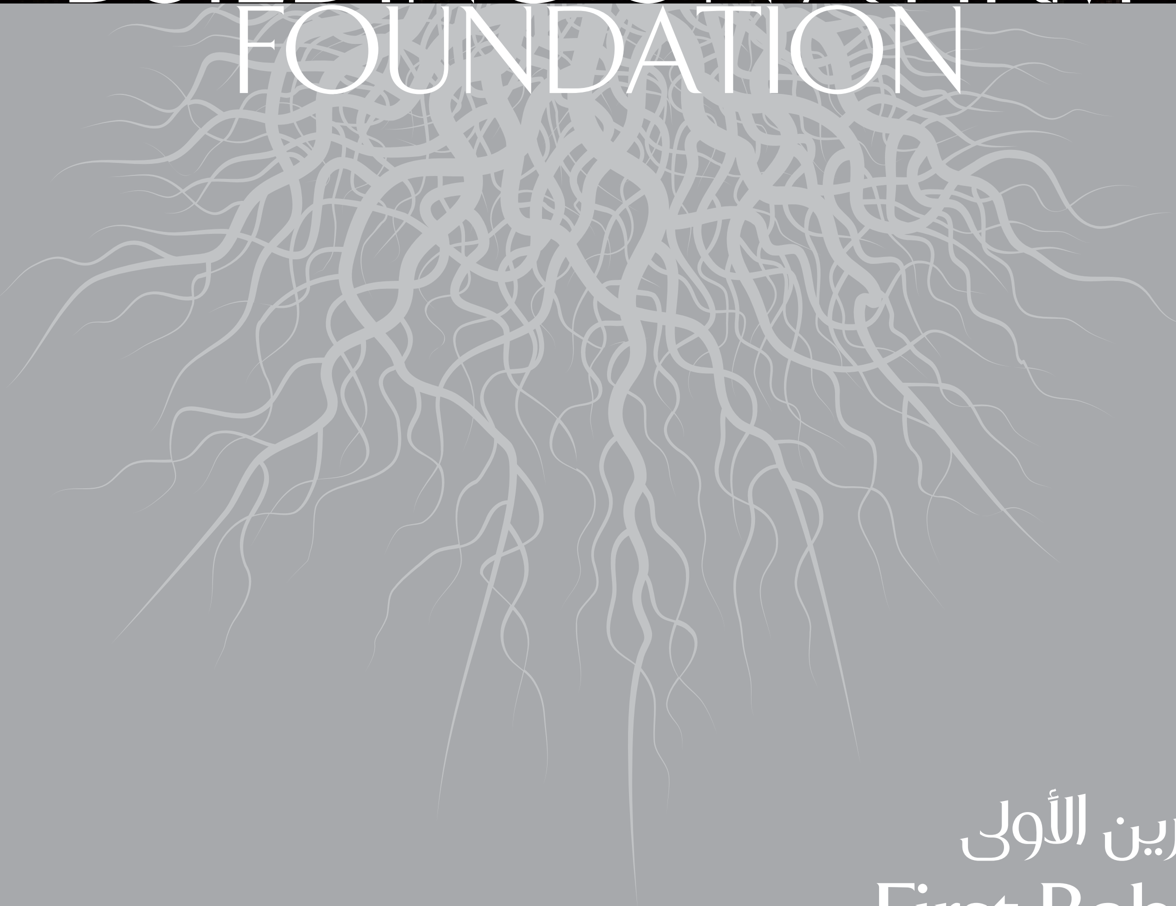
BUILDING ON A FIRM FOUNDATION



البحرين الأولى

First Bahrain

ANNUAL REPORT 2008

H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah

Amir of the State of Kuwait

H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah

Crown Prince of the State of Kuwait

CONTENTS

ANNUAL REPORT 2008

KUWAIT OFFICE

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E info@firstbahrain.com

COMPANY PROFILE

First Bahrain is an innovative real estate investment company. Dedicated to achieving sustainable returns through collaborative relationships, First Bahrain creates enduring value for all stakeholders with a demand-driven investment approach. Operating out of offices in Kuwait and Bahrain, the Company is strategically positioned to execute projects across the GCC.

Established in October 2004 in Kuwait as Baraq Al Khaleej Holding Company, with a paid up capital of KD 1 million, the corporate name was later changed to First Bahrain Real Estate Development Company, and the paid up capital increased to KD 30 million. In 2007, First Bahrain opened an operating office in the Kingdom of Bahrain. Since its inception the Company has been guided by the principles of Islamic Sharia in all its daily operations and business interests.

The principal shareholders of First Bahrain are leading regional institutions and high-profile real estate investors, including KAMCO, Iskan Housing Finance Company, and Wafra International Investments.

First Bahrain now owns or holds rights to over 1,000,000 square feet of strategically located land in the Kingdom of Bahrain. Groundbreaking for the Company's inaugural project, a warehousing development at the Bahrain Investment Wharf, near the new Shaikh Khalifa Seaport, is planned for early 2009.

All real estate is valuable. But land in itself has potential that is often unrealised. It takes vision to identify potential. It takes commitment, integrity and hard work to realise that potential. A functioning community supported by a vibrant economy requires entrepreneurial leaders to identify such potential, and to bring shape to that which did not previously exist. First Bahrain is such a company.

VISION MISSION

WITH ENTREPRENEURIAL VISION AND INNOVATION, FIRST BAHRAIN EXISTS TO INITIATE AND ORCHESTRATE REAL ESTATE DEVELOPMENTS.

WE DELIVER ENDURING VALUE AND SUSTAINABLE PROSPERITY TO BOTH OUR COMMUNITIES AND TO OUR SHAREHOLDERS, THROUGH PARTNERSHIPS AND INVESTMENTS MADE IN ACCORDANCE WITH THE PRINCIPLES OF SHARIA.

