BAYAN INVESTMENT COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES
STATE OF KUWAIT

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

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STATE OF KUWAIT

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# INDEPENDENT AUDITORS' REPORT

The shareholders
Bayan Investment Company - K.S.C. (Closed)
State of Kuwait

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bayan Investment Company - K.S.C. (Closed) (the Parent Company) and subsidiaries (the Group) which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated statement of income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

## 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 as adopted in the state of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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 Bayan Investment Company - K.S.C. (Closed) as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the state of Kuwait.

Report on other Legal and Regulatory Requirements

Also in our opinion, the consolidated financial statements include the disclosures required by the Commercial Companies Law and the Parent Company's Articles of Association, and we obtained the information we required to perform our audit and that the consolidated financial statements incorporate all the information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Director's Report is in agreement with the Company's books. According to the information available to us, no violation of the Commercial Companies Law of 1960 as amended or of the Parent Company's Articles of Association have occurred during the year ended December 31, 2007 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the year ended December 31, 2007 that might have had a material effect on the business of the Group or on its financial position.

Ali Owaid Rukheyes
Licence No. 72-A
Member of the International Group
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Licence No. 33-A
Albazie & Co.
Member of RSM International

State of Kuwait
March 11, 2008

BAYAN INVESTMENT COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

| | Note | 2007 | 2006 |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | 3 | **7,969,985** | 1,862,490 |
| Investments at fair value through income statement | 4 | **58,976,274** | 59,518,195 |
| Accounts receivable and other debit balances | 5 | **1,188,880** | 2,296,219 |
| Inventories | | **250,758** | - |
| Due from a related party | 24 | **70,500** | - |
| Investments available for sale | 6 | **45,815,292** | 52,397,784 |
| Investment in an associate | 7 | **900,000** | - |
| Investment in unconsolidated subsidiaries | 8 | **159,249** | 3,214,015 |
| Projects under development | 9 | **41,426,656** | - |
| Investment properties | 10 | **20,300,000** | 19,729,200 |
| Fixed assets | | **37,538** | - |
| Total assets | | **177,095,132** | 139,017,903 |
| LIABILITIES AND EQUITY | | | |
| Liabilities: | | | |
| Due to banks | 11 | **70,422,200** | 34,224,803 |
| Accounts payable and other credit balances | 12 | **3,713,219** | 1,470,168 |
| Bonds | 13 | **20,000,000** | 20,000,000 |
| Provision for end of service indemnity | | **207,177** | 203,735 |
| Total liabilities | | **94,342,596** | 55,898,706 |
| Equity: | | | |
| Share capital | 14 | **35,696,719** | 35,696,719 |
| Treasury shares | 15 | **(3,188,057)** | (3,241,205) |
| Statutory reserve | 16 | **11,018,725** | 10,241,176 |
| Voluntary reserve | 17 | **9,881,197** | 9,103,648 |
| Cumulative changes in fair value of available for sale investments | | **9,877,334** | 14,449,817 |
| Foreign currency translation adjustment | | **(27,336)** | - |
| Treasury shares reserve | | **836,571** | 816,922 |
| Retained earnings | | **18,607,059** | 16,052,120 |
| Equity attributable to shareholders of the Parent Company | | **82,702,212** | 83,119,197 |
| Minority interest | | **50,324** | - |
| Total equity | | **82,752,536** | 83,119,197 |
| Total liabilities and equity | | **177,095,132** | 139,017,903 |

The accompanying notes from (1) to (28) form an integral part of the consolidated financial statements

Faisal Ali Al-Mutawa
Chairman and Managing Director

Adel Essa Al-Yousifi
Vice Chairman

BAYAN INVESTMENT COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

| | Note | 2007 | 2006 |
|---|---|---|---|
| **Revenue** | | | |
| Investment income (loss) | 19 | **14,103,767** | (14,586,999) |
| Gain on sale of investment properties | 10 | **-** | 7,596,110 |
| Management fees | 20 | **620,257** | 4,259,366 |
| Consultancy revenue | | **118,050** | - |
| Interest income | | **112,338** | 28,013 |
| Reversal of impairment loss for investment properties | 10 | **570,800** | 1,713,908 |
| Foreign exchange loss | | **(128,644)** | (9,790) |
| | | **15,396,568** | (999,392) |
| **Expenses and other charges** | | | |
| General and administrative expenses | 21 | **(2,068,558)** | (2,106,912) |
| Provision against investment in an unconsolidated | 8 | **(650,000)** | - |
| Finance charges | | **(4,893,391)** | (4,194,725) |
| Profit (loss) for the year before contribution to Kuwait Foundation for the Advancement of Sciences, contribution to Zakat, National Labor Support Tax and Board of Directors' remuneration | | **7,784,619** | (7,301,029) |
| Contribution to Kuwait Foundation for the Advancement of Sciences | | **(61,566)** | - |
| Contribution to Zakat | 22 | **(4,238)** | - |
| National Labour Support tax | | **(110,434)** | - |
| Board of Directors' remuneration | | **(72,000)** | - |
| Net profit (loss) for the year | | **7,536,381** | (7,301,029) |
| Attributable to: | | | |
| Equity holders of the Parent Company | | **7,527,248** | (7,301,029) |
| Minority interest | | **9,133** | - |
| Net profit (loss) for the year | | **7,536,381** | (7,301,029) |
| | | **Fils** | Fils |
| Earnings (loss) per share | 23 | **22.02** | (21.33) |

