

**First Investment Company K.S.C.
(Closed) And its Subsidiaries
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2007

- P.O. Box 74 Safat
13001 Safat, Kuwait
Souk As Safat, 3rd Floor
Abdullah Mubarak Street
- Tel: 245 2880
Fax: 245 6419
Email: kuwait@kw.ey.com

P.O. Box : 22351 Safat 13084 Kuwait
Sharq - Dasman Complex - Block 2 - 9th Floor
Tel: 2464574 - 5 - 2426862 3 Fax: 2414956
Email : info@bdo.kw.ae.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C. (CLOSED)

Report on the Consolidated Financial Statements

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

Director's Responsibility for the Consolidated Financial Statements

The director's of the parent company are 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. 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' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate 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.

Q

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
FIRST INVESTMENT COMPANY K.S.C. (CLOSED) (continued)**

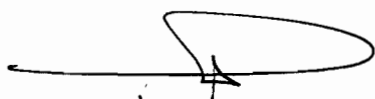
Opinion

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

Report on Other Legal and Regulatory Matters

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

We further report that, during the course of our examination, 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 organisation of banking business, and its related regulations during the year ended 31 December 2007.



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



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

14 February 2008
Kuwait

First Investment Company K.S.C. (Closed) And its Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

| | Notes | 2007 KD | 2006 KD |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------|-------------------|
| INCOME | | | |
| Murabaha, ijara and sukuk income | | 3,483,312 | 2,783,147 |
| Realised gain on investments carried at fair value through income statement | 5 | 4,290,610 | 2,813,399 |
| Unrealised gain on investments carried at fair value through income statement | 6 | 9,270,060 | 3,805,606 |
| Gain on disposal of available for sale investments | | 9,785,243 | 10,527,639 |
| Gain (loss) on disposal of investment in associates | 12 | 148,111 | (270,900) |
| Placement and arrangement fees | | 4,808,344 | 4,126,112 |
| Management fees | | 797,243 | 1,400,518 |
| Dividend income | 7 | 1,758,673 | 1,485,620 |
| Share of results of associates | 12 | 2,975,734 | 237,470 |
| | | <u>37,317,330</u> | <u>26,908,611</u> |
| EXPENSES | | | |
| Staff costs | | 2,898,413 | 2,176,915 |
| Cost of share based transaction with employees | 3 | 1,320,000 | 817,190 |
| Loss on foreign exchange | | 1,393,278 | 145,443 |
| Depreciation | | 95,001 | 57,462 |
| Provision charge for murabaha and ijara | | - | 271,960 |
| Finance costs | | 3,895,937 | 1,739,351 |
| Other expenses | | 1,353,322 | 757,417 |
| | | <u>10,955,951</u> | <u>5,965,738</u> |
| PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' REMUNERATION | | | |
| | | 26,361,379 | 20,942,873 |
| Contribution to KFAS | | (230,657) | (188,486) |
| Contribution to NLST | | (639,598) | (511,894) |
| Zakat-Law No.46/2006 | | (15,634) | - |
| Directors' remuneration | | (100,000) | (70,000) |
| Profit attributable to the equity holders of the parent company | 4 | <u>25,375,490</u> | <u>20,172,493</u> |
| BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY | | | |
| | 8 | <u>46.02 fils</u> | <u>41.27 fils</u> |

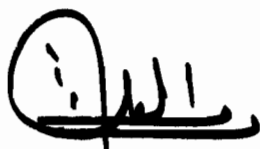
The attached notes 1 to 27 form part of these consolidated financial statements.

First Investment Company K.S.C. (Closed) And its Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 December 2007