2008 A FOUNDATION TO BUILD UPON

INTEGRITY

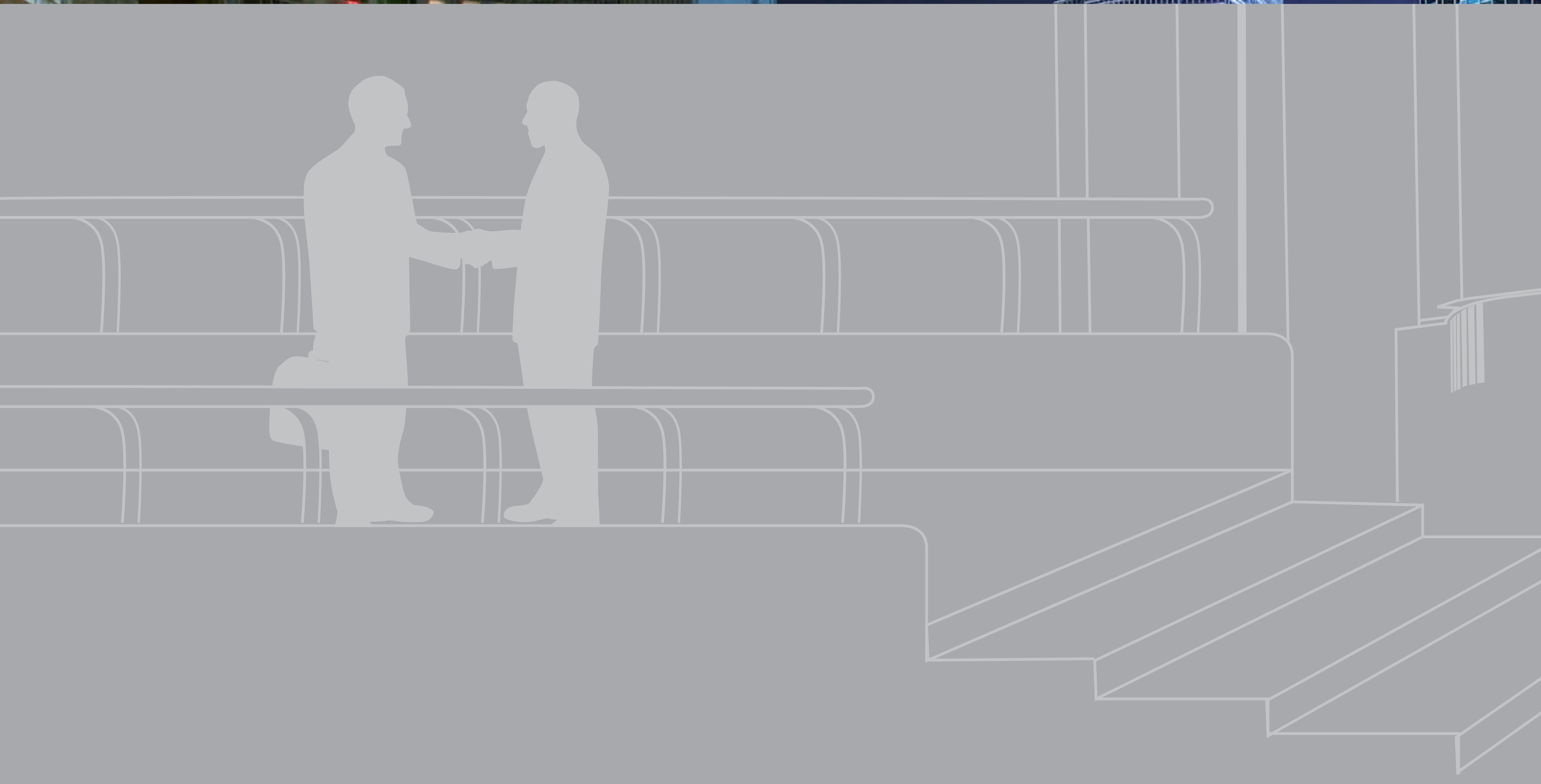
WE ARE PASSIONATE AND COMMITTED TO WEALTH MANAGEMENT. DRIVEN BY ISLAMIC VALUES, WE STAND BY OUR CORPORATE SOCIAL RESPONSIBILITIES.

OUR EXPERTISE AND DEDICATION ENABLES US TO TRANSCEND TRADITIONAL IDEAS, AND OFFER CLIENTS INSPIRED AND MEANINGFUL SOLUTIONS.

INNOVATION

WE EMBRACE CREATIVITY IN A CONSTANTLY CHANGING ENVIRONMENT AND PROVIDE INTELLIGENT SOLUTIONS TO CAPITALISE UPON THESE DEVELOPMENTS.

THROUGH DYNAMIC PLANNING, WE ENHANCE STAKEHOLDER VALUE, INCREASE INVESTOR OPPORTUNITY, AND SPEARHEAD REGIONAL REAL ESTATE GROWTH TO HIGHER LEVELS.



PARTNERSHIP

WE CONTINUE TO BUILD AN INTERNATIONAL NETWORK OF STRATEGIC ALLIANCES. THESE ALLIANCES SHARE OUR VISION OF MAXIMISING RETURN ON INVESTMENT IN ACCORDANCE WITH THE PRINCIPLES OF SHARIA.

IN WORKING TOGETHER WITH SELECT PARTNERS, WE DEVELOP A STRONG AND SECURE SUPPORT STRUCTURE AND MOVE FORWARD WITH CONFIDENCE AND STRENGTH.

PROSPERITY

OUR UNDERSTANDING AND INSIGHT INTO THE REAL ESTATE MARKET IS THE DRIVING FORCE THAT ENABLES US TO ENSURE CONTINUED PROSPERITY FOR ALL OUR STAKEHOLDERS.

WE HAVE ESTABLISHED AN ENERGETIC CULTURE THAT BOTH DEMANDS AND REWARDS EXCELLENCE THROUGHOUT EVERY BUSINESS VENTURE.

2009
MOVING FORWARD WITH CONFIDENCE

REPORT OF THE BOARD OF DIRECTORS

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of First Bahrain Real Estate Development Company (First Bahrain) for the year ended 31 December 2008. I am pleased to report that despite the adverse market conditions that marked the second half of 2008, we managed to weather the worst of the gathering storm and have ended 2008 on a positive note.

The global financial and economic meltdown, now recognised as the worst for over 75 years, proved to have a deeper impact on the GCC than originally expected. The economies of GCC states were hit by a massive slide in the price of crude, as well as by huge losses to their large foreign investments. Most of the major regional stock markets experienced their worst year ever, while the contagion of the severe correction of the Dubai real estate sector spread to other GCC countries, albeit not so seriously.

However, the underlying macro-economic fundamentals of the GCC remain strong, with GCC states sitting on substantial cash reserves following their six-year boom on the back of soaring oil prices. The IMF, World Bank, economists and research firms are forecasting moderate GDP growth of between three and five per cent for the region in 2009, compared to over six per cent the previous year. With the inflationary pressures of the first half of 2008 having abated, key concerns continue to be reduced liquidity and money market strains, the ongoing credit squeeze, and the drop in the value of real estate assets. There is general consensus that outlook for the GCC in 2009 remains cautiously optimistic, with regional markets expected to react positively once more global economic clarity is seen, which will in turn give greater clarity on oil price direction and range.

I am pleased to report that First Bahrain posted a positive financial performance for fiscal year. At the end of the year, total assets stood at KD 42.6 million compared to KD 41.2 million at the end of 2007, with total equity increasing to KD 42.0 million (2007: KD 40.8 million). In view of the continued lack of global clarity and regional market uncertainty expected during 2009, the Board has adopted a very conservative approach to provisioning and impairments totalling KD 2.8 million. This provisioning has resulted in a very clean and unencumbered balance sheet, with healthy levels of liquidity, having KD 3.2 million in cash and bank balances. As a result, First Bahrain is reporting a net profit of KD 2.6 million for 2008 (2007: KD 4.9 million).

The financial performance during 2008 reinforces the Company's consistently prudent approach to business. It also underlines our differentiated Sharia-compliant investment philosophy, which focuses on developing domestic demand-driven projects that will bring enduring value and sustainable prosperity to the local community, while also contributing to the growth of the economy.

Two developments during the year firmly illustrate this approach. The first was the Board's considered decision, in light of prevailing market decisions, not to proceed with our planned mixed-use development project in Bahrain's Seef district, in order to maintain the company's sound financial position. The land has been converted in the Company's accounts to Investment Property, and we are currently reviewing several options for the most effective utilization of this land, which has important strategic and monetary value.

Secondly, First Bahrain's inaugural project, our warehousing and logistics facility at Bahrain Investment Wharf (BIW) continued to make excellent progress during the year. Additional land at BIW was acquired to meet increasing demand for affordable warehousing space by small-to-medium enterprises, which are an important engine of growth for the economy.

Construction for phase one, the pricing for which has been substantially reduced due to falling commodity prices, has begun and the Company is preparing for the launch of the operating company for the project in the fourth quarter of 2009. Completion of phase one is planned for the end of 2009.

The current environment, marked by uncertainty, makes it extremely difficult to plan too far ahead. Accordingly, the Board recently reviewed and approved Management's updated business strategy for 2009, revised to reflect the new market realities. In view of the ongoing financial crisis and volatile market conditions in the region, this strategy takes into account new areas of real estate investment that will become more prominent in the wake of the downturn.

First Bahrain is seeking to source and develop a number of new initiatives in 2009 that will address current supply gaps in the market. These opportunities include meeting the need for quality affordable housing in Bahrain, Saudi Arabia and other GCC countries for middle-income families, which is a market segment that remains largely under-served.

Our achievements during 2008 have enabled us to continue laying firm foundations for the future growth and prosperity of First Bahrain and its stakeholders. I would like to stress that the Company has a strong balance sheet that is not leveraged, healthy levels of liquidity, and a positive cash flow.