The accompanying notes from (1) to (28) form an integral part of the consolidated financial statements

# BAYAN INVESTMENT COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

| | Attributable to the parent company's shareholders | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Treasury shares | Statutory reserve | Voluntary reserve | Foreign currency translation adjustment | Cumulative changes in fair value of available for sale investments | Treasury shares reserve | Retained earnings | Sub-total | Minority interest | Total |
| Balance as at December 31, 2005 | 33,206,250 | (2,239,828) | 10,241,176 | 9,103,648 | - | 13,534,940 | 815,431 | 33,531,228 | 98,192,845 | - | 98,192,845 |
| Effect of change in the equity of subsidiaries | - | - | - | - | - | - | - | 259,078 | 259,078 | - | 259,078 |
| Changes in fair value of investments available for sale | - | - | - | - | - | 1,556,034 | - | - | 1,556,034 | - | 1,556,034 |
| Reversal on sale of investments available for sale | - | - | - | - | - | (641,157) | - | - | (641,157) | - | (641,157) |
| Gain on sale of treasury shares | - | - | - | - | - | - | 1,491 | - | 1,491 | - | 1,491 |
| Net income recognized directly in equity | - | - | - | - | - | 914,877 | 1,491 | 259,078 | 1,175,446 | - | 1,175,446 |
| Net loss for the year | - | - | - | - | - | - | - | (7,301,029) | (7,301,029) | - | (7,301,029) |
| Total recognized income (expense) | - | - | - | - | - | 914,877 | 1,491 | (7,041,951) | (6,125,583) | - | (6,125,583) |
| Cash dividends 2005 | - | - | - | - | - | - | - | (7,946,688) | (7,946,688) | - | (7,946,688) |
| Bonus shares 2005 (7.5% per share) | 2,490,469 | - | - | - | - | - | - | (2,490,469) | - | - | - |
| Purchase of treasury shares | - | (1,004,248) | - | - | - | - | - | - | (1,004,248) | - | (1,004,248) |
| Sale of treasury shares | - | 2,871 | - | - | - | - | - | - | 2,871 | - | 2,871 |
| Balance as at December 31, 2006 | 35,696,719 | (3,241,205) | 10,241,176 | 9,103,648 | - | 14,449,817 | 816,922 | 16,052,120 | 83,119,197 | - | 83,119,197 |
| Related to newly consolidated subsidiary | - | - | - | - | - | - | - | - | - | 41,191 | 41,191 |
| Changes in fair value of investments available for sale | - | - | - | - | - | 2,210,780 | - | - | 2,210,780 | - | 2,210,780 |
| Reversal on sale of investments available for sale | - | - | - | - | - | (6,783,263) | - | - | (6,783,263) | - | (6,783,263) |
| Foreign currency translation | - | - | - | - | (27,336) | - | - | - | (27,336) | - | (27,336) |
| Gain on sale of treasury shares | - | - | - | - | - | - | 19,649 | - | 19,649 | - | 19,649 |
| Net (expense) income recognized directly in equity | - | - | - | - | (27,336) | (4,572,483) | 19,649 | - | (4,580,170) | 41,191 | (4,538,979) |
| Net profit for the year | - | - | - | - | - | - | - | 7,527,248 | 7,527,248 | 9,133 | 7,536,381 |
| Total recognized (expense) income | - | - | - | - | (27,336) | (4,572,483) | 19,649 | 7,527,248 | 2,947,078 | 50,324 | 2,997,402 |
| Cash dividends 2006 | - | - | - | - | - | - | - | (3,417,211) | (3,417,211) | - | (3,417,211) |
| Sale of treasury shares | - | 53,148 | - | - | - | - | - | - | 53,148 | - | 53,148 |
| Transfer to reserves | - | - | 777,549 | 777,549 | - | - | - | (1,555,098) | - | - | - |
| **Balance as at December 31, 2007** | **35,696,719** | **(3,188,057)** | **11,018,725** | **9,881,197** | **(27,336)** | **9,877,334** | **836,571** | **18,607,059** | **82,702,212** | **50,324** | **82,752,536** |

The accompanying notes from (1) to (28) form an integral part of the consolidated financial statements

BAYAN INVESTMENT COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are in Kuwaiti Dinars)

