Al Madina for Finance and Investment Company - KSC. (Closed)
and its subsidiaries
State of Kuwait

Consolidated Financial Statements
and
Independent Auditors' Report
For the year ended 31 December 2007

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Al Madina for Finance and Investment Company K.S.C. (Closed)
State of Kuwait

Independent auditors' report to the shareholders

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

Management's responsibility for the financial statements

The Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait for financial institutions regulated by the Central Bank of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 parent Company'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 on the consolidated financial statements.

We have not audited the financial statements of some subsidiaries which reflect total assets of KD 19,219,864 as of 31 December 2007 and net profit of KD 272,307 for the year then ended. These financial statements have been audited by other auditors. Our opinion in sofar as it relates to the amounts included in the financial statements for the subsidiaries is based on the other auditors' reports.

Opinion

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

PRICEWATERHOUSECOOPERS

AL-ATEEQI CERTIFIED ACCOUNTANTS

Other matters

The consolidated financial statements as of 31 December 2007 were audited by Al-Ateeqi-certified accountants and other auditor, whose report dated 24 January 2007, expressed an unqualified opinion on those statements.

Report on other legal and regulatory matters

Furthermore, in our opinion, proper books of accounts 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 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 violation of provision of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the Group or on its consolidated 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 31 December 2007 except for what has been mentioned in Note (15) of these consolidated financial statements.

Bader A. Al-Wazzan
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PricewaterhouseCoopers

Barrak Al-Ateeqi
Licence No. 69 A
Independent Member of B.K.R. International

Kuwait
27 March 2008

Al Madina for Finance and Investment- KSC. (Closed)
and its subsidiaries

Consolidated Balance Sheet as at 31 December 2007
(All amounts are in Kuwaiti Dinars)

	Note	2007	2006
Assets			
Cash and cash equivalents	5	24,313,623	3,859,485
Investments in Murabaha	6	4,529,065	11,918,515
Investments at fair value through profit and loss	7	21,910,445	14,576,183
Finance lease receivables	8	3,198,640	4,655,176
Receivables and other debit balances	9	43,669,311	9,154,786
Land and real estate under development	10	33,868,098	-
Investment properties	11	31,577,418	8,901,128
Investments in associates	12	36,321,462	10,902,445
Intangible assets	13	7,947,890	-
Property and equipments		270,876	132,754
Total Assets		207,606,828	64,100,472
Liabilities and equity			
Liabilities			
Payables and other credit balances	14	36,130,186	3,327,871
Murabaha and Wakala payable	15	115,249,331	35,649,076
Employees' end of service indemnity		179,728	43,661
Total Liabilities		151,559,245	39,020,608
Equity			
Equity attributable to shareholders of the parent Company			
Share capital	16	17,422,500	15,150,000
Share premium		36,000	36,000
Statutory reserve	17	3,387,160	1,228,327
Voluntary reserve	17	3,288,586	1,129,753
Gain on sale of treasury shares		-	8,620
Employees' share option purchase reserve	21	490,500	301,500
Foreign currency translation reserve		(603,750)	-
Retained earnings		17,946,343	7,225,664
		41,967,339	25,079,864
Minority interest		14,080,244	-
Total equity		56,047,583	25,079,864
Total liabilities and equity		207,606,828	64,100,472

The accompanying notes from (1) to (31) form an integral part of these consolidated financial statements

Khalid Y Al Mutawa
Chairman

شركة المدينة للتمويل والاستثمار
AL-MADINA FOR FINANCE AND INVESTMENT

Dr. Ali Darweesh Al Shamali
Vice Chairman

Consolidated Statement of Income for the year ended 31 December 2007

(All amounts are in Kuwaiti Dinars)

	Note	2007	2006
Revenues			
Gain from investments	18	7,069,991	5,346,319
Gain on trading shares in associates	12	12,972,266	-
Gain on disposal of the Group's shares in an associate	12	2,920,603	297,392
Group's share of results in associates	12	3,501,908	1,822,377
Gain on sale of share in unconsolidated subsidiary		-	555,717
Investments services income		3,000,211	908,570
Financing income		416,807	560,943
Land and real estate income	19	2,020,603	1,905,072
Other Income		1,579,746	76,207
		33,482,135	11,472,597
Expenses and other charges			
Finance cost		6,659,849	1,326,935
General and administrative expenses	20	3,113,014	2,029,327
Cost of employees' share option purchase plan	21	189,000	-
Impairment loss on investment in associates		452,328	-
Provision for doubtful debts		252,606	257,961
Depreciation and amortization		85,393	56,204
Board of Directors' remuneration		-	50,000
Contribution Kuwait Foundation for Advancement of Science		136,585	37,005
National Labour Support Tax		478,185	193,900
Zakat Expense	22	9,829	-
		11,376,789	3,951,332
Net profit for the year		22,105,346	7,521,265
Attributable to:			
Shareholders of the Parent Company		20,963,734	7,521,265
Minority interest		1,141,612	-
		22,105,346	7,521,265
Basic earnings per share (fils)	23	120.33	43.54
Diluted earnings per share (fils)	23	120.00	-

The accompanying notes from (1) to (31) form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2007

(All amounts are in Kuwaiti Dinars)