With our conservative and prudent business approach – providing stability in a time of crisis – and our focused investment strategy for the near term, First Bahrain is well positioned to take advantage of new opportunities during the coming year, and to build upon these for the future.

"OUR ACHIEVEMENTS DURING 2008 HAVE ENABLED US TO CONTINUE LAYING FIRM FOUNDATIONS FOR FUTURE GROWTH AND PROSPERITY"

As you know, the shareholding structure of First Bahrain changed substantially during 2008. The new Board of Directors is supported by three major stakeholders – KAMCO, Iskan Housing Finance Company and Wafra International Investments – all leading regional institutions in their respective fields. As the newly-elected Chairman, I look forward to working with my fellow Directors and the Management to actively pursue our strategic and business goals, enhance shareholder value, and provide greater prosperity for all our stakeholders.

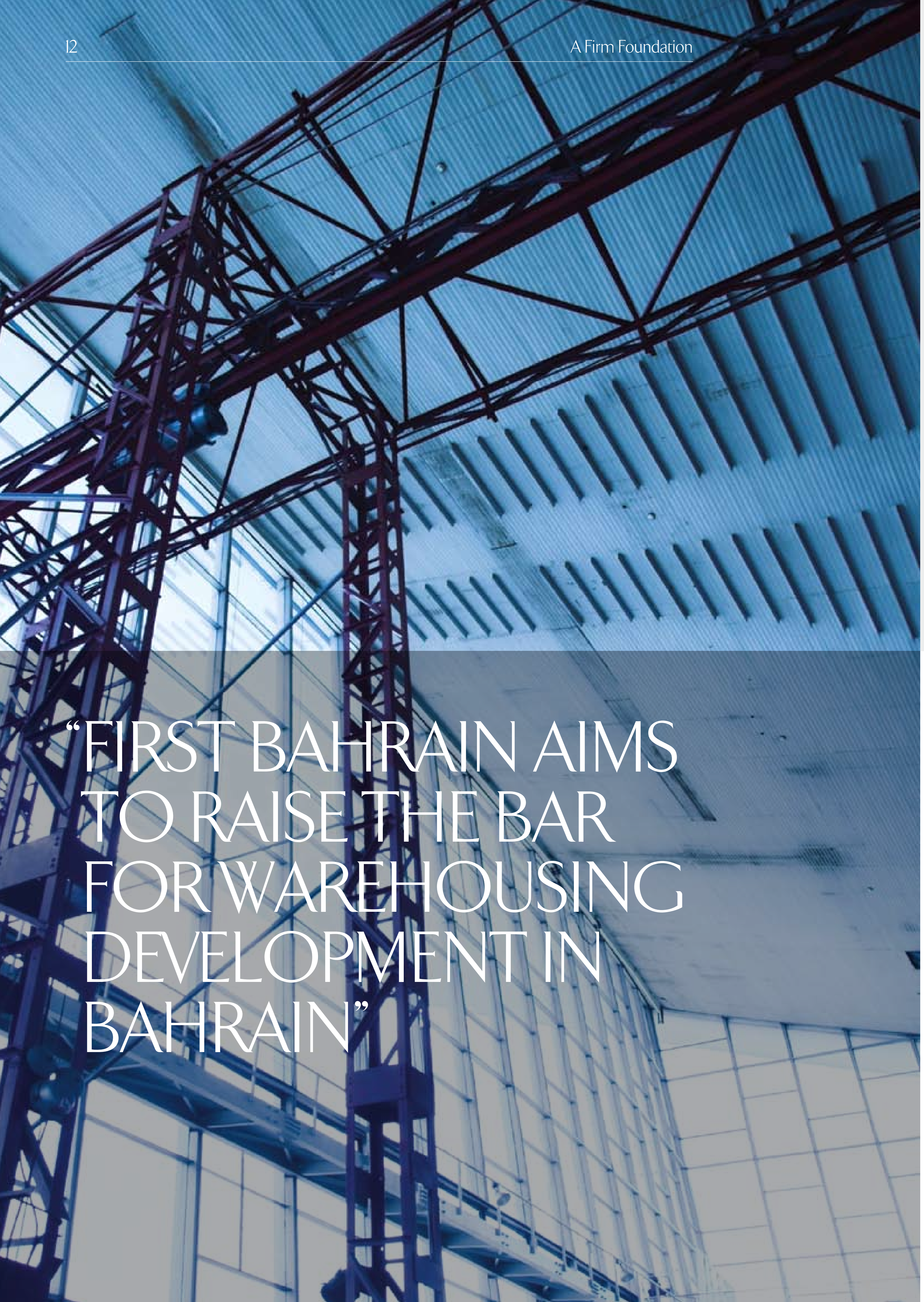
On behalf of the Board of Directors, I would like to extend my best wishes to H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, the Amir of the State of Kuwait, and to H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, the Crown Prince of the State of Kuwait, for their tireless dedication to the economic future and prosperity of the State of Kuwait.

My thanks are also due to the State's government ministries, supervisory bodies, and regulatory authorities, for their continued constructive cooperation and guidance.

I also express my sincere appreciation to our shareholders for their confidence and support; to our clients for their loyalty and trust; to our business partners for their advice and encouragement; and to our management and staff for their professionalism and dedication.

May Almighty God grant us all sustained success and prosperity.

Salah Ahmed Al-Wuhaib
Chairman



> "FIRST BAHRAIN AIMS TO RAISE THE BAR FOR WAREHOUSING DEVELOPMENT IN BAHRAIN"

SPECIAL FEATURE: WAREHOUSING DEVELOPMENT AT BIW

Project Profile

Raising the bar for warehousing development in Bahrain

Project:	Warehousing Development
Target Market:	Small to Medium Enterprises
Location:	Bahrain Investment Wharf
Value:	US$ 45 million
Contractor:	Abdullah H. Al Darazi Co. WLL
Engineer:	Tebodin Middle East Consultants & Engineers
Quantity Surveyors:	Baker Wilkins & Smith (Middle East)

First Bahrain's inaugural project, an SME-focused warehousing and logistics facility at Bahrain Investment Wharf, illustrates the Company's domestic demand-driven and sustainable approach to real estate development.

The project was conceived to fill an existing gap between the quality of space and level of supporting services in Bahrain's warehousing property market. In particular, the project will cater for the increasing warehousing needs of small and medium enterprises (SMEs), which constitute the engine of growth for Bahrain's economy. It will also meet the storage facility needs of Bahrain's fast-growing retail sector.

First Bahrain aims to raise the bar for warehousing development in Bahrain by providing modern spatial solutions designed to international standards, and complemented by a wide range of supporting services.

Covering a total land mass of 716,000 square feet, the complex will provide 429,000 square feet of warehousing space for lease, divided into individual units ranging from 1,000 square feet upwards, with an option for combining units to accommodate tenants' needs for larger space.

In addition to physical warehousing space, a comprehensive range of value-added services will be offered, including 24/7 security, state-of-the-art Information and Communication Technology (ICT), assistance with fitting-out, and leasable materials handling equipment such as forklift trucks.
The project will be developed in three phases. Groundbreaking and construction of the first phase, with a total value estimated at US$ 15 million, began in February 2009 and will be completed within nine months, while final completion of the total project is planned for late-2010.

The project has been designed by international engineering firm Tebodin Consultants & Engineers, who will also act as overall project and construction manager. The Firm will be in charge of civil, structural, piping, and mechanical engineering, and electrical and instrumentation installation, as well as handling associated field engineering, material control, safety, security and environmental requirements. Abdullah H. Al Darazi Co. WLL has been appointed as the General Contractor.

The new warehousing complex is situated at the landmark US$ 1.6 billion Bahrain Investment Wharf (BIW). A mixed-use industrial, logistics, commercial development, covering 170 hectares in the new Hidd industrial area, BIW is strategically located near Bahrain International Airport and the new deep water vessel and container Khalifa bin Salman Port due to open in April 2009, with easy access to the Manama-Hidd causeway, the King Fahd causeway to Saudi, and the planned Friendship causeway to Qatar.

