deliver a real value to the communities they are designed to service. We are delighted that our initiatives are helping to create employment opportunities for many new people.

We have established close relationships with strategic business partners, both in the region and internationally, who have been invaluable in helping us to pursue the different projects we have been working on. We will continue to develop such relationships with other industry experts to maintain the high level of quality and professionalism that has become the hallmark of our business dealings with our clients and partners. Increasingly we will be seeking out and exploiting new opportunities that will help us expand and develop our activities across the GCC region. I am confident that our strong foundations will enable us to develop our business even more rapidly in the coming year.

On behalf of the Board, I would like to pay tribute to The Amir of the State of Kuwait, His Highness Sheikh Sabah Al-Ahmed Al-Sabah, the Crown Prince of the State of Kuwait, His Highness Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and the Prime Minister of the State of Kuwait, His Highness Sheikh Nasser Al-Mohammed Al-Ahmad Al-Sabah for their dedicated efforts to grow the future and prosperity of the State of Kuwait. Our successes are attributable to our professional and dedicated management team and all our employees and I wish to extend my gratitude to all of them for their unstinting efforts. Equally important to our success has been the strong faith and support we have received from our esteemed clients and business partners. On behalf of our Board, I wish to express my sincere appreciation to you, our valued shareholders, for your continuing support.

May Almighty God grant us all sustained success and prosperity.



Ahmed Al Bahar
Chairman

THE SUCCESS OF 2007 HAS PAVED THE WAY FOR MANY AMBITIOUS PROJECTS, INCLUDING OUR FLAGSHIP USD 450 MILLION SEEF PROJECT

AMIN AL ARRAYED

BUILDING ON AN INSPIRATIONAL YEAR

OUR GENERAL MANAGER'S STATEMENT

Amin Al Arrayed
General Manager

The last year has been one of great progress for First Bahrain, and I would firstly like to thank all my colleagues for their commitment and dedication, which has allowed us to progress with integrity to the strong position we hold today.

First Bahrain can safely be labeled as one of the region's fastest growing real estate firms, and we have laid solid foundations in 2007 which have yielded positive financial results, upon which we will build further successes in the months and years to come.

First Bahrain's strengths are bolstered by our strategic and collaborative relationships and commitment to the Sharia philosophy of financial management, together with our operational commitment to international best business practice. These combine to help drive the company's growth in year on year investment returns. Our investors are assured of a portfolio of Sharia compliant investment opportunities designed to deliver the best ethically sound and sustainable returns.

The company 3-year plan is on target, and we are confident about our future growth predictions based on current positioning within the market.

Our track record of achievement and success is underpinned by the commitment and dedication of our internationally qualified management team. Each member is highly skilled in their own field, with individual skills contributing to the cohesiveness of the team as a whole, from long-term investment strategies to project planning. This breadth of knowledge ensures professional involvement at every stage of project development.

The opening of two new offices in Bahrain and Kuwait are significant milestones in the growth of First Bahrain, particularly from an operational standpoint for execution of projects. They have also enabled us to maintain our solid investor base in both countries whilst an increasingly liberal economic environment is driving increased foreign direct investment in both countries.

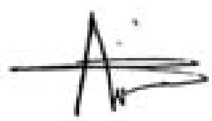
The success of 2007 has paved the way for our projects. Our flagship USD 450 million Seef Project in the Kingdom of Bahrain will comprise office buildings, residences and a Sharia compliant five star hotel. In addition we received approval for a subdivision of the Seef plot which we subsequently sold netting a KD1.9 million profit.

Furthermore, in 2007 First Bahrain successfully acquired land for the Bahrain Investment Wharf a USD 22 million project comprising warehousing and logistics facility situated on 43,000 square meters in Muharraq, Bahrain.

First Bahrain prides itself on the strength of its partnerships and affiliations, and this year saw the appointment of a number of internationally renowned consultants providing input and direction in a number of key areas from branding to project design. We have invested heavily in collaborating with people who understand our business and will grow with us in the long term – lasting relationships are at the heart of First Bahrain's way of doing business. As a growing company we recognize our strength dependent on our partners, and the long-term relationships we have with them.