	Equity attributable to Shareholders of the Parent Company										Minority interest	Total equity
	Share capital	Share premium	Statutory reserve	Voluntary reserve	Treasury shares	Gain on sale of treasury shares	Employees' share option reserve	Foreign currency Translation reserve	Retained earnings	Total		
Balance as at 31 December 2005	15,000,000	-	448,110	349,536	-	-	-	-	2,764,833	18,562,479	-	18,562,479
Bonus Shares dividends	-	-	-	-	-	-	-	-	(1,500,000)	(1,500,000)	-	(1,500,000)
Capital Increase	150,000	36,000	-	-	-	-	-	-	-	186,000	-	186,000
Employees share option purchase reserve	-	-	-	-	-	-	301,500	-	-	301,500	-	301,500
Purchase of treasury shares	-	-	-	-	-	(485,530)	-	-	-	(485,530)	-	(485,530)
Sale of treasury shares	-	-	-	-		494,150	-	-	-	494,150	-	494,150
Net profit for the year	-	-	-	-	-	-	-	-	7,521,265	7,521,265	-	7,521,265
Transferred to reserves	-	-	780,217	780,217	-	-	-	-	(1,560,434)	-	-	-
Balance as at 31 December 2006	15,150,000	36,000	1,228,327	1,129,753	-	8,620	301,500	-	7,225,664	25,079,864	-	25,079,864
Balance as at 31 December 2006	15,150,000	36,000	1,228,327	1,129,753	-	8,620	301,500	-	7,225,664	25,079,864	-	25,079,864
Employees share option purchase reserve	-	-	-	-	-	-	189,000	-	-	189,000	-	189,000
Bonus shares dividends	2,272,500	-	-	-	-	-	-	-	(2,272,500)	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(3,030,000)	(3,030,000)	-	(3,030,000)
Group's share in loss on sale of treasury shares in associate	-	-	-	-	-	-	-	-	(621,509)	(621,509)	-	(621,509)
Foreign currencies translation reserve	-	-	-	-	-	-	-	(603,750)	-	(603,750)	-	(603,750)
Purchase of treasury share	-		-		(365,000)			-	-	(365,000)	-	(365,000)
Sale of treasury share	-	-	-	-	365,000	(8,620)	-	-	(1,380)	355,000	-	355,000
Consolidation of subsidiaries	-	-	-	-	-	-		-	-	-	12,305,033	12,305,033
Changes in minority interest	-	-	-	-	-	-	-	-	-	-	633,599	633,599
Net profit for the year	-	-	-	-	-	-	-	-	20,963,734	20,963,734	1,141,612	22,105,346
Transferred to reserves	-	-	2,158,833	2,158,833	-	-	-	-	(4,317,666)	-	-	-
Balance as at 31 December 2007	17,422,500	36,000	3,387,160	3,288,586	-	-	490,500	(603,750)	17,946,343	41,967,339	14,080,244	56,047,583

The accompanying notes from (1) to (31) form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows for the year ended 31 December 2007

(All amounts are in Kuwaiti Dinars)

	Note	2007	2006
Cash flows from operating activities			
Net profit for the year		22,105,346	7,521,265
Adjustments:			
Gain from investments		(7,069,991)	(5,346,319)
Gain on trading shares in associates		(15,892,869)	(297,392)
Group's share of results in associates		(3,501,908)	(1,822,377)
Gain on sale of share in unconsolidated subsidiary		-	(555,717)
Land and real estate income		(2,020,603)	(1,905,072)
Finance cost		6,659,849	1,326,935
Cost of employees' share option purchase plan		189,000	-
Impairment loss on investment in associates		452,328	-
Provision for doubtful debts		252,606	257,961
Depreciation and amortization		85,393	56,204
Employees' end of service's indemnity		136,067	36,568
Operating profit/ (loss) before changing in the operating assets and liabilities		1,395,218	(727,944)
Investments at fair value through profit and loss		10,156,961	247,059
Finance lease receivables		1,452,536	(601,761)
Other debit balances		(24,968,049)	(4,844,733)
Payables and other credit balances		30,741,562	(3,019,972)
Net cash generated from/ (used in) operating activities		18,778,228	(8,947,351)
Cash flows from investing activities			
Investments in Murabaha		8,216,621	(6,728,053)
Dividends received		467,218	117,780
Acquisition of associates		(16,778,309)	(14,680,709)
Net cash paid to acquire subsidiaries	25	(13,526,308)	-
Payment for purchase of lands and real estate under development		(33,868,098)	-
Payment for purchase of investment properties		(18,591,455)	(1,835,305)
Proceeds from sale of investment properties		10,609,186	3,420,636
Payment for purchase of property and equipments		(222,183)	(71,614)
Net cash used in investing activities		(63,693,328)	(19,777,265)
Cash flows from financing activities			
Murabaha and Wakala payable		72,248,735	32,924,396
Change in minority interest		633,599	-
Payment of finance costs		(4,692,991)	186,000
Purchase of treasury shares		(355,000)	(485,530)
Sale of treasury shares		365,000	494,150
Cash dividends paid		(2,830,105)	(617,919)
Net cash generated from financing activities		65,369,238	32,501,097
Net increase in cash and cash equivalents		20,454,138	3,776,481
Cash and cash equivalents at the beginning of the year		3,859,485	83,004
Cash and cash equivalents at the end of the year	5	24,313,623	3,859,485

The accompanying notes from (1) to (31) form an integral part of these consolidated financial statements

1. Incorporation of the Group

Al Madina for Finance and Investment Company is a Closed Kuwaiti Shareholding Company ("The Parent Company") established in Kuwait in 1980, and is registered as an investment company with the Central Bank of Kuwait on 27 April 2005. The shares of the Parent Company were listed on Kuwait Stock Exchange in 24 April 2006.

The Parent Company's headquarter office is domiciled at Ahmed Al-Jaber Street, Sharq, Kuwait.

The consolidated financial statements include subsidiaries controlled by the parent company (Together referred to as "the Group"). The principle activities of the Group are representing in all operations of investment, finance and management of movable and unmovable funds and rights. Also trading, leasing and selling of lands and real estate to customers. The activities of the Group are carried out in accordance with Noble Islamic Sharia principles.

These consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Company Name	Legal form	Country of incorporation	Ownership	
			2007	2006
Al Madina Real Estate Development Co.	K.S.C.C	Kuwait	100%	100%
Al Madina Educational Co.	K.S.C.C	Kuwait	100%	100%
Twenty Four Seven for Central Markets	K.S.C.C	Kuwait	100%	100%
Rehab Al Madina Real Estate Co.	B.S.C.C	Bahrain	100%	100%
Real Capital Company*	WLL	Kuwait	100%	-
Kuwaiti National Investment Co.*	K.S.C.C	Kuwait	100%	-
Sarh Al Madina Real Estate Co.**	K.S.C.C	Kuwait	49.68%	-
AL-Nibras Holding Company***	K.S.C.C	Kuwait	76%	-

* During the year ended 31 December 2007, the Company established those subsidiaries companies.