EXECUTIVE MANAGEMENT REVIEW

Challenging and eventful, 2008 proved to be another successful year for First Bahrain. We are pleased to report that during this period, we continued to pursue our strategic plan, progress our existing projects, and strengthen the Company's institutional capability. Going forward, we continue to focus on domestic demand-driven developments and other sustainable real estate investments, which we have identified as providing excellent opportunities for future business growth.

During 2008, the Company's new offices in Kuwait and Bahrain became fully operational, and all essential positions have now been filled. We also signed a strategic agreement with Kanoo IT for a new Enterprise Resource Planning (ERP) system to support our current business activities and future expansion plans. Our staffing policy is to maintain a small in-house team, focused on our core business activities, while outsourcing key support functions such as Legal, IT, Internal Audit, Marketing and Public Relations to carefully selected professional partners. We are pleased to report that we have successfully established 'best-of-breed' alliances for all these areas, as well as having developed strategic business partnerships, both regionally and internationally, to provide expert support for our real estate developments.

At the same time, in line with our commitment to adopt the highest international standards and global best practices, we reviewed and updated our framework of corporate governance, risk management, and internal controls. This will serve to strengthen the Company's institutional capability to meet the challenges of the current global financial crisis and regional market volatility.

Key business developments include acquiring extra land at Bahrain Investment Wharf (BIW) for our inaugural warehousing and logistics project, which has increased the total project area to 716,000 square feet. We also successfully secured financing from Kuwait Finance House-Bahrain for the first phase of the project. With the appointment of the project and construction manager, main contractor, and quantity surveyor, construction began in early 2009.

The warehousing and logistics project at Bahrain Investment Wharf is a perfect example of our domestic demand-driven and sustainable approach to real estate development. As an entrepreneurial developer, operating in compliance to Islamic Sharia, First Bahrain is committed to investing in value creation projects, based on sustainable demand, which will fill existing gaps in the market. We focus on providing innovative smart and green development offerings that incorporate new construction technologies and methods; suit local cultural needs; complement existing communities; create employment opportunities; and contribute to overall economic growth.

The project was conceived to fill an existing gap between the quality of storage space and level of supporting services in Bahrain's warehousing property market. It is specifically designed to cater for the growing needs of small-to-medium enterprises (SMEs) – the engine of growth for the economy – for flexible and cost-effective storage for their goods. The project is situated at the strategically-located Bahrain Investment Wharf in the new Hidd industrial area, which provides convenient access to Bahrain International Airport, the new Khalifa Bin Salman Port, and the main business and shopping districts in Manama and Seef.

With regards to the planned mixed-use development project in Bahrain's Seef district, the Board made a very carefully considered decision not to proceed with the project. We consider this to be a very strong decision given the prevailing market conditions. Working together with all parties involved in the project, First Bahrain has amicably concluded all previous agreements related to the Seef project with no outstanding or forward liabilities. As a result, the Company's balance sheet remains in a very healthy position, and our operations and projects remain sustainable because we have ensured a significant built-in financial buffer. The land will be retained on our books while we consider the most effective way of utilising this important strategic and financial asset.

At the outset of 2008, First Bahrain acquired land in Janabiya near the approach to the King Fahad Causeway to Saudi Arabia. The plot, covering just under 240,000 square feet, is ideal for a mixed-use residential community catering to expatriates who are employed in, and commute to, jobs in the Eastern province of Saudi Arabia. Demand for such rental accommodation remains strong despite the downturn.

A part of the plot faces a major road and was recently granted commercial zoning, thereby being in a favourable position to benefit a large retail anchor such as a supermarket, with a gated residential apartment community. We plan to submit a report of the findings of a feasibility study, now in process, together with a proposal for commencement of project design and planning work, to the Board in early 2009.

With this project and others in the pipeline, First Bahrain has successfully anticipated a major change in Bahrain's real estate and property development sector. In recent years, this market has been dominated by speculative freehold luxury residential accommodation and commercial developments by developers, who paid little or no attention to the needs and concerns of existing local residents, such as traffic access, parking congestion, and community facilities.

Every cloud has a silver lining, and we believe that a positive benefit of the global financial crisis and the price correction in the real estate sector, will be a flight to quality. Genuine long term investors will be looking for developments that make sound financial sense, while developers will be forced to rethink their short-term investment outlook, and provide higher quality commercial and residential projects that address real supply-demand gaps and add sustainable value.

We anticipate the focus will shift from speculators to serious end-users, particularly in the middle-income bracket, who have been poorly served during the boom years. Indigenous demand will remain strong due to the growing young population across the GCC. We also believe areas such as affordable housing, commercial income generating properties and warehousing will constitute a more attractive investment proposition to developers – due to the reduced value of land, lower development and construction costs, and the fall in the price of building materials.

Real estate, as an asset class, is historically more stable than other investments. It also has a particular appeal to Sharia-compliant investors, since it represents a tangible asset. However, as recent events have shown, speculation and the short-term trading of real estate assets can result in real estate being just as risky and volatile as financial instruments. Clearly, the lesson learnt is that the real estate investment sector must be anchored on sound fundamentals. These fundamentals include a more realistic approach, a long-term view with proper planning, implementation of projects that are based on domestic-driven demand, and can offer sustained value and growth.

"CHALLENGING & EVENTFUL, 2008 PROVED TO BE ANOTHER SUCCESSFUL YEAR FOR FIRST BAHRAIN"

The progress we have made during 2008, combined with the steps we have taken to plan our future strategic and business growth, leaves First Bahrain in strong shape to face the challenges of 2009 and beyond. We are ready to take full advantage of new real estate development and investment opportunities in Bahrain and the region.

In conclusion, we would like to express our appreciation to the Board of Directors for their continued confidence in and support for our current activities and future plans; to thank our business partners for their professionalism and encouragement; and to pay tribute to the dedication, hard work and loyalty of our staff. We value your collective contributions and support during these challenging and uncertain times, and look forward to working with you in 2009 to ensure the continued growth and success of First Bahrain.

Amin Ahmed Al Arrayed
General Manager




BOARD OF DIRECTORS

Mr. Salah Al-Wuhaib Chairman
Vice President, Discretionary Portfolios, Mena Asset Management Dept., KIPICO Asset Management Co., KAMCO
Mr. Al-Wuhaib currently manages the Local and Gulf Trading Desk at KAMCO. He previously worked with the Kuwait Fund for Arab Economic Development; Wafra Investment Advisory Group based in New York; and the Kuwait Investment Authority. Mr. Al-Wuhaib holds a Bachelors degree in Business Administration: Management from Eastern Washington University, USA.

Ms. Shahnaz Qabazard Vice Chairman
Chief Executive Officer, Al Qurain Holding Co.
Ms. Qabazard is currently Chief Executive Officer of Al Qurain Holding Co., Group Treasurer at Al Zumorrodah Holding Co., and Board Member at both Iskan Housing Finance Co., and United Healthcare Co. She previously worked at Al Zumorrodah Investment Co. as Vice Relationship Manager in Private Banking Branch at Burgan Bank for seven years, and as a Personal Banker at Gulf Bank. Ms Qabazard holds a BA degree in Marketing from Kuwait University and a Diploma in Wealth Management from Geneva.

Mr. Nayef Al-Hajraf Director, Audit Committee Chairman
Asst. Professor, Accounting Department, Gulf University for Science and Technology
Mr. Al-Hajraf is currently Assistant Professor in the Accounting Department of the Gulf University for Science and Technology. He is a Board Member of the Arab Investment Company, Saudi Arabia; and Founder and Managing Director of the Kuwait Corporate Governance Forum. He is a member of the Kuwait Accountants and Auditors Association; the American Institute for Certified Public Accountants; and the Hawkamah Institution for Corporate Governance. Mr. Alhajraf holds a PhD in Accounting and Finance from Hull University Business School, UK; an MSc in Accountancy from the University of Illinois, USA; and a BSc in Accounting from Kuwait University.