A key priority for 2008 is the expansion of our operations across the region, as set out in our corporate plan. The focus on developing both our commercial portfolio and our human capital over the past twelve months has afforded us a robust platform to achieve the broader goal of a listing on the Kuwait Stock Exchange (KSE).

I would like to thank all our staff, in both Bahrain and Kuwait for the commitment, drive and dynamism they have shown during the past year. My thanks not only go to our Board for their continued support, but also to our strong base of Middle East investors including Global Investment House, Wafra International Investments, Esterad Investment Co, Action Group Holdings and Al Manar Financing and Leasing.



Amin Al Arrayed
General Manager

REPORT OF THE SHARIA SUPERVISION PANEL

TO THE SHAREHOLDERS OF FIRST BAHRAIN REAL ESTATE DEVELOPMENT COMPANY

IN THE NAME OF ALLAH THE MOST GRACIOUS THE MOST MERCIFUL.

Pursuant to the commitment contract concluded with us, we audited the contracts and transaction concluded by the company in order to give the opinion with regard to the extent of the compliance of the company with the provisions of the Islamic Sharia as set forth in the opinions, instructions and Sharia decisions issued by us during the period ended 31/12/2007 AD.

The company's management shall bear the liability of executing the contracts and transactions pursuant to the provisions of the Islamic Sharia as showed by us. Our liability is limited to giving an independent opinion about the extent of compliance of the company with the aforementioned based on our auditing.

We made our auditing pursuant to the standards of the controls issued by the Accounting and Review Authority for the Islamic financial institutions requiring the planning and execution of the auditing and review procedures in order to obtain all the information, explanations and confirmations we consider necessary to provide us with evidence sufficient to give us a reasonable affirmation that the company is complying with the provisions of the Islamic Sharia as showed by us.

We made our auditing on basis of the examination of each and every type of the contracts and transactions executed during the period and we think that the auditing we made constitute an appropriate basis to give our opinion.
In our opinion, in the light of the clarifications and conformations we obtained:

- The contract s and transactions concluded by the company during the financial year ended 31/12/2007 do not violate the provisions of the Islamic Sharia.

- The company is not commissioned to pay the alms. The shareholders shall bear the liability of paying the Zakah.

Sharia Supervision Panel:

Dr. Abdul Razzak Khalifah Al-Shayiji	Abbr. Mohammed Al-Jaser	Dr. Abdul Bari Mashaal
President of the Panel	Member	Executive member

Date: 09/03/1429 AH
Corresponding to: 17/03/2008 AD

A LETTER FROM OUR AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS' OF FIRST BAHRAIN REAL ESTATE DEVELOPMENT COMPANY K.S.C. (CLOSED)

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

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate 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 group's management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the 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 articles of association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the parent company or on its financial position.

Waleed A. Al Osaimi
Licence No. 68 A
Of Ernst & Young, Kuwait, 2008

CONSOLIDATED INCOME STATEMENT

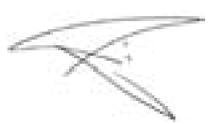
YEAR ENDED 31 DECEMBER 2007

	Notes	2007 KD	2006 KD
Realised gain from sale of investment property	3	1,912,258	-
Unrealised gain from remeasurement of investment property at fair value	3	1,077,979	2,995,987
Realised gain from sale of investments carried at fair value through income statement		361,191	6,506
Unrealised gain (loss) from investments carried at fair value through income statement		1,269,034	(221,051)
Dividend income		101,384	25,150
Murabaha income		12,282	130,238
Wakala income		766,718	991,467
Other income		12,259	-
Staff cost		(315,289)	(41,422)
Rent		(53,447)	(6,000)
Marketing expenses		(32,050)	-
Other expenses		(135,493)	(24,808)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), DIRECTORS' REMUNERATION AND ZAKAT		4,976,826	3,856,067
Contribution to KFAS		(44,791)	(34,705)
Directors' remuneration		(75,000)	(54,500)
Zakat		(3,041)	-
PROFIT FOR THE YEAR		4,853,994	3,766,862
BASIC AND DILUTED EARNINGS PER SHARE	4	16.18 fils	12.56 fils