** During the year ended 31 December 2007, the general assembly meeting for Sarh Al - Madina Real Estate agreed to change its Board of Directors and appointed new members to represent Al Madina for Finance and Investment Company and its subsidiaries and associates. Accordingly the Group has become exercising its control over the financial and operating policies for this company. Thus, this company has been reclassified as a subsidiary instead of being an associate as of 31 December 2007, and it has been consolidated starting from that date on which the Group commenced to control the subsidiary.

*** During the year ended 31 December 2007, the Group acquired AL-Nibras Holding Company. Accordingly the Group has exercised its control over the financial and operating policies for this company. Thus, this company has been classified as a subsidiary from starting and it has been consolidated starting from that date on which the Group commenced its control at the date of acquisition on 30 November 2007.

The financial statements of the subsidiaries used in the consolidation process are audited financial statements except for Al-Nibras Holding Company and Kuwaiti National Investment Company which have been consolidated based on unaudited financial statements and based on the opening financial position balance as of 30 November 2007 respectively.

The consolidated financial statements were authorized for issue by the Board of Directors in its meeting held on 27 March 2008 and the shareholders of the Parent Company have the power to amend these consolidated financial statements at their annual general assembly.

2. Basis of preparation and significant accounting policies

The principle accounting policies applied in the preparation of these consolidated financial statements are set out below.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted for use in the State of Kuwait for financial institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRS except for the IAS 39 requirements for General provisions, which have been replaced by the Central Bank of Kuwait's requirements for a minimum general provision as described in note (2.3).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of the fair value of investment properties, financial assets at fair value through profit and loss, and available for sale investments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have significant impact to the financial statements are disclosed in Note (4).

During the year, certain International Financial Reporting Standards have been issued, in addition to some amendments and interpretations issued by the International Financial Reporting Interpretations Committee.

Amendments and interpretations are mandatory for the year ended 31 December 2007.

- IFRS 7 [Financial Instruments: Disclosures] that required new disclosures about the financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments.
- Amendment to IAS 1, Presentation of financial statements – Capital disclosure
- IFRIC 10, 'Interim Financial Reporting and Impairment', prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

These amendments will help the users of the financial statements to evaluate the degree of significance of the financial instruments to the Group's financial position and to its performance, also the nature and extent of the financial risks that the Group is exposed to as a result from dealing with the financial instruments during the year and at the date of the financial statements and the Group's policies in managing those risks, in addition to the evaluation of the Group's objectives and policies related to capital management.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's Operations:

- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the group's financial statements.
- IFRS 4, 'Insurance contracts' of IFRIC 7, applying the restatement approach under IAS 20, 'Financial reporting in hyperinflationary Economies'; and IFRIC 9, 'Re-assessment of embedded derivatives'.

Standards and Interpretations have been issued but are not yet effective, and have not yet been adopted by the Group.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions'.
IAS (23) (Amendment) "Borrowing costs" effective from 1 January 2009.
IFRS (8) "Operating segments" effective from 1 January 2009.

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

Inter-group transactions

Balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals in minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and relevant share acquired of the carrying value of net assets of the subsidiaries.

Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights assumes existence of significant influence. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in equity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Financial Instruments

Classification

The Group classifies its financial assets upon acquisitions based on the purpose of acquiring these investments. The Group had classified its financial assets as "at fair value through profit and loss", "receivables" and "available for sale investments".

Financial assets at fair value through profit and loss

This classification is divided into two sub categories: financial assets held for trading, and those designated at fair value through profit and loss at acquisition. Financial assets held for trading are those assets acquired principally for the purpose of selling in the short term. The financial assets designated at fair value through profit and loss at acquisition are classified in this category, if they are managed and their performance is evaluated and internally reported on a fair value basis in accordance with risk management approved by the management or investment strategy.

Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables represent in finance lease receivables and investments in wakala and murabaha and cash and cash equivalent.

Available for sale investments

These are non-derivative financial assets that are either designated in this category or not included in any of the above categories and are principally, those acquired to be held for indefinite period of time which could be sold when liquidity is needed or upon changes in rates of profit.

Recognition and De-recognition

Financial assets are recognized when the Group enters into contractual agreement on these assets. Purchases and sales of financial assets are recognized on the trade date, on which the Group commits to deliver or receive the financial instrument. Financial assets are derecognized when the right to receive cash flows from the assets has expired or has been transferred and the Group has substantially transferred all risks and rewards of ownership.

Measurement

Financial assets are initially recognized at fair value plus transaction costs for all assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss is initially recognized at fair value and transaction costs are expensed in the income statement.

Subsequently, available for sale financial assets and financial assets at fair value through profit and loss are remeasured at fair value. Receivables are carried at amortized cost using the effective yield method.

Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss are included in the income statement for the year in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in statement of income, while translation differences on non-monetary securities are recognized in equity.

When available-for sale financial assets are sold or impaired, the accumulated changes in fair value recognized in equity are included in the statement of income.

Fair values

The fair values of quoted investments are based on current bid prices. The fair value of quoted investments in non active markets and unquoted investments is determined by other valuation techniques include reference to the market value of similar investment, discounted cash flows, or using other pricing alternative. Available for sale investments that their market values cannot be determined are recorded at cost less impairment in value.

Impairment in value

The Group assesses at each balance sheet date whether there is 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 as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss- is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

A specific provision for impairment 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 receivables. The amount of specific provision is the difference between the asset's carrying amount and the present value of the estimated cash flows, including disposal of the amounts recoverable from guarantees and collateral, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

In addition, in accordance with the Central Bank of Kuwait instructions, a minimum general provision of 1% of all finance receivables not subject to specific provision is calculated.

2.4 Cash and cash equivalents

Cash on hand, term and demand deposits with banks and financial institutions whose original maturities do not exceed three months from the date of placements are classified as cash and cash equivalents in the cash flows statement.

2.5 Investment properties

Investment Properties not occupied by the Group and acquired for long-term leases or for capital appreciation in future are classified as investment properties. Investment properties are stated at cost on acquisition and re-measured at fair value. Fair value is determined by an independent registered value on each balance sheet date. Gains or losses arising from change in fair value are recognized in the statement of income.