Mr. Abdulkarim Al-Khalifi Director
Manager Department of Public Relations and information, Social Insurance
Mr. Al-Khalifi has more than 30 years' experience in business and the academic world. This includes senior positions with the Public Institution for Social Security in the fields of HR, External Relations and Information. In addition to his post as lecturer at both the Public Authority for Applied Education and Training, and the Civil Service Commission, he has conducted numerous academic studies concerning improvements in customer service. He is a Member of the International Social Security Association; the International Public Relations Association; and the Technical Committee for Retirement of the Gulf Cooperative Council. Mr. Al-Khalifi holds a BA degree in Business Administration from Kuwait University, Faculty of Commerce, Economics, and Political Sciences.



Ms. Rasha Al-Awadi Director
Senior Vice President investment & fund Management Department, Housing Finance Company "Iskan"
Ms. Al-Awadi is currently VP – Investment and Fund Management at Iskan Housing Finance Company. She previously worked for Global Investment House; Kuwait Investment Company; and Kuwait Foreign Trading, Contracting and Investment Company. Her qualifications include Accredited Professional Accountant and Certified Global Investment Analyst from the American Institute for Financial Business and Research; and Arbitrator from the Kuwait Commercial Arbitration Centre. Ms. Al-Awadi is a Member of the Kuwait Association of Accountants and Auditors, and holds a BA degree in Accounting and Auditing from Kuwait University.

Mr. Talal Al-Omaim Director
Senior Vice President / Real Estate Services, Housing Finance Company "Iskan"
Mr. Al-Omaim is SVP – Real Estate Department at Iskan Housing Finance Company, and General Manager of Real Estate Company (an Iskan subsidiary). He previously worked with Burgan Bank, and the Bank of Kuwait and the Middle East (BKME). Mr. Al-Omaim holds a Diploma in Professional Property Financing and Evaluation.

Mr. Khalifa Al-Tararwa Director
Vice President / Real Estate Services Administration, Housing Finance Company "Iskan"
Mr. Al-Tararwa is currently Vice Chairman of the Housing International Real Estate Development Company, and until recently Vice President – Real Estate Services Administration at Iskan Housing Finance Company. He previously worked for the Kuwaiti Fund for Development. His career spans 23 years in the Kuwait real estate market, including extensive experience in real estate investment and trading management, and information systems management. Mr. Al-Tararwa holds a Bachelors degree in Computer Science from Ashland University, USA.



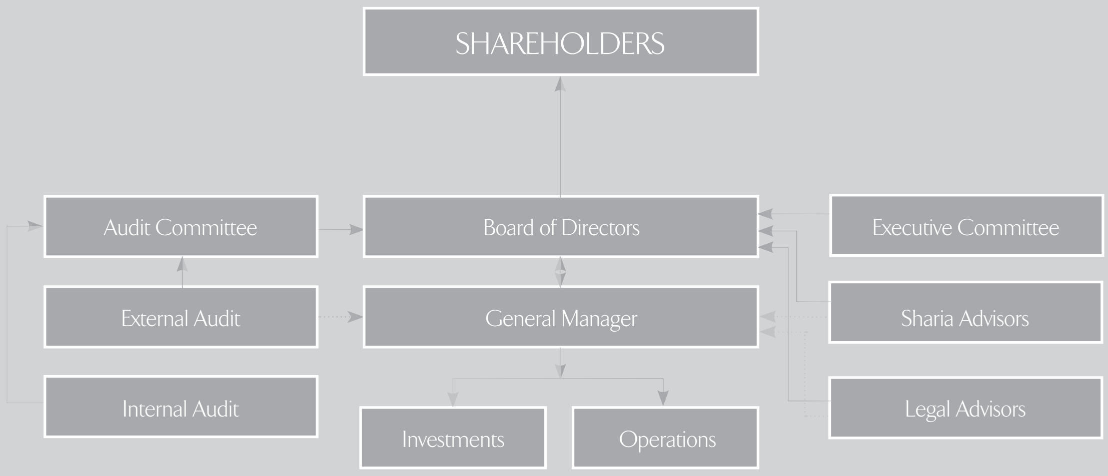
EXECUTIVE MANAGEMENT

Amin Al Arrayed General Manager
Mr. Al Arrayed has over 13 years' experience and in-depth knowledge of banking, financial services and real estate. Prior to joining First Bahrain, he was Head of Retail and Placement at Reef Real Estate Finance Company, and Regional Head of Retail Banking at BBK, in the Kingdom of Bahrain. Mr. Al Arrayed holds an MBA from the Kellstadt Graduate School of Business at DePaul University, Chicago, USA; and a BSc degree in Economics from the University of Redlands, California, USA.

Mounther Al Sabbagh Head of Investments
Mr. Al Sabbagh has a distinguished investment banking career spanning more than 11 years. Prior to joining to First Bahrain, held several senior management positions at Orion Capital Partners; Shamil Bank and Taib Bank, which are prominent financial institutions based in the Kingdom of Bahrain. Mr. Al Sabbagh holds a BA degree from Clark University, Massachusetts, USA.

Daniel Taylor Head of Operations
An entrepreneur, with a diverse career spanning 20 years, Mr. Taylor has a wealth of operational and management experience. Prior to joining First Bahrain, he was General Manager of New York Coffee, and General Manager of Mariner Technologies, where he was the chief architect of the GCC business news portal, TradeArabia.com. A member of the Urban Land Institute and the American Chamber of Commerce in Bahrain, Mr. Taylor holds an MBA from the Kellstadt Graduate School of Business at DePaul University, Chicago, USA; and a BA degree from the University of Virginia, USA.

GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE

First Bahrain recognises the importance of sound corporate governance as a critical factor in attaining fairness for all stakeholders, enhancing shareholder value, and achieving organisational integrity and efficiency. The Company is committed to full compliance with the appropriate rules and regulations of relevant regulatory authorities in those jurisdictions where it operates.

The Company has a corporate governance structure in place that clearly segregates organisational functions and responsibilities. This structure reflects the division of roles and responsibilities between the Chairman of the Board, the Board of Directors and the Board Committees; the General Manager and Senior Management team; and those corporate functions, such as Compliance, Internal Audit and Risk Management, which report through relevant Board Committees to the Board.

The Board comprises seven Directors, whose appointment reflects the shareholding of the Group. The Directors have a diverse range of skills and experience, and each brings an independent judgment and considerable knowledge to the Board's discussions. Their profiles are listed separately in this annual report. The Board is supported by two committees – the Executive Committee and the Audit Committee – together with Sharia advisory services from Al Mashora and Al Raya for Islamic Financial Consulting.

The General Manager, supported by the Senior Management team, is delegated by the Board with responsibility for the day-to-day management of the Group. The team comprises well qualified professionals with regional and international career backgrounds, and relevant experience in key areas such as banking, investments, real estate, and business administration. Their profiles are listed separately in this annual report.

RISK MANAGEMENT

The Board has established a risk management structure for First Bahrain that clearly defines roles, responsibilities and reporting lines. Primary responsibility for managing risk rests with the Senior Management, while the Board, through its Audit Committee, retains ultimate responsibility for risk management.

One of the cornerstones of the Group's risk management approach is a well defined system of delegated authorities with respect to the commitment of capital, and an investment approval process that brings rigour to the selection, assessment and approval of investment risks assumed under the Group's principal investment activities. Matters such as legal, accounting and general risk assessment issues are considered in each case.

The Group's Internal Audit function provides independent reporting to the Audit Committee with respect to the management of risk, and also provides comment on the effectiveness of the design and operation of controls across the Group.