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	Notes	2007 KD	2006 KD
Non current assets			
Prepaid lease rentals	5	1,451,637	-
Property under development	6	16,341,502	3,177,594
Investment property	3	-	14,098,061
Furniture and equipment		200,643	1,200
		17,993,782	17,276,855
Current assets			
Prepaid lease rentals	5	30,615	-
Investments carried at fair value through income statement	7	7,467,891	6,275,278
Murabaha receivables	8	1,392,225	-
Wakala receivables	9	10,671,761	11,053,507
Accounts receivables	10	2,795,484	70,380
Bank balances and cash	11	850,197	2,391,185
		23,208,173	19,790,350
TOTAL ASSETS		41,201,955	37,067,205
EQUITY AND LIABILITIES			
Equity			
Share capital	12	30,000,000	30,000,000
Statutory reserve	13	1,187,225	689,542
Retained earning		10,409,128	6,052,817
Foreign currency translation reserve		(832,102)	30,592
		40,764,251	36,772,951
Current liabilities			
Accounts payable and accruals		437,704	294,254
Total liabilities		437,704	294,254
TOTAL EQUITY AND LIABILITIES		41,201,955	37,067,205



Ahmed Al Bahar
Chairman

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2007

	Note	2007 KD	2006 KD
OPERATING ACTIVITIES			
Profit for the year		4,853,994	3,766,862
Adjustment for:			
Realised gain on sale of investment property		(1,912,258)	-
Unrealised gain from remeasurement of investment property at fair value		(1,077,979)	(2,995,987)
Unrealised (gain) loss from investments carried at fair value through income statement		(1,269,034)	221,051
Depreciation		9,986	-
		604,709	991,926
Working capital changes:			
Investments carried at fair value through income statement		76,421	(6,021,898)
Wakala receivables		2,984,893	(1,053,507)
Accounts receivable		(25,067)	(70,380)
Accounts payable and accruals		143,450	73,177
Net cash from (used in) operating activities		3,784,406	(6,080,682)
INVESTING ACTIVITIES			
Acquisition of leasehold rights		(1,489,906)	-
Addition to property under development		(264,425)	(321,174)
Proceeds from sale of investment property		734,920	-
Purchase of furniture and equipment		(209,429)	(1,200)
Net cash used in investing activities		(1,228,840)	(322,374)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,555,566	(6,403,056)
Net foreign exchange difference		(101,182)	30,592
Cash and cash equivalents at the beginning of the year		2,391,185	8,763,649
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	4,845,569	2,391,185

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2007

	Share capital KD	Statutory reserve KD	Retained earnings KD	Foreign currency translation reserve KD	Total KD
Balance at 31 December 2005	30,000,000	303,935	2,671,562	-	32,975,497
Profit for the year	-	-	3,766,862	-	3,766,862
Transfer to reserve	-	385,607	(385,607)	-	-
Foreign currency translation movement	-	-	-	30,592	30,592
Balance at 31 December 2006	30,000,000	689,542	6,052,817	30,592	36,772,951
Profit for the year	-	-	4,853,994	-	4,853,994
Transfer to reserve	-	497,683	(497,683)	-	-
Foreign currency translation movement	-	-	-	(862,694)	(862,694)
Balance at 31 December 2007	30,000,000	1,187,225	10,409,128	(832,102)	40,764,251

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

01 ACTIVITIES

First Bahrain Real Estate Development Company K.S.C. (Closed) ("the parent company") and subsidiary (together, the "group") was incorporated in Kuwait on 5 October 2004 as K.S.C. (Holding) and was registered as a K.S.C. (Closed) company on 9 May 2005 under the commercial companies law No. 15 of 1960 as amended. Its registered office is at Souk Al Safat, Abdulla Al Mubarak Street, Kuwait. The objects of its incorporation are:

- Trading, management and development of properties inside and outside Kuwait.
- Owning, buying and selling of stocks and bonds of real estate companies inside and outside Kuwait.
- Performing maintenance of properties, including mechanical, electro-mechanical, air conditioning activities.
- Performing real estate advisory services, feasibility studies and real estate appraisals.
- Managing, operating and leasing hotels, clubs, residential buildings, touristic and health care resorts and providing support services.