2.6 Land and real estate under development

Land and real estate under development are recognized at cost, which includes development costs. When the development process is completed, the land and real estate are classified either as investment properties or land and real estate held for trading or as property for the Group's self-occupation as per management intention regarding the future use of these properties.

2.7 Intangible assets

- ***Goodwill***

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/ associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

2.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost comprises of acquisition costs and all directly attributable costs of bringing the asset to working condition for its intended use. Depreciation is calculated based on the estimated useful lives of the assets using the straight line method.

2.9 Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Impairment losses are recognized in the statement of income for the period in which they arise.

2.10 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective yield method.

2.11 Murabaha and wakala payable

These are financial liabilities created by Murabaha and Wakala contracts. They are recognized initially at fair value, net of transactions costs incurred. They are subsequently carried out at amortized cost using the effective yield method. Cost of those instruments is expensed on a time proportion basis.

2.12 End of service's indemnity

The Group is liable under Kuwait Labor Law to make payments under defined benefit plans to employees at termination of employment. The defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of all employees on the balance sheet date. This basis is considered to be a reliable approximation of the present value of the Group's liability.

2.13 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as finance cost.

2.14 Treasury shares

Treasury shares represent the Parent company's own shares that have been issued, subsequently purchased by the Group and not yet reissued or cancelled. Treasury shares are accounted for using the cost method. Under the cost method, the total cost of the shares acquired is reported as a contra account within equity. When the treasury shares are reissued, gains are credited to a separate undistributable account in equity "gain on sale of treasury shares. Any realized losses are charged to retained earnings and then to reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and the gain on sale of treasury shares.

2.15 Revenue recognition

Murabaha and Wakala income are recognized on a time proportion basis using the effective rate of return on outstanding balances for such transactions.

Dividends income is recognized when right to receive payment is established.

Revenue from sale of land and real estate is recognized on the completion of the sale contract.

Management fees and investment service income are recognized when earned.

2.16 Accounting for leases

Leases of assets under which a significant portion of the risks and benefits of ownership are retained by the leaser are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

2.17 Foreign currencies

The functional currency of the Group is the Kuwaiti Dinar. Foreign currency transactions are recorded in Kuwaiti Dinars at the rate of exchange prevailing at the time of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from transaction at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Net assets in foreign associates and subsidiaries are translated at the exchange rates prevailing at the date of the balance sheet. Revenues and expenses are translated at the average exchange rates for the year. Gains and losses resulting from these transactions are directly recognized in foreign currency translation reserve in equity.

2.18 Zakat

Responsibility of paying Zakat lies on the shareholders and not on the Group.

2.19 Dividend distribution

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

2.20 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.

3. Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk including currency risk, fair value profit rate risk, cash flow profit rate risk and price risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(A) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, United Arab Emirates Dirham and Saudi Riyal. Foreign exchange risk arises when future commercial transactions take place on recognized assets or liabilities which are denominated in a currency that is not the entity's functional currency.

The Group has set up policies to manage its foreign exchange risk against their functional currency, through diversifying its investments geographically in addition to that, the Group tries to finance its investments in foreign currency through borrowing in the same currency to reach to stable positions of foreign currencies. Further, the Group concentrates its investments in Kuwait Dinar to avoid the fluctuation in foreign currency rates risk.

If the currency had appreciated by 5% against the Kuwaiti Dinar with all other variables held constant, net profit for the year and Group's equity would have been affected as shown in the schedule presented below:

Description	2007		2006	
	On income statement	On equity	On income statement	On equity
USD				
Cash & cash equivalents	1,816	-	10,713	-
Trade receivables	15,291	-	44,711	-
Murabaha & Wakala investments	8,688	-	-	-
Investments at fair value through profit and loss	181,276	-	176,412	-
Murabaha & Wakala payables	(752,244)	-	(266,674)	-
Investments in associates	-	608,147	-	-
	(545,173)	608,147	(34,838)	-
AED				
Investment properties	1,230,667	-	-	-
Other credit balances	861,420	-	-	-
	2,092,087	-	-	-
SAR				
Lands and real estates under development	634,576	-	-	-
	634,576		-	-

A 5% depreciation of the above currencies against the Kuwaiti Dinar would have had equal, but opposite, effects on the amounts shown above, assuming all other variables remain constant.

The following is the net positions of foreign currencies as of 31 December 2007:

	2007	2006
USD	1,259,464	(696,762)
AED	12,691,524	12,673,419
SAR	7,384,948	-

(ii) Price risk

The Group is exposed to equity securities price risk due from its investments held by the Group and classified in the consolidated balance sheet as fair value through profit and loss. The Group has established polices related to studying and evaluating the investments opportunities. These polices are implemented through the approved responsibilities and authorities by the board of directors of the parent company.

Most of the Group's investments are represented in unquoted investments funds. The Group's management monitors the prices of these funds through the periodic net assets value reports for these funds.

The table below summarizes the impact of increases of the KSE Index on the Group's profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased by 10% with all other variables.

Description	Effect on Income Statement		Effect on Equity	
	2007	2006	2007	2006
Investments at fair value through profit or loss	453,003	326,146	-	-

(iii) Profit Rate risk

The Group is not exposed to the risk of fluctuations in the cash flows as a result from the change in the profit return on its wakala and murabaha payable as these contracts bear fixed profit rate and do not expose the Group to the risk of reprising its murabaha and wakala liabilities.

The Group is not exposed to the risk of fluctuations in the cash flows received from their assets as a result from the change in the profit rates as the deals to create murabaha and wakala Investments and finance receivables are done in accordance with Islamic Sharia'a Principles which create profit to the Group allocated on the term of the deal based on the effective profit rate.

(B) Credit risk

Credit risk is the risk that the Group will incur a loss as a result from its customers, clients or counterparties failure to discharges their contractual obligations against the Group.

Assets which are exposed to credit risk are cash and cash equivalents, finance lease receivables, wakala & murabaha receivables, receivables on sale of properties and due from related parties.

The Group manages credit risk in accordance with the type of assets exposed to this risk, the following is how the Group manages this risk:

Cash and cash equivalents: This risk is managed through dealing with financial institutions with high credit reputation.