| | Note | 2007 | 2006 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit (loss) for the year before contribution to Kuwait Foundation for the Advancement of Sciences, contribution to Zakat, National Labor Support Tax and Board of Directors' remuneration | | 7,784,619 | (7,301,029) |
| Adjustments: | | | |
| Investment (income) loss | | (14,103,767) | 14,586,999 |
| Interest income | | (112,338) | (28,013) |
| Gain on sale of investment properties | | - | (7,596,110) |
| Reversal of impairment loss for investment properties | | (570,800) | (1,713,908) |
| Provision against investment in unconsolidated subsidiary | | 650,000 | - |
| Depreciation | | 25,940 | - |
| Provision for end of service indemnity | | 77,729 | 65,751 |
| Finance charges | | 4,893,391 | 4,194,725 |
| | | (1,355,226) | 2,208,415 |
| Changes in operating assets and liabilities: | | | |
| Investments at fair value through income statement | | 3,757,764 | 4,691,909 |
| Accounts receivable and other debit balances | | 1,007,339 | (2,187,742) |
| Accounts payable and other credit balances | | 1,995,525 | (5,928,879) |
| Inventories | | (250,758) | - |
| Due to a related party | | (70,500) | - |
| Cash generated from (used in) operating activities | | 5,084,144 | (1,216,297) |
| Payment for end of service indemnity | | (74,287) | (12,667) |
| Payment of Kuwait Foundation for Advancement of Sciences | | - | (289,204) |
| Payment of National Labor Support Tax | | - | (682,839) |
| Payment for Board of Directors' remuneration | | - | (84,000) |
| Net cash generated from (used in) operating activities | | 5,009,857 | (2,285,007) |
| **Cash flows from investing activities:** | | | |
| Purchase of investments available for sale | | (5,492,168) | (9,531,236) |
| Proceeds from sale of investments available for sale | | 14,396,430 | 6,706,588 |
| Investment in unconsolidated subsidiaries | | (809,249) | (433,696) |
| Proceeds from sale of investment properties | | - | 20,000,000 |
| Paid to projects under development | | (41,453,992) | - |
| Purchase of investment in an associate | | (800,000) | - |
| Purchase of fixed assets | | (63,478) | - |
| Effect of change in the equity of subsidiaries | | - | 259,078 |
| Dividends received | | 3,993,671 | 3,128,350 |
| Interest received | | 112,338 | 23,960 |
| Net cash (used in) generated from investing activities | | (30,116,448) | 20,153,044 |
| **Cash flows from financing activities:** | | | |
| Increase in due to banks | | 36,197,397 | 73,524,229 |
| Repayment of due to banks | | - | (83,200,931) |
| Purchase of treasury shares | | - | (1,004,248) |
| Proceeds from sale of treasury shares | | 72,797 | 4,362 |
| Dividends paid | | (3,328,462) | (7,735,825) |
| Payment of finance charges | | (4,982,852) | (3,544,725) |
| Net cash generated from (used in) financing activities | | 27,958,880 | (21,957,138) |
| Net increase (decrease) in cash and cash equivalents | | 2,852,289 | (4,089,101) |
| Cash and cash equivalents from newly consolidated subsidiaries | | 3,255,206 | - |
| Cash and cash equivalents at beginning of the year | | 1,862,490 | 5,951,591 |
| Cash and cash equivalents at end of the year | 3 | 7,969,985 | 1,862,490 |

The accompanying notes from (1) to (28) form an integral part of the consolidated financial statements

1. Incorporation and activities

Bayan Investment Company (the Parent Company) is a closed shareholding company incorporated by agreement No. 1491/Vol 1 dated July 21, 1997 and the latest amendment on April 6, 2005. The Parent Company's commercial registration number is 70718 dated August 30, 1997 and is registered as an investment Company with the Central Bank of Kuwait.

The principal activities of the Parent Company are to provide investment and portfolio management activities for its own account and for clients and investment in real estate.

The Parent Company's registered office is at Souad Commercial Building, P.O. Box No. 104 Al Dasma 35151, Fahad Al-Salem St., Area 12, Building No. 21, State of Kuwait.

These consolidated financial statements were approved for issue by the Board of Directors on March 11, 2008. The shareholders' General Assembly have the authority to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention, except that, investments at fair value through income statement, certain investments available for sale investments. The accounting policies applied by the Group are consistent with those used in the previous year unless otherwise stated.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(v).

Standard and amendments to standard effective in 2007

The Group has adopted IFRS 7 "Financial Instruments: Disclosure" and the complementary amendment to IAS 1 "Presentation of Financial Statements" introducing amended and additional disclosures relating to financial instruments and associated risks and capital disclosures respectively.

IASB standard issued but not yet effective

The following IASB Standard and Interpretation have been issued but are not yet effective, and have not yet been adopted by the Group:

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

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

b) Principles of consolidation

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Inter-company balances and transactions, including inter-company profits and losses and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The consolidated financial statements include the financial statements of Bayan Investment Company K.S.C. (closed) and the following subsidiaries:

| | Country of incorporation | Percentage of Holding | |
|---|---|---|---|
| | | **2007** | 2006 |
| Arkan Holding Company (K.S.C.C.) and its subsidiaries: | Kuwait | **100%** | 100% |
| Arkan International for Construction Materials Co. (K.S.C.C.) | Kuwait | **100%** | 100% |
| Arkan Industrial and Mining Co. (E.S.C.) | Egypt | **100%** | - |
| Al-Noor Holding Company (K.S.C.C) and its subsidiaries: | Kuwait | **100%** | 100% |
| Al Nour Skills for Consulting and Training Co. (W.L.L.) | Kuwait | **100%** | 100% |
| Al Nour Method for Projects Management Co. (W.L.L.) | Kuwait | **100%** | 100% |
| Al Nour Search for Consulting and Market Studies (W.L.L.) | Kuwait | **100%** | 100% |
| Bunyan Real Estate Company (K.S.C.C.) | Kuwait | **100%** | 100% |
| Sout Al-Ghad for Advertising Co. (W.L.L) | Kuwait | **100%** | 100% |
| Dar Al Dhabi Holding Co. (K.S.C.C.) (previously Al Petra Holding Co. (K.S.C.C.)) | Kuwait | **100%** | 100% |
| Al Roudatain for Petroleum and Electricity Services Co. (K.S.C.C.) | Kuwait | **100%** | 100% |
| Al Safwa International Consulting Co. (W.L.L.) | Kuwait | **100%** | - |
| Al Derah Al-Oula Co. (W.L.L.) | Kuwait | **100%** | - |
| Al Ohadayah Project Co. (W.L.L.) | Kuwait | **100%** | - |
| Al Thonayah Project Co. (W.L.L.) | Kuwait | **100%** | - |
| Al Robayah Project Co. (W.L.L.) | Kuwait | **100%** | - |
| Al Sodasyah Project Co. (W.L.L.) | Kuwait | **100%** | - |
| Bayan Tech. Co. (W.L.L.) | Kuwait | **100%** | - |
| Dar Al Dhabi Real Estate Co. (K.S.C.C.) | Kuwait | **100%** | - |
| Babel Holding Co. (K.S.C.C.) | Kuwait | **95.9%** | - |

As of December 31, 2007, the balances in the consolidated financial statements of the Group include the following assets, liabilities, revenue and expenses of Al Safwa International Consulting Company (W.L.L.), Arkan Industrial and Mining Co. (E.S.C.), Al Dera Al-Oula Co. (W.L.L.), Al Ohadayah Project Co. (W.L.L.), Al Thonayah Project Co. (W.L.L.), Al Robayah Project Co. (W.L.L.), Al Sodasyah Project Co. (W.L.L.), Bayan Tech Co. (W.L.L.), Dar Al Dhabi Real Estate Co. (K.S.C.C.) and Babel Holding Co. (K.S.C.C.) while the comparative figures for December 31, 2006 do not include such information:

| | Amount |
|---|---|
| **Balance Sheet:** | |
| Cash and cash equivalents | **345,595** |
| Accounts receivable and other debit balances | **14,571** |
| Inventories | **250,758** |
| Projects under development | **1,806,480** |
| Fixed Assets | **37,538** |
| Accounts payable and other credit balances | **172,627** |
| | |
| **Income Statement:** | |
| Consultancy revenue | **490,000** |
| Interest income | **20,995** |
| General and administrative expenses | **478,661** |
| Foreign exchange loss | **27,693** |

c) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

d) Investments

The Group classifies its investments in the following categories: investments at fair value through income statement and investments available for sale. The classification depends on the purpose for which the investments were acquired and is determined at initial recognition by the management.

(i) Investments at fair value through income statement

This category has two sub-categories: investments held for trading, and those designated at fair value through statement of income at inception.

An investment is classified as held for trading if acquired principally for the purpose of selling in the short term or if it forms part of an identified portfolio of investments that are managed together and has a recent actual pattern of short-term profit making or it is a derivative that is not designated and effective as a hedging instrument.

An investment is designated by the management on initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or; if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy.

Investments in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Investments available for sale

Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement.

After initial recognition, investments at fair value through income statement and investments available for sale are subsequently carried at fair value. The fair values of quoted investments are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Realized and unrealized gains and losses from investments at fair value through income statement are included in the consolidated statement of income. Unrealized gains and losses arising from changes in the fair value of investments available for sale are recognized in cumulative changes in fair value in consolidated statement of changes in equity.

Where investments available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When an investment available for sale is disposed off or impaired, any prior fair value earlier reported in equity is transferred to the consolidated statement of income.

An investment (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the investment have expired; or the Group has transferred its rights to receive cash flows from the investment and either (a) has transferred substantially all the risks and rewards of ownership of the investment, or (b) has neither transferred nor retained substantially all the risks and rewards of the investment, but has transferred control of the investment. Where the Group has retained control, it shall continue to recognize the investment to the extent of its continuing involvement in the investment.

The Group assesses at each balance sheet date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for investments available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on available for sale equity instruments are not reversed through the consolidated statement of income.

e) Accounts receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective rate of return, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective rate of return. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of income within general and administration expense. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of income.

f) Inventories

Inventories are valued at the lower of cost or net realizable value after providing allowances for any obsolete or slow-moving items. Costs comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis.

g) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policy decisions. The consolidated financial statements include the Group's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of income.

h) Investment properties

Investment properties, which are properties, held to earn rentals and/or for capital appreciation, are carried at cost, which includes purchase price and transaction costs less accumulated depreciation and impairment losses. Land on which the investment property is erected is not depreciated. Depreciation is computed on a straight-line basis over the useful life of the buildings.

Investment properties are derecognized 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. Gains or losses arising on the retirement or disposal of an investment property are recognized in the consolidated statement of income.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

i) Projects under development

Properties acquired, constructed or in the course of construction for sale are classified as projects under development.

The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed. At that stage, the total asset value is eliminated from projects under development.

j) Fixed assets

The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets.

Fixed assets 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 statement of income.