The main risks to which First Bahrain is exposed are credit risk, liquidity risk and market risk, the latter comprising profit rate 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. These are monitored through the Group's strategic planning process.

Additional information on specific risk exposures is included in the Notes to the Consolidated Financial Statements in this Annual Report.

FINANCIAL STATEMENTS

AL MASHORA & AL RAYA SHARIA ADVISORY BOARD REPORT

At 31 December 2008

Praise is only to Allah and Peace and Blessing on the last Prophet, his family and companions.
To the Shareholders of First Bahrain Estate Development Co. (KSC)

Allah's Peace & Blessings on you.

As per Engagement Contract Signed with us, we have audited the contracts and transactions executed by the company during the fiscal year ended on 31/12/2007 to express our opinion on extent of the company compliance with the provision of Islamic Sharia as described on the opinions, guidelines and Sharia decisions issued by us.

Compliance with implementation of contracts and transactions in accordance with the provisions of Islamic Sharia shall be the responsibility of the company management. However, our liability is limited to expression of independent opinion on the extent of the company compliance with same based on our audit.

We have conducted our audit according to the controls criteria issued by Accounting & Audit Panel for Islamic Financial Institutions which require us to plan and implement audit procedures in order to obtain all information, interpretations and declarations that we deem necessary for providing us sufficient evidences to give reasonable confirmation that the company is in compliance with the provisions of Islamic Sharia as stated by us.

We have conducted our audit on the basis of examining samples of each type of contracts and transactions executed during the period. We believe that audit activities we have undertaken provide a proper basis for expressing our opinion.

In our opinion:

- The company, during the specified fiscal period, has conducted its duties towards execution of contracts and transactions in accordance with the provisions of Islamic Sharia as described on opinions, guidelines and sharia decisions by us.

- The company is not authorized to perform Zakat and the responsibility of the same shall reside in the shareholders.

Allah's Peace & Blessings may be upon you.

Sharia Advisory Board:

Prof. Abdul Razzaq Khalifa Al-Shaiji	**Mr. Mohammad Al Jaser**	**Mr. Abdul Aziz Al Jarallah**
Board Chairman	Member	Executive Member

REPORT OF THE INDEPENDENT AUDITORS

At 31 December 2008

We have audited the accompanying consolidated financial statements of First Bahrain Real Estate Development Company K.S.C. (Closed) ("the parent company") and its subsidiaries (together, "the group"), which comprise the consolidated balance sheet as at 31 December2008 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.

Management's responsibility for the consolidated financial statements Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditor's 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 2008, 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 2008 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
18 March 2009
Kuwait

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 KD	2007 KD
Realised gain from sale of investment property	5	942,514	1,912,258
Unrealised gain from revaluation of investment property	5	5,391,466	1,077,979
Loss on discontinuance of development activities on properties under development	6	(1,474,769)	-
Impairment of property under development	6	(324,104)	-
Realised (loss) gain from sale of investments carried at fair value through income statement		(1,289,513)	361,191
Unrealised (loss) gain from investments carried at fair value through income statement		(27,799)	1,269,034
Murabaha income		85,644	12,282
Wakala income		467,760	766,718
Impairment of wakala receivables		(483,388)	-
Dividend income		102,389	101,384
Other income		1,084	12,259
Staff cost		(298,885)	(315,289)
Rent		(66,298)	(53,447)
Marketing expenses		(71,805)	(32,050)
Finance cost		(25,911)	-
Foreign exchange (loss)/gain		(1,948)	20,224
Other expenses		(244,743)	(155,717)
PROFIT BEFORE TAXES AND DIRECTORS' REMUNERATION		2,681,694	4,976,826
Contribution to Kuwait Foundation for Advancement of Sciences		(24,135)	(44,791)
Zakat		(25,793)	(3,041)
Directors' remuneration		(37,500)	(75,000)
PROFIT FOR THE YEAR	10	2,594,266	4,853,994
BASIC AND DILUTED EARNINGS PER SHARE	3	8.24 Fils	15.41 Fils

The attached notes 1 to 17 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 KD	2007 KD
ASSETS			
Non-current assets			
Prepaid lease rentals	4	3,864,173	1,451,637
Investment property	5	21,406,543	-
Properties under development	6	4,262,884	16,341,502
Furniture and equipment		158,526	200,643
		29,692,126	17,993,782
Current assets			
Investments carried at fair value through income statement	7	526,015	7,467,891
Wakala receivables		589,494	10,671,761
Accounts receivable	8	661,353	2,826,099
Murabaha receivables	9	8,000,000	1,392,225
Bank balances and cash	9	3,157,889	850,197
		12,934,751	23,208,173
TOTAL ASSETS		42,626,877	41,201,955
EQUITY AND LIABILITIES			
Equity			
Share capital	10	31,500,000	30,000,000
Statutory reserve	11	1,455,394	1,187,225
Retained earnings		9,735,225	10,409,128
Foreign currency translation reserve		(674,067)	(832,102)
		42,016,552	40,764,251
Non-current liabilities			
Murabaha payable		421,291	-
Current liabilities			
Accounts payable and accruals		189,034	437,704
Total liabilities		610,325	437,704
TOTAL EQUITY AND LIABILITIES		42,626,877	41,201,955

Salah Ahmed Al-Wuhaib
Chairman

The attached notes 1 to 17 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 KD	2007 KD
OPERATING ACTIVITIES			
Profit for the year		2,594,266	4,853,994
Adjustment for:			
Realised gain from sale of investment property		(942,514)	(1,912,258)
Unrealised gain from revaluation of investment property		(5,391,466)	(1,077,979)
Developmental expenses for properties under development		1,474,769	-
Impairment of property under development		324,104	-
Realised loss (gain) from sale of investments carried at fair value through income statement		1,289,513	(361,191)
Unrealised loss (gain) from investments carried at fair value through income statement		27,799	(1,269,034)
Impairment of wakala receivables		483,388	-
Finance cost		25,911	-
Depreciation		75,532	9,986
		(38,698)	243,518
Working capital changes:			
Investments carried at fair value through income statement		5,465,536	437,612
Wakala receivables		7,154,760	2,984,893
Accounts receivable		2,640	(17,413)
Accounts payable and accruals		(248,670)	143,450
Net cash from operating activities		12,335,568	3,792,060
INVESTING ACTIVITIES			
Purchase of leasehold rights		(2,501,638)	(1,489,906)
Additions to properties under development		(5,532,109)	(272,079)
Proceeds from sale of investment property		3,157,255	734,920
Purchase of furniture and equipment		(33,415)	(209,429)
Net cash used in investing activities		(4,909,907)	(1,236,494)
FINANCING ACTIVITIES			
Net proceeds from murabaha payable		421,291	-
Finance cost paid		(25,911)	-
Dividends paid		(1,500,000)	-
Net cash used in financing activities		(1,104,620)	-
INCREASE IN CASH AND CASH EQUIVALENTS		6,321,041	2,555,566
Net foreign exchange difference		(8,721)	(101,182)
Cash and cash equivalents at the beginning of the year		4,845,569	2,391,185
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	9	11,157,889	4,845,569

The attached notes 1 to 17 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital KD	Statutory reserve KD	Retained earnings KD	Foreign currency translation reserve KD	Total KD
Balance at 1 January 2008	30,000,000	1,187,225	10,409,128	(832,102)	40,764,251
Foreign currency translation adjustment				158,035	158,035
Total income for the year recognised directly in equity	-	-	-	158,035	158,035
Profit for the year	-	-	2,594,266	-	2,594,266
Total income and expense for the year	-	-	2,594,266	158,035	2,752,301
Bonus issue (Note 10)	1,500,000	-	(1,500,000)	-	-
Cash dividends (Note 10)	-	-	(1,500,000)	-	(1,500,000)
Transfer to statutory reserve	-	268,169	(268,169)	-	-
Balance at 31 December 2008	**31,500,000**	**1,455,394**	**9,735,225**	**(674,067)**	**42,016,552**
Balance at 1 January 2007	30,000,000	689,542	6,052,817	30,592	36,772,951
Foreign currency translation adjustment	-	-	-	(862,694)	(862,694)
Total expense for the year recognised directly in equity	-	-	-	(862,694)	(862,694)
Profit for the year	-	-	4,853,994	-	4,853,994
Total income and expense for the year	-	-	4,853,994	(862,694)	3,991,300
Transfer to statutory reserve	-	497,683	(497,683)	-	-
Balance at 31 December 2007	30,000,000	1,187,225	10,409,128	(832,102)	40,764,251