The parent company's subsidiary is "First Kuwait Al Seef Real Estate Development Co. W.L.L."(FKAS), a company incorporated in the Kingdom of Bahrain and engaged in the management and development of properties. The parent company held 100% effective interest in FKAS as at 31 December 2007 (2006: 100%).

These consolidated financial statements for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on 5 March 2008.

02 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified for the revaluation at fair value of investments carried at fair value through income statement and investment property.

The consolidated financial statements have been presented in Kuwaiti Dinars.

Statement of compliance

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Ministerial Order No. 18 of 1990.

Changes in accounting policies

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

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

International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee Interpretation (IFRIC) 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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

02 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

IAS 23 (Revised 2007): Borrowing costs
The IFRS is required to be applied for accounting period beginning from 1 January 2009. The application of this standard will result in capitalising borrowing costs incurred on qualifying assets and will have an impact on the consolidated financial statements in the event that the group does enter into any borrowing for its assets. At present, there are no borrowings in the group.

Basis of consolidation
These consolidated financial statements include the financial statements of the parent company and its subsidiary. Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date such control effectively ceases.

The financial statements of subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-group balances, transactions, income and expenses and profits and losses arising from intra-group transactions that are recognised in assets, are eliminated in full. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Revenue recognition
Murabaha and Wakala income are recognised on a time proportion basis.

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

Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease prepayment is recognised in the consolidated income statement on a straight-line basis over the lease term.

Property under development
Property acquired, constructed or in the course of construction for sale is classified as property under development. The cost of property under development includes the cost of land and other related expenditure, including amortisation of prepaid lease rentals, which are capitalized as and when activities that are necessary to get the property ready for sale are in progress.

Investment property
Investment property is initially recorded at cost being its purchase price and any directly attributable acquisition costs. After initial recognition, investment property is remeasured at fair value.

Gain or loss arising either from sale or a change in the fair value of investment property is recognised in the consolidated income statement.

The carrying amounts are reviewed at each balance sheet date by reference to their fair value to assess whether property recorded in excess of its recoverable amount.

Properties are transferred from investment property to property under development when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. Such transfers are made at the carrying value of the property at the date of transfer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

02 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments carried at fair value through income statement
Investments classified as "Investments carried at fair value through income statement" are initially recognised at fair value. After initial recognition, investments are remeasured at fair value with all changes in fair value being recorded in the consolidated income statement.

Murabaha receivables
Murabaha is an Islamic transaction involving the group's purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Murabaha receivables are stated at cost less provision for impairment, if any.

Wakala receivables
Wakala receivables are financial assets originated by the group. These are stated at cost less provision for impairment, if any.

Wakala receivables comprise amounts invested with financial institution for the onward deals by this institution in various Islamic investment products.

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.

Cash and cash equivalents
For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand, bank balances and Murabaha and Wakala receivables having an original maturity date of three months or less.

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

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

The parent company's investment in foreign subsidiary is translated into Kuwaiti Dinars at the rate of exchange ruling at the balance sheet date. All foreign exchange translation adjustments are taken to the foreign exchange translation reserve until disposal at which time they are recognised in the consolidated income statement.

Fair value
For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

For investment properties, fair value is determined on the basis of a valuation undertaken by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the property being valued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

02 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, less any impairment loss previous recognised in the consolidated income statement.

b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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 (in whole or in part) is de-recognised when the contractual rights to cash flows from the financial asset expire, the group has transferred substantially all the risks and rewards and when it has neither transferred nor retained substantially all the risks and rewards of ownership or when it no longer has control over the asset or proportion of the asset. A financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

Judgements

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

Classification of real estate

Management decides on acquisition of a real estate property whether it should be classified as trading property, property under 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 or subsequently the intention is changed to construction and development for sale in the ordinary course of business.

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

Impairment provision 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.

Impairment of investments

The group treats 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

02 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimation uncertainty

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The group has used judgment and estimates principally in, but not limited to, the following:

Valuation of properties

Valuation of properties is supported by indicative market prices. Periodically, valuation is carried out by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the property being valued.