Depreciation is computed on a straight-line basis over the estimated useful lives of other fixed assets as follows:

| Assets category | Years |
|---|---|
| Furniture and fixtures | 5 |
| Computers | 5 |

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of fixed assets.

k) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

l) Borrowings

Borrowings are initially recognized at fair value, which represents the proceeds received, net of transaction costs incurred. Subsequently, borrowings are stated at amortized cost using the effective yield method. Any difference between proceeds and the redemption value is recognized in the consolidated statement of income over the period of the borrowings.

m) Accounts payable

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

n) End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

o) Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

p) Treasury shares

Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (gain on sale of treasury shares), which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves.

Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

q) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable on the sale of investments or services rendered in the ordinary course of the Group's activities.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

**Gain on sale of investments**
Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

**Dividend income**
Dividend income is recognized when the right to receive payment is established.

**Interest income**
Interest income is recognized on a time-proportion basis using the effective interest method.

**Management fees**
Management fees are recognized on accrual basis.

**Other income**
Fees and commission income and consultancy revenue is recognized at the time the related services are provided.

r) Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Translation differences on non-monetary items such as equity investments which are classified as investments at fair value through income statement are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity investments classified as available for sale are included in "cumulative changes in fair value" in the consolidated statement of changes in equity.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the balance sheet date. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in the consolidated statement of changes in equity. Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

s) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

t) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, investments, accounts receivable, due to banks, bonds and accounts payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

u) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed except when the possibility of an outflow of resources embodying economic benefits is remote.

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

v) Significant accounting estimates and judgments:

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

**a) Judgments**

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

(ii) Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

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

(iii) Impairment of investments

The Group treats "investments available for sale" as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgement.

**b) Estimation and assumptions**

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

(i) Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

3. Cash and cash equivalents

| | **2007** | 2006 |
|---|---|---|
| Cash on hand and at banks | **7,880,706** | 971,517 |
| Cash with financial institutions | **89,279** | 890,973 |
| | **7,969,985** | 1,862,490 |

4. Investments at fair value through income statement

| | **2007** | 2006 |
|---|---|---|
| Quoted securities | **54,925,996** | 58,285,782 |
| Portfolios | **2,835,263** | 1,073,446 |
| Future portfolio | **1,215,015** | 158,967 |
| | **58,976,274** | 59,518,195 |

The movement during the year is as follows:

| | 2007 |
|---|---|
| Balance at the beginning of the year | **59,518,195** |
| Additions | **51,019,681** |
| Disposals | **(52,066,475)** |
| Changes in fair value | **504,873** |
| Balance at the end of the year | **58,976,274** |

5. Accounts receivable and other debit balances

| | 2007 | 2006 |
|---|---|---|
| Trade receivable | **390,658** | 558,480 |
| Amounts paid for investment in companies under incorporation | **750,000** | 1,099,815 |
| Other receivables | **48,222** | 637,924 |
| | **1,188,880** | 2,296,219 |

6. Investments available for sale

| | 2007 | 2006 |
|---|---|---|
| Quoted securities | **15,939,125** | 21,300,484 |
| Quoted funds | **9,802,379** | 3,259,005 |
| Unquoted securities | **20,073,788** | 27,838,295 |
| | **45,815,292** | 52,397,784 |

The movement during the year is as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance at the beginning of the year | **52,397,784** | 47,378,753 |
| Additions | **5,492,168** | 9,531,236 |
| Disposals | **(7,502,177)** | (5,427,082) |
| Changes in fair value | **(4,572,483)** | 914,877 |
| Balance at the end of the year | **45,815,292** | 52,397,784 |

It was not possible to reliably measure the fair value of unquoted securities amounting to KD 20,073,788 (2006 – KD 27,838,295) due to non availability of a reliable method that could be used to determine the fair value of such investments. Accordingly, they were stated at their cost less impairment losses, if any.

7. Investment in an associate

Investment in an associate represented by:

| | Country of incorporation | Ownership percentage | 2007 | 2006 |
|---|---|---|---|---|
| Future Voice Media Production (W.L.L.) | Kuwait | 45% | **900,000** | - |
| | | | **900,000** | - |

The Group had not accounted for any share of results form the investment since the associate had not yet commenced operations.

8. Investment in unconsolidated subsidiaries

| | Country of incorporation | Percentage of ownership | 2007 | 2006 |
|---|---|---|---|---|
| Bahry Media Network (K.S.C.C.) | Kuwait | 65% | **650,000** | - |
| Arkan Silicon Carbid Production Co. (Q.S.C.) | Qatar | 100% | **159,249** | - |
| Al Derah Al-Oula Co (W.L.L.) | Kuwait | 100% | - | 50,000 |
| Al Safwa International Consulting Co. (W.L.L.) | Kuwait | 100% | - | 50,000 |
| Arkan Industrial and Mining Co. (E.S.C.) | Egypt | 100% | - | 2,105,206 |
| Babel Holding Co. (K.S.C.C.) | Kuwait | 95.9% | - | 958,809 |
| Bayan Tech. Co. (W.L.L.) | Kuwait | 100% | - | 20,000 |
| Al Ohadayah Project Co. (W.L.L.) | Kuwait | 100% | - | 7,500 |
| Al Thonayah Project Co. (W.L.L.) | Kuwait | 100% | - | 7,500 |
| Al Robayah Project Co. (W.L.L.) | Kuwait | 100% | - | 7,500 |
| Al Sodasyah Project Co. (W.L.L.) | Kuwait | 100% | - | 7,500 |
| | | | **809,249** | 3,214,015 |
| Provision against Bahry Media Network (K.S.C.C.) | | | **(650,000)** | - |
| | | | **159,249** | 3,214,015 |

The Group had not consolidated these investments since the subsidiaries had not yet commenced operations.