Investment in wakala and murabaha: The exposure of this kind of risk is low relatively to the total assets of the Group. The Group studies the financial position of the parties received these investments with signing agreements that preserve the Group's right against counter party.

Receivables on sale of properties and finance lease receivable: The Group manages the credit risk by signing the necessary agreements with the clients which preserve the Group's right, in addition to that, the transfer of the owner ship of the sold assets take place after settling the total amount of installments, as the sold asset is considered a collateral for the Group against the receivables.

Related parties: Related parties are parties with well credit reputation and there are contracts organize the finance granted to these parties.

Maximum exposure to credit risk without considering collaterals

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross without taking into consideration the collateral.

	2007	2006
Cash & cash equivalents	24,313,623	3,859,485
Murabaha & wakala investments	4,454,311	11,918,515
Finance lease receivables	3,198,640	4,655,176
Real estates sales receivables	21,280,154	4,044,499
Due from related parties	16,142,685	3,992,310
	69,389,413	28,469,985

(C) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, management has diversified funding sources, manages assets and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The table below analyses the Group's financial liabilities into relevant maturity Groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2007			
	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Liabilities				
Payables and other credit balances	1,324,599	17,577,191	17,228,396	-
Murabaha and wakala payable	95,797,667	18,836,169	2,691,393	-
Employee's end of service indemnity	-	-	-	179,728

	2006			
	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Liabilities				
Payables and other credit balances	230,905	3,096,966	-	-
Murabaha and wakala payable	20,348,836	8,614,336	6,685,904	-
Employee's end of service indemnity	-	-	-	43,661

3.2 Capital risk management

The Group's objectives when managing capital is 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 costs of capital. In order to maintain or adjust the capital structure, the Group monitors capital on the basis of gearing ratio. The ratio is calculated as net debt is divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.

During 2007, the Group increased the ratio of net debts to the equity in order to finance its investing activities which lead to the increase in this ratio during 2007.

The gearing ratio as of 31 December 2007 and 2006 is as follows:

	2007	2006
Total Debts	115,249,331	35,649,076
Less : cash and cash equivalent	(24,313,623)	(3,859,485)
Net debt	90,935,708	31,789,591
Total equity	41,967,336	25,079,864
Total capital	132,903,044	56,869,455
Gearing ratio %	68%	56%

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities and financial assets for disclosure purposes is estimated by discounting the future contractual cash flows at the current market yield rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of unquoted equity investments

Valuation techniques for unquoted equity investments is in which estimates are used representing the expected cash flows discount rates, return trades, adjusted local market prices, credit risks, related cost and other valuation techniques used by market participants. The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates mainly represents in the discount rate factor and the expected cash flows for the cash generating unit.

Impairment losses on receivables

The Group reviews the receivables portfolio to assess impairment on regular basis. In determining whether an impairment loss should be recorded in the income statement, In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. 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. The methodology and assumptions used for estimating both the amount and timing if future cash flows are reviewed regularly to reduce any differences between loss estimated and the actual loss experienced.

5. Cash and cash equivalents

	2007	2006
Cash with bank and financial institutions	20,233,492	3,857,835
Cash with Kuwait Clearing company	4,079,439	-
Cash on hand	692	1,650
	24,313,623	3,859,485

5.1 The fair value of cash and cash equivalent is equal to its carrying value as of 31 December 2007 and as of 31 December 2006.

5.2 Cash and cash equivalent include an amount of KD 15,000,000 as of 31 December 2007 restricted at one of the local banks till completion, the formal procedures to establish a subsidiary (Nil – 31 December 2006).

6. Investments in murabaha

6.1 This balance represents the amounts with local currencies invested according to Murabaha contracts. The average effective rate of return is 6.75 % as of 31 December 2007 (10.4 % as of 31 December 2006).

6.2 Investments in murabaha include an amount of KD 3,668,075 granted to a related party as of 31 December 2007 (Note 26) (1,915,364 KD as of 31 December 2006).

6.3 Fair value of investments in murabaha approximately equals its carrying value as of 31 December 2007 as they have short term maturity dates.

7. Investments at fair value through profit and loss

	2007	2006
Held for trading investments	4,530,030	3,261,465
Investments designated at fair value through profit and loss at inception	17,380,415	11,314,718
	21,910,445	14,576,183
Investments in local shares – quoted	4,530,030	3,261,465
Investments in local shares – unquoted	3,644,371	1,355,857
Investments in foreign shares – unquoted	3,670,297	3,528,242
Investments in local funds – unquoted	8,215,747	4,580,119
Investments in foreign funds – unquoted	1,850,000	1,850,500
	21,910,445	14,576,183

7.1 Investments in local shares – quoted include investments amounted Nothing Nil KD as of 31 December 2007 is pledged against murabaha and wakala payables (KD 1,744,665 as of 31 December 2006).

7.2 Valuation of certain investments in unquoted shares is carried out according to valuation models and based on the available information in terms of the financial position, results of operation of investee companies, and the available information regarding the expected future profits of these companies, and the available information regarding the expected future profits of these companies. Recent arm's length market transactions on the shares of investee companies or similar companies other parties are taken into consideration.

7.3 The fair value of the investments in unquoted funds is based on the net asset value as of 31 December 2007 and as of 31 December 2006.

7.4 Investments at fair value through profit and loss are dominated into the following currencies:

	2007	2006
Kuwaiti Dinar	17,465,930	11,047,941
US Dollar	4,444,515	3,528,242
	21,910,445	14,576,183

8. Finance lease receivables

This balance is representing in the amounts due from finance customers in accordance with finance lease contracts end with ownership with a cost of KD 3,305,815, a provision amounting to KD 107,175 is formed against this amount. The average yield rate on finance receivables is 12% as of 31 December 2007 (12%-19.86% as of 31 December 2006). Finance receivables' balance mature within year 2008.

9. Receivables and other debit balances

	2007	2006
Receivable on the sale of properties (Net)	21,280,154	4,044,499
Due from related parties (Note 26)	16,142,685	3,992,310
Accrued commissions and dividends	3,443,578	550,610
Prepaid expenses	685,122	128,043
Staff receivables	152,953	249,174
Other debit balances	1,964,819	190,150
	43,669,311	9,154,786

9.1 Receivables on sale of properties balance is secured against sold properties. The ownership of these properties will be transferred to buyers after the settlement of the amounts receivables. This balance is related to a subsidiary company.