The attached notes 1 to 17 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

1 ACTIVITIES

First Bahrain Real Estate Development Company K.S.C. (Closed) (the "parent company") is a Kuwaiti shareholding company incorporated on 5 October 2004 as K.S.C. (Holding) and registered on 9 May 2005 under the commercial companies law No. 15 of 1960 as amended. Its registered office is at Al Khaleej Tower, 15th Floor, Abu Baker Al Sadeeq Street, Al Qibla, State of Kuwait. The parent company engages in activities under the principles of Isalmic Sharia, which include:

- 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 consolidated financial statements of the parent company and its subsidiaries ("the group") for the period ended 31 December 2008 were authorised for issue by the parent company's board of directors on 18 March 2009. The annual general assembly of the shareholders of the parent company has the power to amend these consolidated financial statements after issuance.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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.

The consolidated financial statements have been presented in Kuwaiti Dinars which is the functional currency of the parent company.

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 accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year.

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.

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 revised standard introduces changes to the presentation of financial statements and does not affect the recognition, measurement or disclosure of specific transactions. The standard will not affect the financial position or results of the group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the group. Other changes to the standard are not expected to have material impact on the consolidated financial statements of the group.

IFRS 3 Business Combinations (Revised) and Consequential Amendments to IAS 27 Consolidated and Separate Financial Statements.

IFRS 3 (Revised) and IAS 27 (Amended) was issued by the IASB board in January 2008 which will be effective for financial years beginning on or after 1 July 2009. The standard introduces changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported result. The new standard may require changes in the way the Group discloses information about its goodwill recognised during acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A summary of the significant accounting policies used in preparation and presentation of the consolidated financial are set out below:

Basis of consolidation

These consolidated financial statements include the financial statements of the parent company and its subsidiaries. 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.

The results of the subsidiaries acquired or disposed off 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 principal subsidiaries of the group are as follows

Name	Country of incorporation	% equity interest 2008	% equity interest 2007	Principal activities
First Kuwait Al Seef Real Estate Development Company W.L.L. (FKAS)	Bahrain	100%	100%	Real estate and investment activities
FB Janabiya Residential Development Company W.L.L	Bahrain	100%	-	Real estate and investment activities
Majaal Warehouse W.L.L	Bahrain	100%	-	Real estate and investment activities

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.

Investment property

Investment property is initially measured at cost, being the fair value of the consideration given and including acquisition charges associated with the property. After initial recognition, the investment property is carried at fair value that is determined based on valuation performed by independent valuers using valuation methods consistent with the nature and usage of the investment property. Resultant unrealised gains or losses from change in the fair value are recognised in the consolidated income statement.

Properties are transferred from investment property to properties 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Properties under development
Properties acquired, constructed or in the course of construction for sale are classified as properties under development. The cost of properties 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. The properties are held for development for future use as investment property.

Furniture and equipment
Furniture and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

Investments carried at fair value through income statement
Investments carried at fair value through income statement include investments held for trading and investments designated upon initial recognition as at fair value through income statement. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Investments are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy.

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.

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 a 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.

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. Murabaha receivables represent balances with Islamic financial services institutions

Cash and cash equivalents
For the purpose of the consolidated 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.

Murabaha payable
Murabaha payable represents the amount payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payable is stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value
For investments traded in an active market, fair value is determined by reference to quoted market bid prices. For all other financial assets or liabilities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current fair value of another instrument that is substantially the same, recent arm's length market transactions, discounted cash flow analysis, other appropriate valuation models or brokers' quotes.

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.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet, if and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise assets and settle liabilities simultaneously.

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.

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. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated If such evidence exists, any impairment loss, is recognised in the consolidated income statement.

(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;
(c) For assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.

Foreign 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 in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity and for non-monetary assets whose change in fair value are recognised in the consolidated income statement are recognised in the consolidated income statement.

Assets and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the balance sheet date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in a separate section of equity (foreign currency translation reserve) until the disposal of the foreign operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

The group conducts internal reviews annually or more frequently if events or changes in circumstances indicate that, the values of properties under development and furniture and equipment are impaired. An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific asset, or a group of similar assets, may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated income statement.

Provisions

Provisions are recognised when the group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. The group's primary format for segment reporting is based on business segments.

Significant accounting judgements, estimates and assumptions

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:

Classification of real estate

Management decides on acquisition of a real estate property whether it should be classified as trading property, properties 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 investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

The group classifies property as properties under development if it is acquired or subsequently the intention is changed to construction and development for sale in the ordinary course of business.

Classification of financial assets

Judgments are made in the classification of financial instruments based on management's intention at acquisition.

Valuation of unquoted 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;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- Other valuation models

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimation uncertainty and assumptions (continued)

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.

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.

Impairment of properties under development

A decline in the value of properties under development could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value beyond that which would be expected from the passage of time or normal use
- significant changes in the technology and regulatory environments
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

The group's impairment test for properties under development is based on value in use calculation that uses discounted cash flow model. The cash flows are derived from budget for future years based on management intention and do not include restructuring activities that the group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as expected future cash inflows and the growth rate used for extrapolation purposes. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to such provisions.

3 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 year as follows:

	2008 KD	2007 KD
Profit for the year attributable to equity holders' of the parent company	2,594,266	4,853,994
	Shares	Shares
Weighted average number of shares outstanding during the year	315,000,000	315,000,000
Basic and diluted (loss) earnings per share	8.24 fils	15.41 fils

Basic and diluted earnings per share reported was 16.18 fils for the year ended 31 December 2007, before retroactive adjustments to the number of shares following the bonus issue (Note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

4 PREPAID LEASE RENTALS

During the year, the group obtained lease on a land for 50 years from 8 July 2008 for KD 2,077,564 out of which KD 1,653,421 was paid. Lease payments on existing lease obligations amounting KD 848,217 were made during the year. Future lease commitments payable under non-cancellable operating lease are disclosed in Note 14.

5 INVESTMENT PROPERTY

	2008 KD	2007 KD
Opening balance	-	14,098,061
Transfer from (to) properties under development (Note 6)	16,015,077	(13,625,445)
Sale of investment property	-	(1,522,699)
Revaluation gains	5,391,466	1,077,979
Foreign exchange translation adjustment	-	(27,896)
Balance at 31 December	21,406,543	-

The investment property is stated at fair value, which has been determined based on the valuations performed by accredited independent valuers.

On 7 November 2007, the group sold the investment property with a carrying value of KD 1,522,699 for a total sale consideration of KD 3,434,957 realising a gain of KD 1,912,258 in the consolidated income statement for the year ended 31 December 2007, based on anticipated area of the investment property assessed. The sale consideration as per the investment property sale agreement was subject to variations based on the actual area of the property to be determined and identified subsequently.

On 21 May 2008, the above agreement was amended based on the actual area determined which resulted in the identification of additional property area giving rise to additional sale consideration of KD 942,514 which has been recognised as gain in the consolidated income statement for the year ended 31 December 2008. The sale consideration receivable is included in accounts receivable as at 31 December 2008 and was received on 29 January 2009 (Note 8).