Due to non availability of financial information for Bahry Media Network K.S.C.C. and due to the losses incurred by the subsidiary, the Group had accounted for a provision against the investment amounted to KD 650,000.

9. Projects under development

Properties under development are located in United Arab Emirates and Arab Republic of Egypt, which are in the process of construction or development for sale.

| | 2007 |
|---|---|
| Cost incurred to date | **41,426,656** |
| Total projects under development | **41,426,656** |

10. Investment properties

| | 2007 | 2006 |
|---|---|---|
| Cost | **20,300,000** | 20,300,000 |
| Less: Impairment loss | **-** | (570,800) |
| | **20,300,000** | 19,729,200 |

Investment properties represent land which is held currently for future expansion or for sale in the books of Bunyan Real Estate Company (K.S.C.C.) (subsidiary) and it's not considered a residential apartment which is prohibited from being invested according to the Commercial Company's law.

During the year ended December 31, 2006, Bunyan Real Estate Company (K.S.C.C.) sold investment properties amounting to KD 12,488,565 to a third party for KD 20,000,000 resulting in a gain of KD 7,596,110.

The investment properties which are owned by Bunyan Real Estate Company (K.S.C.C.) (subsidiary) are pledged against loan granted by a local bank (Note 11).

The movement in investment properties is as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance at the beginning of the year | **19,729,200** | 30,419,182 |
| Disposal | **-** | (12,488,565) |
| Reversal of impairment loss | **570,800** | 1,713,908 |
| Reversal of impairment loss on disposal | **-** | 84,675 |
| Balance at the end of the year | **20,300,000** | 19,729,200 |

The fair value of the investment properties as of December 31, 2007 amounted to KD 21,009,967 (2006 – KD 19,729,200) based on the average of three valuations. According to the current fair value of investment properties during the year, the Group reversed impairment loss amounting to KD 570,800 to the limit of the impairmend losses charged during previous years.

11. Due to banks

| | 2007 | 2006 |
|---|---|---|
| Short term loans | **34,829,000** | 24,494,000 |
| Overdraft facilities | **35,593,200** | 9,730,803 |
| | **70,422,200** | 34,224,803 |
| Average effective interest rate | **8.19%** | 8.50% |

The Group has pledged investment properties as collateral against loans granted by a local bank (Note 10).

12. Accounts payable and other credit balances

| | 2007 | 2006 |
|---|---|---|
| Trade payables | **2,104,692** | - |
| Accrued expenses | **263,469** | 331,700 |
| Accrued staff leave | **48,330** | 87,120 |
| Accrued interest | **560,539** | 650,000 |
| Dividends payable | **487,951** | 299,202 |
| Payable to Kuwait Foundation for Advancement of Sciences | **61,566** | 87,969 |
| Payable to Zakat | **4,238** | - |
| Payable to National Labor Support Tax | **110,434** | - |
| Board of Directors' remuneration | **72,000** | - |
| Other payable | **-** | 14,177 |
| | **3,713,219** | 1,470,168 |

13. Bonds

This represents five years bonds issued at par carrying a fixed rate of interest of 6.5% per annum for the first three years, and a floating rate of 1.5% per annum above Central Bank of Kuwait Discount Rate for the remaining two years. These will mature in February 2010 and the Parent Company will have the right to redeem all or some of the bonds on or after the end of the third year of issuance of the bonds at 100% of their principal amount. The Bonds are also subject to redemption in whole at their principal face amount (plus any accrued interest) at the option of the Parent Company on any interest payment date in the event of certain change affecting taxation laws in the State of Kuwait. The value of this redemption feature is interdependent and has not been accounted for separately from the host debt instrument. Interest is payable semi-annually in arrears on August 3 and February 3 of every year.

14. Share capital

The Parent Company's authorized, issued and paid-up share capital comprises of 356,967,187 shares (2006 – 356,967,187 shares) with a nominal value of 100 fils each.

15. Treasury shares

| | 2007 | 2006 |
|---|---|---|
| Number of shares | **14,996,123** | 15,246,123 |
| Percentage to issued shares | **4.20%** | 4.27% |
| Market value (KD) | **4,068,402** | 4,436,768 |
| Cost (KD) | **3,188,057** | 3,241,205 |

16. Statutory reserve

As required by Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to Kuwait Foundation for Advancement of Sciences, contribution to Zakat, National Labor Support Tax and Board of Directors' remuneration is transferred to statutory reserve. Such transfers may be discontinued when the reserve equals 50% of share capital. This reserve is not available for distribution except for in certain cases stipulated by law and the Parent Company's Articles of Association.

17. Voluntary reserve

As required by the Parent Company's Articles of Association, the Board of Directors may propose percentage of profit of the year before contribution to Kuwait Foundation for Advancement of Sciences, contribution to Zakat, National Labor Support Tax and Board of Directors' remuneration to be transferred to voluntary reserve and it's subject to the approval of the General Assembly. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors.