10. Land and real estate under development

Land and real estate under development include land and real estate amounted to 21,176,576 KD as of 31 December 2007 pledged against murabaha and wakala payable (Nil as of 31 December 2006) (Note 15).

11. Investment properties

	2007	2006
Opening balance of the year	8,901,128	8,581,387
Additions	31,264,873	1,835,305
Disposals	(9,756,539)	(1,515,564)
Change in fair value	1,167,956	-
Ending balance of the year	31,577,418	8,901,128

11.1 Investment properties have been recorded at fair value which is determined by independent valuers. These investments are owned by some subsidiaries of the parent company.

11.2 Investments property include properties amounted to 6,964,073 KD as of 31 December 2007 pledged against murabaha and wekala payable (Nil as of 31 December 2006) (Note 15)

12. Investments in associates

The following is the group's share in the associates:

	Ownership %	2007	Ownership %	2006
Ekttitab Holding Company. K.S.C.C.	26.77	22,458,747	-	-
Gulf Horizon Holding Company K.S.C.C.	15.99	1,699,783	35	1,681,665
Hits Africa Company	50	10,252,500	-	-
Sarh AL Madian Real estate (K.S.C.C.)	-	-	49.68	8,410,348
First Jallia Bank - Kinia	31	1,910,432	20	810,432
		36,321,462		10,902,445

12.1 The following is a summary of the Group's share of the net assets & results of operations of the associates according to the latest financial statements available:

	Fair value	Net assets	Net profit/ (loss)	Last date Balance available
Ekttitab Holding Company K.S.C.C.	29,438,067	22,458,747	2,345,886	30 Sep 07
Gulf Horizon Holding Company K.S.C.C.	1,679,125	1,699,783	115,058	30 Sep 07
Hits Africa Company	Unquoted	10,252,500	-	-
First Jallia Bank – Kinia	Unquoted	1,910,432	-	-
Sarh AL Madian Real Estate K.S.C.C.	-	-	1,040,964	-

12.2 The Group acquired the Kadhma Holding Co. (K.S.C.) and changed its name to Ekttitab Holding Company (K.S.C.). The Group's ownership in Ekttitab became 83.67% as of 30 June 2007(Nil as of 31 December 2006)

On 6 May 2007, the General Assembly of Ekttitab Holding Company approved the increase in the share capital from KD 6,300,000 to KD 47,000,000 via issuance number of 407,000,000 shares with a 100 fils par value per share. Out of this increase 116,285,700 shares are allocated to the existing shareholders and 290,714,300 shares are allocated to the new shareholders where the existing shareholders give up this preemptive right to subscribe in a portion from such increase. This resulted to a decrease of the Group's share in this subsidiary to 33% accordingly; the investment has been reclassified as investment in associate as of 31 December 2007. The decrease in the Group's share in this company has resulted to profit amounting to KD 2,160,368 as a result from the increase in the share capital of this associate and the gave up of the right to subscribe in this increase by the parent company. During the year the parent company has traded on Ekttitab Holding Company's shares which resulted to a profit of KD 10,811,898 during the year ended 31 December 2007.

The investment balance of Ekttitab Holding Company amounting to KD 22,458,747 as of 31 December 2007 includes a goodwill amounting to KD 3,282,366 (Nil as of 31 December 2006).

12.3 The Group has acquired 50% of the Hits Africa with an amount of KD 10,252,500 The Group currently is in the process of preparing the necessary studies to identify the fair value of the net assets and liabilities acquired at the purchase date and calculate the goodwill if any.

12.4 The parent company has sold part from its investments in Gulf Horizon Holding Company (K.S.C.). This resulted to a decrease in the ownership in this Company to 15.99%. The balance of this investment has amounted to KD 1,699,783 as of 31 December 2007. The sale has resulted to a profit amounting to KD 2,920,603 during the year ended 31 December 2007. As the Group is still exercising a significant influence over the operating and financial policies of the company, this investment has been kept as investment in associate.

12.5 Currently, the Parent Company is in the process of finalizing the procedures of establishing First Jallia Bank – Kinia with the regulatory authorities.

13. Intangible assets

The balance of intangible assets represents in the amount of goodwill amount resulted from acquisition of the following subsidiaries:

- An amount of KD 7,846,215 resulted from acquisition of AL-Nibras Holding Company
- An amount of KD 101,675 resulted from acquisition of Sarh AL Madian Real Estate Company which is transferred from investment in associate to investment in subsidiary.

The goodwill amounted resulted from acquisition of Al-Nibras is a provisional value, as the group is in process of finalizing the necessary studies to allocate the purchase cost over the fair value of the acquired assets and liabilities. The goodwill amount is the difference between the purchase cost and the net book value of Al-Nibras Holding Company as of the acquisition date.

14. Payables and other credit balances

	2007	2006
Accounts payables	7,070,802	-
Payables on purchase of investments	17,228,396	2,152,439
Due to related parties (Note 26)	9,871,500	-
Accrued dividends	199,895	2,913
Accrued expenses	700,000	-
Board remuneration	-	50,000
Contribution to KFAS	136,585	37,005
Zakat expense	9,829	-
National labor support tax	478,185	193,900
Other credit balances	434,994	891,614
	36,130,186	3,327,871

14.1 The accounts payable are due within one year from date of financial statements therefore its fair value approximately equals its carrying value as of 31 December 2007 / 31 December 2006.

14.2 The balance of payables on purchase of investments as of 31 December 2007 represents the amount due against purchase of lands in United Arab Emirates. This balance is due within one year from date of financial statements therefore its fair value approximately equals its carrying value as of 31 December 2007/ 31 December 2006.

15. Murabaha and wakala payable

The balance represents murabaha and wakala contracts which due over the periods from one month to three years.

15.1 The average effective yield rate ranged from 7 % to 9.75% as of 31 December 2007 (from 7.5% to 9.75% as of 31 December 2006).

15.2 The fair value of murabaha and wakala payable as of 31 December 2007 and as of 31.December 2006 approximately equal its carrying value as it carry cost rates that are equivalent to the market rates.