The determination of the fair value of properties requires significant estimation.

03 INVESTMENT PROPERTY

	2007 KD	2006 KD
Opening balance	14,098,061	11,102,074
Unrealised gain from remeasurement of investment property at fair value	1,077,979	2,995,987
Transfer to property under development	(13,625,445)	-
Sale of investment property	(1,552,699)	-
Foreign exchange translation difference	(27,896)	-
Balance at 31 December	-	14,098,061

Investment property was sold for KD 3,434,957 during the year, resulting in a gain of KD 1,912,258 (2006: Nil).

04 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the equity holders of the parent company by the weighted average number of shares outstanding during the period as follows:

	2007 KD	2006 KD
Profit for the year attributable to equity holders' of the parent company	4,853,994	3,766,862
	Shares	Shares
Weighted average number of shares outstanding during the year	300,000,000	300,000,000
Basic and diluted earnings per share	16.18 fils	12.56 fils

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05 PREPAID LEASE RENTALS

During the year, the group obtained lease on a land for 50 years from Bahrain International Wharf B.S.C. (BIW) for KD 2,971,357 out of which KD 1,489,906 was paid. During the year, the amortisation of KD 7,654 was capitalised as part of property under development.

06 PROPERTY UNDER DEVELOPMENT

	2007 KD	2006 KD
Cost		
At 1 January	3,177,594	2,856,420
Additions	272,079	321,174
Transfer from investment property	13,625,445	-
Foreign exchange revaluation	(733,616)	-
	16,341,502	3,177,594

Property under development represents property under development located in Bahrain.

07 INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

This investment represents investment in unquoted fund, managed by a related party where the net asset value of the fund is considered to be its fair value.

08 MURABAHA RECEIVABLES

Murabaha receivables represent balances with financial services institutions having original maturity dates of three months or less. The average profit rate on these balances is 5.8% (2006: Nil) per annum.

09 WAKALA RECEIVABLES

Wakala receivables represent transactions with a local financial services institution which is a related party. The average profit rate on these transactions is 7.75% (2006: 7.64%) per annum. Wakala receivables include KD 2,603,147 having an original maturity date of three months.

10 ACCOUNTS RECEIVABLES

	2007 KD	2006 KD
Receivable on sale of investment property	2,700,037	-
Other receivables	95,447	70,380
	2,795,484	70,380

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11 CASH AND CASH EQUIVALENTS

	2007 KD	2006 KD
Murabaha receivables (Note 8)	1,392,225	-
Wakala receivables (Note 9)	2,603,147	-
Bank balances and cash	850,197	2,391,185
	4,845,569	2,391,185

12 SHARE CAPITAL

The authorised, issued and fully paid up capital as of 31 December 2007 comprised of 300,000,000 shares of 100 fils each (2006: 300,000,000 shares of 100 fils each).

13 STATUTORY RESERVE

As required by the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year before contribution to KFAS, Directors' remuneration and Zakat has been transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital.

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

14 RELATED PARTIES TRANSACTIONS

These represent transactions with related parties i.e. shareholders, directors, senior management and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by the parent company's management.

	2007 KD	2006 KD
Balances included in the consolidated balance sheet:		
Wakala receivables (placed through related parties)	10,671,761	11,053,507
Bank balance and cash	731,619	2,270,728
Accounts payable and accruals	-	163,299
Transactions included in the consolidated income statement:		
Murabaha income	-	130,238
Wakala income	766,718	991,467
Key management compensation		
Salaries and other short term benefits	257,131	23,010
Employees end of service benefits	2,400	2,400

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15 SEGMENT INFORMATION

The Group's activities are in two primary areas, real estate and non-real estate. The majority of the Group's real estate properties are located in Bahrain.