18. General assembly and proposed dividends

The Board of directors proposed a cash dividend of 10 fils per share and bonus shares of 10 shares for every 100 shares held. This proposal is subject to the approval of the shareholders' annual General Assembly.

The shareholders' General Assembly held on April 24, 2007, approved the distribution of cash dividends of KD 3,417,211 for the year ended December 31, 2006.

19. Investment income (loss)

| | 2007 | 2006 |
|---|---|---|
| Dividend income | **3,993,671** | 3,128,350 |
| Unrealized gain (loss) from investments at fair value through income statement | **504,873** | (18,135,920) |
| Gain (loss) on sale of investments at fair value through income statement | **2,710,970** | (858,935) |
| Gain on sale of investments available for sale | **6,894,253** | 1,279,506 |
| | **14,103,767** | (14,586,999) |

20. Management fees

The major part of the management fees recognized during the year 2006 represents the Parent Company's share of the fees obtained for providing financial advisory services as per an investment structure agreement.

21. General and administrative expenses

Staff costs included in general and administrative expenses are as follows:

| | **2007** | 2006 |
|---|---|---|
| Salaries and wages | **777,220** | 749,837 |
| Bonus | **-** | 7,350 |
| End of service indemnity | **74,290** | 73,096 |
| Other | **183,240** | 28,289 |
| | **1,034,750** | 858,572 |

22. Contribution to Zakat

Contribution to Zakat is calculated at 1% of the profit of the Parent Company before contribution to Kuwait Foundation for Advancement of Sciences, National Labor Support Tax, Board of Directors' remuneration after deducting its share of income from shareholding subsidiaries and associates in accordance with Ministry of Finance resolution No. 58/2007 effective December 10, 2007.

23. Earnings (loss) per share

Earnings (loss) per share is calculated by dividing the net profit (loss) for the year attributable to Parent Company shareholders by the weighted average number of shares outstanding during the year:

| | **2007** | 2006 |
|---|---|---|
| Net profit (loss) for the year attributable to equity holders of the Parent Company | **7,527,248** | (7,301,029) |
| | **Shares** | Shares |
| Number of outstanding shares at beginning of the year | **356,967,187** | 356,967,187 |
| Less: Weighted average number of treasury shares | **(15,134,959)** | (14,666,900) |
| Weighted average number of outstanding shares | **341,832,228** | 342,300,287 |
| | **Fils** | Fils |
| Earning (loss) per share | **22.02** | (21.33) |

## 24. Related party transactions

Related party transactions represent transactions with major shareholders, board members and their related parties and key management personnel. The Parent Company's transactions, during the year, included transactions with related parties, within the normal course of business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. These transactions have been included in the consolidated financial statement as follows:

| | **2007** | 2006 |
|---|---|---|
| **Due from a subsidiary under incorporation:** | **70,500** | - |

| | **2007** | 2006 |
|---|---|---|
| **Compensation to key management personnel:** | | |
| Short term benefits | **274,473** | 205,960 |
| Termination benefits | **14,363** | 22,500 |
| | **288,836** | 228,460 |

## 25. Fiduciary assets

| | **2007** | 2006 |
|---|---|---|
| Customers' portfolios | **34,202,300** | 32,748,194 |
| Investment funds | **11,834,892** | 7,087,845 |
| | **46,037,192** | 39,836,039 |

## 26. Financial instruments and risk management

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalents, investments, accounts receivable, due from related parties due to banks, accounts payable and loans and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

### a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash and cash equivalents, and accounts receivable.

The Group manages its credit risk with the objective of ensuring that it is well diversified and it earns a level of return appropriate to the risk it assumes.

In the normal course of business, the Group deploys its funds in various credit facilities, with the primary objective of generating profits for the shareholder. However, at the same time, the Group seeks to ensure the quality of the credit facilities. The Group continually strives to achieve an optimal balance between the return and the credit quality of the portfolio.

**Geographical distribution of assets and liabilities**

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Kuwait | **122,309,583** | 124,112,429 | **87,507,596** | 55,898,706 |
| G.C.C. | **46,957,402** | 8,032,980 | **6,835,000** | - |
| United States of America | **2,786,446** | 2,992,800 | **-** | - |
| Europe | **2,784,083** | 1,774,488 | **-** | - |
| Other | **2,257,618** | 2,105,206 | **-** | - |
| | **177,095,132** | 139,017,903 | **94,342,596** | 55,898,706 |

**Maximum exposure to credit risk before collateral held or other credit enhancements**

| **Credit risk exposures relating to on the consolidated balance sheet assets are as follows:** | **Gross maximum exposure** | |
|---|---|---|
| | **2007** | 2006 |
| Cash and cash equivalents | **7,969,985** | 1,861,490 |
| Accounts receivable and other debit balances | **1,188,880** | 2,296,219 |
| Due from related party | **70,500** | - |
| | **9,229,365** | 4,157,709 |

### b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable.

Liquidity risk management process

The Group's liquidity management process, as carried out within the Group includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