15.3 A part of investments in associates amounted to KD 177,000 and a part of land and real estate under development amounted to KD 21,176,576 and also a part of investment properties amounted to KD 6,964,073 as of 31 December 2007 are pledged against murabaha and wakala payables.

15.4 Murabaha and wakala payable are classified into the following currencies:

	2007	2006
Kuwaiti Dinar	99,971,639	29,737,925
US Dollar	15,277,692	5,911,151
	115,249,331	35,649,076

15.5 Murabaha and wakala payable include an amount 13,910,261 KD as of 31 December 2007, represents the amounts granted from mutual investment funds, currently, the parent company repays these amounts in its maturity dates and replaces it with a finance granted from financial institutions.

16. Share capital

The shareholders of the Parent Company in their general assembly held on 29 April 2007 approved the Board of Directors proposal to increase the capital by:

- Issuing bonus shares of 15% from the share capital, i.e. 22,725,000 shares.
- Increase the paid up capital by KD 150,000 by issuing 1,500,000 shares for employees' stock option purchase plan at 100 fils par value and 99 fils as share premium.

Accordingly, the issued capital of the Parent Company is KD 17,572,500 distributed over 175,725,000 shares of 100 fils each. Further, the paid up capital of KD 17,422,500 is distributed over 174,225,000 shares of 100 fils each as of 31 December 2007 (KD 15,150,000 distributed over 151,500,000 shares as of 31 December 2006 and KD 15,000,000 distributed over 150,000,000 shares as of 31 December 2006).

On 28 May 2007 the commercial register has been authenticated with these increases.

The Board of Directors proposed share capital increase by 100% for the shareholders registered in the general assembly meeting date at 275 fils per share, which represents 100 fils per share as a par value plus share premium of 175 fils. This proposal is subject to the approval of the General Assembly of shareholders and regulatory authorities.

17. Statutory reserve and voluntary reserve

Statutory reserve

In accordance with the Commercial Companies Law and the Parent Company's Articles of Association, 10% of net profit before KFAS and National Labour Support Tax and Board of Directors' remuneration and zakat expense are transferred to statutory reserve. Statutory reserve is not distributable to shareholders; however, the reserve could be utilized to secure payment of a dividend of 5% of share capital in years when retained earnings are not sufficient payment of dividend. When the balance of the reserve exceeds 50% of share capital, the General Assembly is permitted to utilize amounts in excess of 50% of the share capital in aspects seen appropriate for the benefit of the Parent company and its shareholders.

Voluntary reserve

In accordance with the Parent company's Articles of Association, a percentage of Group's net profit for the year as proposed by the Board of Directors and approved by the General Assembly is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the General Assembly based on the proposal put forward by the Board of Directors. The Board of Directors proposed a transfer of an amount of KD 2,158,833 of net profit before KFAS, National labor Support Tax and Board of Directors remuneration and zakat expense for the year ended 31 December 2007 (KD 780,217 for the year ended 31 December 2006).

18. Gain from investments

	2007	2006
Murabaha income	909,526	930,583
Gain on sale of investments at fair value through profit and loss	3,898,862	2,612,907
Gain on sale of investments available for sale	-	1,548,525
Change in fair value of investments through profit and loss	1,794,385	131,574
Dividends	467,218	122,730
	7,069,991	5,346,319

18.1 Change in fair value of investments at fair value through profit and loss includes an amount of KD 2,279,704 as of 31 December 2007 (KD 277,975 as of 31 December 2006) represents a change in fair value of units in unquoted funds which their fair value have been determined based on the net asset value of those investments as of 31 December 2007.

19. Land and real estate income

	2007	2006
Gain on sale of investment properties	852,647	1,905,072
Change in fair value of investment properties	1,167,956	-
	2,020,603	1,905,072

20. General and administrative expenses

General and administrative expenses include staff costs of KD 1,736,960 for the year ended 31 December 2007 (KD 1,360,110 for the year ended 31 December 2006).

21. Employees' Share Option Purchase Plan

The General Assembly Meeting held on 29 April 2007, approved the increase of the share capital by an amount of KD 150,000 by issuing 1,500,000 shares for the employees of the parent company under the proposed employee stock option plan (ESOP). On 24 January 2007, the Board of Directors approved the employees' stock option plan where the terms covering the plan were completed, which terms included the method of issuing the shares, the year of the plan and the terms covering the allocation. The Board also approved the price of 100 fils for employees over the share premium of 99 fils that will be paid in cash. The Board further determined the cost of the plan which cost represent the difference between the fair value of the share and the amount paid for subscription. As a result, the fair value for each share is 325 fils which represents the market price in the granted day for employees. The difference between the fair value of the share and the price paid by the employees for the shares granted was KD 189,000 for the year ended 31 December 2007. This amount has been charged to the income statement as a separate item in the statement of changes in equity "Stock option reserve".

22. Zakat expense

During the year ended 31 December 2007, the executive regulations of Zakat has been issued and which stipulates that, each Kuwaiti shareholding company should deduct 1% of its net profit as Zakat and should be forwarded to Ministry of Finance. The amount of Zakat expense has been calculated on the basis of the Group's profit multiplied by the number of days starting from the date of issuing the executive regulations on 9 December 2007 to 31 December 2007.

23. Earnings per share for the Parent Company

- Basic earnings per share:

Basic earnings per share are calculated by dividing net profit for the year by the weighted average number of outstanding shares during the year as follows:

	2007	2006
Net profit for the year attributable to shareholders' of the Parent Company	20,963,734	7,521,265
Weighted average number of issued shares and outstanding shares during the year/ (share)	174,225,000	172,729,110
Earnings per share (fils)	120.33	43.54

Issued bonus shares was taken into consideration while calculating of the weighted average number of issued and outstanding shares for both years ended on 31 December 2007/ 2006 from the beginning of that two years.

- Diluted earnings per share:

Diluted earnings per share are calculated taking into consideration the shares that may be issue according to Employees Stock Option Plan that is approved by the Board of Directors of the Parent Company.