Year ended 31 December 2007	Real Estate Investments KD	Non- Real Estate Investments KD	Total KD
Segment operating revenues	2,990,237	2,510,609	5,500,846
Segment results	2,453,958	2,510,609	4,964,567
Other income			12,259
Unallocated expenses			(122,832)
Profit for the year			4,853,994
As at 31 December 2007			
Assets and liabilities			
Segment assets	21,670,078	19,531,877	41,201,955
Segment liabilities	437,704	-	437,704

Year ended 31 December 2006	Real Estate Investments KD	Non- Real Estate Investments KD	Total KD
Segment operating revenues	2,995,987	932,310	3,928,297
Segment results	2,923,757	932,310	3,856,067
Unallocated expenses			(89,205)
Profit for the year			3,766,862
As at 31 December 2006			
Assets and liabilities			
Segment assets	19,738,420	17,328,785	37,067,205
Segment liabilities	294,254	-	294,254

16 COMMITMENTS

At 31 December 2007, the group had commitments in respect of construction and development of property amounting to KD 457,724 (2006: KD 688,500) and future minimum rentals payable under non-cancellable operating leases, falling due not later than one year, of KD 1,442,174 (2006: Nil).

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17 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of investments carried at fair value through income statement, murabaha receivables, wakala receivables, accounts receivable and cash and bank balances. Financial liabilities consist of accounts payable and accruals. Fair values of all financial instruments, are not materially different from their carrying values.

Fair value of all the financial assets carried at fair value through income statement is based on quoted market price.

For financial assets that are liquid or having a short term contractual maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

18 RISK MANAGEMENT

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk, the latter comprises of interest risk, foreign currency risk and equity price risk. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the group's strategic planning process.

18.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group is exposed to credit risk on murabaha receivables, wakala receivables, receivable for sale of investment property and bank balances. The maximum exposure to credit risk is the carrying amount as disclosed at the balance sheet date.

The group has policies and procedures in place to limit the amount of credit exposure to any counter party and to monitor the collection of receivables on an ongoing basis. The group limits its credit risk with regard to murabaha and wakala receivables and bank balances by only dealing with reputable financial institutions and banks.

The group's policy is to transfer ownership of investment property only after receipt of amount in full.

18.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by the finance department of the group. To manage this risk, the group periodically invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The contractual undiscounted repayment obligation of the groups liabilities as at 31 December 2007 amount to KD 437,704 (2006: KD294,254)

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18.3 MARKET RISK

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

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

18.3.1 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. Interest rate risk is managed by the finance department of the group.

The group is not exposed to interest rate risk as its interest bearing assets (murabaha and wakala receivables) carry interest at fixed rates.

18.3.2 FOREIGN CURRENCY RISK

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

Currency risk is managed by the finance department of the group on the basis of continuous assessment of the group's open positions and current and expected exchange rate movements.

The group is a Kuwaiti entity with Kuwaiti Dinar as its functional currency.

The group had the significant net exposures, denominated in foreign currencies:

	2007 KD 000 Equivalent Long (Short)	2006 KD 000 Equivalent Long (Short)
BD	4,087,875	36,166
US Dollars	1,723,465	375,951

The effect on profit for the year and on equity, as a result of change in currency rate, with all other variables held constant is shown below:

	2007			2006		
Currency	Change in currency rate in %	Effect on profit for the year in KD	Effect on equity in KD	Change in currency rate in %	Effect on profit for the year in KD	Effect on equity in KD
BD	+3%	23,021	99,615	+3%	-	1,085
USD	+3%	51,704	-	+3%	11,279	-

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18 RISK MANAGEMENT (CONTINUED)

18.3 MARKET RISK (CONTINUED)

18.3.3 EQUITY PRICE RISK

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

The effect of a change in the fair value of the equity instruments held as investments carried at fair value through income statement (unquoted funds) at the balance sheet date due to a reasonable possible change in the equity indices, with all other variables held as constant, is not significant.

19 PROPOSED DIVIDEND

The Board of Directors of the parent company have proposed a cash dividend of 5% (2006: Nil) amounting to 5 fils per share (2006: Nil) and stock dividend of 5% (2006: Nil) for the year ended 31 December 2007 to shareholders on record of the parent company as of the date of the Annual General Assembly. The proposed dividend is subject to the approval of the shareholders at the parent company's Annual General Assembly.

20 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 business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006. Capital comprises share capital, reserves and retained earnings, and is measured at KD 40,764,251 as at 31 December 2007 (2006: KD 36,772,951).

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