The maturity profile of assets and liabilities as of December 31, 2007 was as follows:

| Assets | Up to 1 month | From 1 month to 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | 7,969,985 | - | - | - | - | 7,969,985 |
| Investments at fair value through income statement | 58,976,274 | - | - | - | - | 58,976,274 |
| Accounts receivable and other debit balances | - | - | 1,188,880 | - | - | 1,188,880 |
| Inventories | - | - | 250,758 | - | - | 250,758 |
| Due from related party | - | 70,500 | - | - | - | 70,500 |
| Investments available for sale | - | - | - | 45,815,292 | - | 45,815,292 |
| Investment in an associate | - | - | - | 900,000 | - | 900,000 |
| Investment in unconsolidated subsidiaries | - | - | - | 159,249 | - | 159,249 |
| Projects under development | - | - | - | - | 41,426,656 | 41,426,656 |
| Investment properties | - | - | - | - | 20,300,000 | 20,300,000 |
| Fixed assets | - | - | - | - | 37,538 | 37,538 |
| | 66,946,259 | 70,500 | 1,439,638 | 46,874,541 | 61,764,194 | 177,095,132 |
| Liabilities: | | | | | | |
| Due to banks | 23,351,496 | - | 37,235,704 | 9,835,000 | - | 70,422,200 |
| Accounts payable and other credit balances | 1,487,741 | - | 2,225,478 | - | - | 3,713,219 |
| Bonds | - | - | - | 20,000,000 | - | 20,000,000 |
| Provision for end of service indemnity | - | - | - | - | 207,177 | 207,177 |
| | 24,839,237 | - | 39,461,182 | 29,835,000 | 207,177 | 94,342,596 |

The maturity profile of the assets and liabilities as of December 31, 2006 was as follows:

| Assets | Up to 1 month | From 1 month to 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | 1,862,490 | - | - | - | - | 1,862,490 |
| Investments at fair value through income statement | 59,518,195 | - | - | - | - | 59,518,195 |
| Accounts receivable and other debit balances | - | - | 2,296,219 | - | - | 2,296,219 |
| Investments available for sale | - | - | - | 52,397,784 | - | 52,397,784 |
| Investment in unconsolidated subsidiaries | - | - | - | 3,214,015 | - | 3,214,015 |
| Investment properties | - | - | - | - | 19,729,200 | 19,729,200 |
| | 61,380,685 | - | 2,296,219 | 55,611,799 | 19,729,200 | 139,017,903 |
| Liabilities: | | | | | | |
| Due to banks | 24,574,226 | - | 9,650,577 | - | - | 34,224,803 |
| Accounts payable and other credit balances | - | - | 1,470,168 | - | - | 1,470,168 |
| Bonds | - | - | - | 20,000,000 | - | 20,000,000 |
| Provision for end of service indemnity | - | - | - | - | 203,735 | 203,735 |
| | 24,574,226 | - | 11,120,745 | 20,000,000 | 203,735 | 55,898,706 |

Analysis of Group's contingent liabilities and commitments by remaining contractual maturities:

**December 31, 2007**

| Contingent Liabilities & Commitments | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Uncalled capital for investments | - | - | - | **1,707,015** | - | **1,707,015** |
| Letters of guarantee | - | - | - | **4,663,333** | - | **4,663,333** |

December 31, 2006

| Contingent Liabilities & Commitments | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Uncalled capital for investments | - | - | - | 1,709,984 | - | 1,709,984 |
| Letters of guarantee | - | - | 200,000 | - | - | 200,000 |

### c) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices as indicated below:

### i) Interest rate risk

Interest rate risk is the risk that the future cash flows or the fair values of financial instruments will fluctuate because of changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for stipulated periods. The following table demonstrates the sensitivity to a reasonable possible change in interest rate, with all other variables held constant of the Group's income statement.

| Year | Increase / decrease in basis points | Sensitivity to net interest expense |
|---|---|---|
| **2007** | | |
| **KD** | **25** | **158,968** |
| **USD** | **25** | **17,088** |

| Year | Increase / decrease in basis points | Sensitivity to net interest expense |
|---|---|---|
| 2006 | | |
| KD | 25 | 85,562 |

### ii) Foreign currency risk

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar. The following is the net long foreign currency position as of the balance sheet date:

| | **2007** | 2006 |
|---|---|---|
| U.S. Dollar | **9,562,492** | 8,862,317 |
| Euro | **1,466,459** | 1,775,480 |
| Sterling Pound | **13,289** | 359,619 |
| Utd. Arab Emir. Dirham | **41,436,484** | - |
| Egyptian Pound | **2,198,892** | - |
| Bahraini Dinar | **1,026** | - |

### iii) Equity price risk

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Company's investment in equity securities classified as 'available for sale'.

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| Market indices | Change in equity price % | Effect on equity | Effect on income statement | Change in equity price % | Effect on equity | Effect on income statement |
| Kuwait Stock Exchange | 1% | 159,391 | 549,260 | 1% | 213,005 | 582,858 |

**d) Fair value of financial instruments**

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. As of December 31, the fair values of financial instruments approximate their carrying amounts, due to their short maturities, except for certain unquoted investments available for sale, which are mentioned in Note (6).

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. This assumption is also applied to variable rate financial instruments.

27. Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, sell assets to reduce debt.

28. Comparative figures

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