	2007
Net profit for the year	20,963,734
Weighted average number of issued outstanding shares taking into consideration the shares that may be issued according to employees stock option plan (shares)	175,150,962
Diluted earnings per share (fils)	120.00

24. Dividends

Dividends 2007

The Board of Directors of the parent company proposed in its meeting held on 27 March 2008, cash dividends of 40 fils per share and dividends of bonus shares of 15% of the paid up capital which is 15 Share for each 100 share for the year ended 31 December 2007. This proposal is subject to the approval of the shareholders in their general assembly meeting.

Dividends 2006

The General Assembly meeting held on 29 April 2007 approved the financial statements for the year ended 31 December 2006, and cash dividends of 20 fils per share for the year ended 31 December 2006, also approved the dividends of bonus shares of 15% of the paid up capital which is 15 shares for each 100 shares for the year ended 31 December 2006.

25. Acquisition of a subsidiaries

During the year ended 31 December 2007, the parent company controlled Sarh Al-Madina real estate (formerly associate company) through representation in the Board of Directors. The financial statements of this subsidiary have been consolidated starting from the commencement of control on 1 July 2007.

The parent company has acquired and controlled AL-Nibras Holding Company K.S.C.C with an owner ship 76% and through representation in the Board of Directors. The financial statements of this subsidiary have been consolidated starting from the commencement of control on 30 November 2007.

The following is the effect of this on the consolidated statement of cash flows:

	Al-Nibras Holding Co.	Sarh Almadina Real Estate	Total
Cash and cash equivalents	3,937,330	800,745	4,738,075
Investment properties and Lands under development	-	12,673,418	12,673,418
Real estate and equipments	1,332	-	1,332
Investments at fair value through profit and loss	1,215,938	10,582,038	11,797,976
Other accounts receivables	8,795,005	917,721	9,712,726
Murabaha and wakala payable	-	(5,364,661)	(5,364,661)
Payables and other payable accounts	(316,828)	(1,544,030)	(1,860,858)
Net assets	13,632,777	18,065,231	31,698,008
Minority interest from subsidiaries acquisition	(3,214,609)	(9,090,424)	(12,305,033)
Group's share in net acquired assets	10,418,168	8,974,807	19,392,975
Add: goodwill resulting from acquisition	7,846,215	101,675	7,947,890
Acquisition cost	18,264,383	9,076,482	27,340,865
Transfer from investments in associates	-	(9,076,482)	(9,076,482)
Acquisition cost	18,264,383	-	18,264,383
Less: cash and cash equivalents in subsidiary	(3,937,330)	(800,745)	(4,738,075)
Net cash paid to acquire subsidiaries	14,327,053	(800,745)	13,526,308

26. Related parties' transactions

Related parties represent in the Group's shareholders who have representation in the board of directors, members of the board of directors, senior management, subsidiaries and associates. In the normal course of business and subject to the Group's management approval, there were transactions with related parties during the year ended 31 December 2007. The related parties significant transactions and outstanding balances were as follows:

	2007	2006
Transactions		
Murabaha income	478,585	29,550
Murabaha cost	50,486	47,828
Gain on sale of investment	-	248,696
Senior and executive management remunerations	257,069	442,927
Gain on sale of investments available for sale	-	1,200,350
Balances		
Investments in murabaha	3,668,075	1,915,364
Investment at fair value through profit and loss	1,218,134	1,744,665
Murabaha & wakala payable	-	588,738
Other debit balances	16,142,685	3,992,310
Payables and other credit balances	9,871,500	-

The Group manages portfolios on behalf of related parties. The net assets of those portfolios amounted to KD 29,784,945 as at 31 December 2007 (KD 18,913,264 as at 31 December 2006).

All related parties transactions are subject to the approval of the general assembly of the shareholders.

27. Segment distribution

The Group carries out the majority of its activities in the State of Kuwait through three major segments:

- Financing segment: represented in financing consumers and companies with all of their miscellaneous needs according to contracts complying with Noble Islamic Sharia principles.
- Real estate segment: represents in selling land and properties for trading or after development in cash or under Istisna'a contracts.
- Investment segment: represents in management of real estate portfolios and investment funds on behalf of third parties and management of the Group's investments.

Analysis of the financial information according to segments for year ended 31 December 2007 is as follows:

	Finance		Real Estate		Investment		Unallocated items		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Segment revenues	416,807	1,491,526	2,020,603	1,905,072	29,464,979	7,999,792	1,579,746	76,207	33,482,135	11,472,597
Segment expenses	-	-	-	-	6,659,849	1,326,935	4,716,940	2,624,397	11,376,789	3,951,332
Segment results	416,807	1,491,526	2,020,603	1,905,072	22,805,130	6,672,857	(3,137,194)	(2,548,190)	22,105,346	7,521,265
Segment assets	3,198,640	4,655,176	65,445,516	8,901,128	95,432,594	42,721,267	43,530,078	7,822,901	207,606,828	64,100,472
Segment liabilities	-	896,668	17,228,396	-	132,191,633	37,208,347	2,139,216	915,593	151,559,245	39,020,608

28. Geographical distribution of assets and liabilities

	Assets as of 31 December		Liabilities as of 31 December	
	2007	2006	2007	2006
Kuwait	157,141,329	57,035,962	134,330,849	37,428,688
Middle East	37,985,861	5,383,267	17,228,396	1,591,920
Europe	316,706	870,811	-	-
Africa	12,162,932	810,432	-	-
	207,606,828	64,100,472	151,559,245	39,020,608

29. Capital commitment

On 2 January 2008, the extra ordinary assembly meeting has approved to increase the share capital of the subsidiary (Al-Nibras Holding Company) from KD 6,350,000 to KD 19,500,000 distributed over 195,000,000 shares of 100 fils each par value and 5 fils as share premium. Accordingly the parent's share of the capital of the subsidiary amounted to KD 10,557,215.

30. Off balance sheet items

The Group manages portfolios on behalf of others and investment funds, which are not included in the balance sheet of the Group. The net assets of these portfolios amounted to KD 55,973,000 as of 31 December 2007 (KD 20,579,686 as of 31 December 2006).

31. Comparative figures

Certain comparative figures have been reclassified to conform to the current presentation of the consolidated financial statements as at 31 December 2007.