6 PROPERTIES UNDER DEVELOPMENT

	2008 KD	2007 KD
At 1 January	16,341,502	3,177,594
Additions	5,532,109	272,079
Transfer (to) from investment property (Note 5)	(16,015,077)	13,625,445
Loss on discontinuance of development activity on property under development	(1,474,769)	-
Impairment of property under development	(324,104)	-
Foreign exchange translation adjustment	203,223	(733,616)
At 31 December	4,262,884	16,341,502

Properties under development represent properties located in Janabiya, Bahrain that are being developed.

The Board of Directors in a meeting held on 30 October 2008 resolved to discontinue with immediate effect the development activities on land that is located in Al Seef, in Bahrain. Accordingly, all existing arrangements and contracts related to development of the Al Seef land with third parties have been terminated and are consequently being settled. The expenses for development of the property till the date of discontinuance amounting to KD 1,474,769 have been charged to the income statement. The cost of the land amounting to KD 16,015,077 has been transferred to investment property (Note 5).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

7 INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

These represent investment in unquoted funds that are measured at fair values provided by the fund managers.

8 ACCOUNTS RECEIVABLE

	2008 KD	2007 KD
Receivable on sale of investment property (Note 5)	485,296	2,700,037
Other receivables	176,057	126,062
	661,353	2,826,099

9 CASH AND CASH EQUIVALENTS

	2008 KD	2007 KD
Murabaha receivables with original maturities of less than 3 months	8,000,000	1,392,225
Wakala receivables with original maturities of less than 3 months	-	2,603,147
Bank balances and cash	3,157,890	850,197
	11,157,890	4,845,569

Murabaha receivables carry effective average annual profit rate of 9% (2007: 5.8%).

10 SHARE CAPITAL, DIVIDENDS, AND DIRECTORS' REMUNERATION

Share capital
On 24 April 2008, the Extraordinary General Assembly of the shareholders of the company approved the increase of authorized share capital from KD 30,000,000 to KD 31,500,000.

The authorised, issued and fully paid share capital as at 31 December 2008 comprises 315,000,000 (31 December 2007: 300,000,000) ordinary shares of 100 fils each.

Bonus shares
The Annual General Assembly of the shareholders held on 24 April 2008 approved the issue of bonus shares of 5% (5 fils per share) to the equity shareholders of the parent company on the register as of 24 April 2008.

Cash dividend
The Annual General Assembly of the shareholders held on 24 April 2008 approved a cash dividend of 5% (5 fils per share) to the equity shareholders of the parent company on the register as of 24 April 2008.

Directors' remuneration
Board of Directors' remuneration of KD 37,500 (2007: KD 75,000) is subject to approval by the ordinary general assembly of the shareholders of the parent company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

11 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 deductions has been transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital.

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

12 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.

	2008 KD	2007 KD
Balances included in the consolidated balance sheet:		
Wakala receivables (placed through related parties)	-	10,671,761
Murabaha receivables	8,000,000	-
Bank balances and cash	-	731,619
Transactions included in the consolidated income statement:		
Murabaha income	75,452	-
Wakala income	-	766,718
Key management compensation		
Salaries and other short term benefits	163,124	257,131
Employees end of service benefits	2,888	2,400
	166,012	259,531

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

13 SEGMENT INFORMATION

a) Primary 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.

31 December 2008	Real estate activities KD	Non-real estate activities KD	Unallocated KD	Total KD
Segment revenue	4,535,107	(1,114,907)	1,084	3,421,284
Segment result	3,795,517	(1,114,907)	(86,344)	2,594,266
Segment assets	33,511,368	9,115,509	-	42,626,877
Segment liabilities	610,325	-	-	610,325
Other segmental information:				
Purchase of lease rights	2,501,638	-	-	2,501,638
Addition to properties under development	5,532,109	-	-	5,532,109
Loss on discontinuance of property under development	1,474,769	-	-	1,474,769
Impairment of property under development	324,104	-	-	324,104
Unrealised loss from investments carried at fair value through income statement	-	27,799	-	27,799
Impairment of Wakala receivables	-	483,388	-	483,388

31 December 2007	Real estate activities KD	Non-real estate activities KD	Unallocated KD	Total KD
Segment revenue	2,990,237	2,510,609	12,259	5,513,105
Segment result	2,453,958	2,510,609	(110,573)	4,853,994
Segment assets	17,793,139	23,408,816	-	41,201,955
Segment liabilities	437,704	-	-	437,704
Other segmental information:				
Purchase of lease rights	1,489,906	-	-	1,489,906
Addition to properties under development	272,079	-	-	272,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

13 SEGMENT INFORMATION (CONTINUED)

Secondary segment information

The group operates mainly in the following geographic markets; a) Kuwait and b) Bahrain. The following table shows the distribution of the group's segment revenues, segment results, segment assets, segment liabilities and other segment information by geographical segment:

31 December 2008	Kuwait KD	Bahrain KD	Others KD	Total KD
Segment revenues	(1,114,907)	4,535,107	1,084	3,421,284
Segment assets	11,423,304	31,203,573	-	42,626,877

31 December 2007	Kuwait KD	Bahrain KD	Others KD	Total KD
Segment revenues	2,510,609	2,990,237	12,259	5,513,105
Segment assets	20,410,598	20,791,357	-	41,201,955

14 COMMITMENTS

At 31 December 2008, the group had commitments in respect of lease rent amounting to KD 975,977 (2007: KD 457,724).

15 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, wakala receivables, accounts receivables, murabaha receivables and bank balances and cash. Financial liabilities consist of murabaha payables and accounts payables and accruals.

The fair values of financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

16 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 profit rate 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.

16.1 Credit risk

Credit risk is the risk that one party to a financial asset will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets comprise of bank balances, murabaha receivables, wakala receivables and accounts receivables. Bank balances are held with high credit quality financial institutions and the group has policies to limit the amount of credit exposure to any financial institution. The group seeks to limit its credit risk with regard to receivables by dealing with credit worthy counter parties and regularly monitoring its outstanding receivables.

Gross maximum credit risk exposure to financial assets is based on the carrying amounts as reported in the consolidated balance sheet. The group has past due but not impaired financial assets outstanding for less than 30 days amounting to KD 589,494 at 31 December 2008 (31 December 2007: Nil). Impaired financial assets at 31 December 2008 amounted to KD 483,388 (2007: Nil). The group does not have any collateral or other credit enhancements against any of the financial assets at 31 December 2008 and 31 December 2007.

16.2 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 group's liabilities as at 31 December 2008 amount to KD 737,082 (2007: KD 437,704).

16.3 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 profit 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.

16.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates of Islamic financial instruments will affect future profitability of the group. The group is not exposed to interest rate risk.

The group is not significantly exposed to profit rate risk since its profit bearing assets (murabaha and wakala receivables) and liabilities (murabaha payables) carry profit rate at fixed rates.

16.3.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

16 RISK MANAGEMENT (CONTINUED)

16.3 MARKET RISK (continued)

16.3.2 Foreign currency risk (continued)

The effect on profit for the year (due to change in the fair value of monetary assets and liabilities) and on equity (due to change in the carrying value of the net investment in subsidiary) as a result of change in currency rate, with all other variables held constant is shown below as at 31 December 2008:

	Increase in currency rate by 3%			
	31 December 2008		31 December 2007	
Currency	Effect on profit KD	Effect on equity KD	Effect on profit KD	Effect on equity KD
Bahraini Dinar	14,375	656,909	23,021	590,163

Sensitivity to currency rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

16.3.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments in the group's investment portfolio. Equity price risk is managed by the group through diversification of investments in terms of geographical distribution and industry concentration. The group's investments are in unlisted funds and therefore the group is not significantly exposed to equity price risk due to reasonably possible changes in active market indices.

17 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 2008 and 31 December 2007.

Capital comprises share capital, statutory reserves and retained earnings, and is measured at KD 42,690,619 as at 31 December 2008 (2007: KD 41,596,353).