| | Notes | 2007 KD | 2006 KD |
|------------------------------------------------------------|-------|--------------------|--------------------|
| ASSETS | | | |
| Bank balances and cash | | 656,868 | 3,141,793 |
| Investments carried at fair value through income statement | 9 | 49,218,375 | 19,996,768 |
| Available for sale investments | 10 | 104,166,778 | 75,172,464 |
| Murabaha and ijara receivables | 11 | 12,686,327 | 15,177,501 |
| Investment in associates | 12 | 40,999,431 | 11,267,340 |
| Other assets | 13 | 7,812,456 | 14,570,663 |
| Furniture and equipment | | 103,388 | 155,419 |
| TOTAL ASSETS | | 215,643,623 | 139,481,948 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 14 | 58,767,323 | 41,583,802 |
| Share premium | 14 | 32,446,612 | 13,807,658 |
| Treasury shares | 16 | (3,865,269) | (8,877,658) |
| Statutory reserve | 17 | 6,945,122 | 4,308,984 |
| General reserve | 17 | 6,384,300 | 3,748,162 |
| Share options reserve | 3 | 2,137,190 | 817,190 |
| Treasury shares reserve | | 999,939 | 360,218 |
| Cumulative changes in fair value | | 14,227,683 | 9,056,448 |
| Foreign currency translation reserve | | (4,086,344) | - |
| Retained earnings | | 25,707,155 | 22,237,462 |
| | | 139,663,711 | 87,042,266 |
| Minority interests | | 31,500 | - |
| Total equity | | 139,695,211 | 87,042,266 |
| Liabilities | | | |
| Murabaha payables | 18 | 66,174,452 | 44,623,664 |
| Other liabilities | 19 | 9,773,960 | 7,816,018 |
| Total liabilities | | 75,948,412 | 52,439,682 |
| TOTAL EQUITY AND LIABILITIES | | 215,643,623 | 139,481,948 |



Mohammed A. Al-Alloush
Chairman and Managing Director



Muhammad M. Al-Ghariba
Deputy Chairman

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

First Investment Company K.S.C. (Closed) And its Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

| | 2007 KD | 2006 KD |
|------------------------------------------------------------|---------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Profit for the year | 25,375,490 | 20,172,493 |
| Adjustments for: | | |
| Gain on disposal of available for sale investments | (9,785,243) | (10,527,639) |
| (Gain) loss on disposal of investment in associates | (148,111) | 270,900 |
| Share of results of associates | (2,975,734) | (237,470) |
| Depreciation | 95,001 | 57,462 |
| Cost of share based payment | 1,320,000 | 817,190 |
| | <u>13,881,403</u> | <u>10,552,936</u> |
| Changes in operating assets and liabilities: | | |
| Investments carried at fair value through income statement | (33,975,914) | (2,594,832) |
| Murabaha and ijara receivables | 2,491,174 | 1,075,609 |
| Other assets | 6,758,207 | (7,389,913) |
| Other liabilities | 1,957,942 | 3,747,237 |
| | <u>(8,887,188)</u> | <u>5,391,037</u> |
| Net cash (used in) from operating activities | | |
| | <u>(8,887,188)</u> | <u>5,391,037</u> |
| INVESTING ACTIVITIES | | |
| Purchase of available for sale investments | (38,017,348) | (86,085,856) |
| Proceeds from disposal of available for sale investments | 23,979,512 | 32,832,002 |
| Purchase of investment in associates | (23,294,102) | (4,751,578) |
| Proceeds from disposal of investment in associates | 1,324,288 | 1,645,898 |
| Purchase of furniture and equipment | (42,970) | (203,976) |
| Dividend received from an associate | 115,875 | - |
| | <u>(35,934,745)</u> | <u>(56,563,510)</u> |
| Net cash used in investing activities | | |
| | <u>(35,934,745)</u> | <u>(56,563,510)</u> |
| FINANCING ACTIVITIES | | |
| Movement in murabaha payables | 21,550,788 | 43,123,664 |
| Issue of share capital | 31,664,095 | 16,030,202 |
| Purchase and sale of treasury shares, net | 5,652,110 | (8,517,440) |
| Dividend paid | (12,475,141) | - |
| Minority interests | 31,500 | - |
| | <u>46,423,352</u> | <u>50,636,426</u> |
| Net cash from financing activities | | |
| | <u>46,423,352</u> | <u>50,636,426</u> |
| INCREASE (DECREASE) IN BANK BALANCES AND CASH | 1,601,419 | (536,047) |
| Net foreign exchange differences | (4,086,344) | - |
| Bank balances and cash at 1 January | 3,141,793 | 3,677,840 |
| | <u>3,141,793</u> | <u>3,677,840</u> |
| BANK BALANCES AND CASH AT 31 DECEMBER | 656,868 | 3,141,793 |
| | <u>656,868</u> | <u>3,141,793</u> |

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

First Investment Company K.S.C. (Closed) And its Subsidiaries

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

| | Attributable to equity holders of the parent company | | | | | | | | | | Minority interests | Total equity | |
|-----------------------------------------------------------------------|------------------------------------------------------|-------------------|--------------------|-------------------|------------------|------------------|-----------------|-----------------------------------|--------------------------------------|-------------------|--------------------|---------------|--------------------|
| | Share capital | Share premium | Treasury shares | Statutory reserve | General reserve | Share options | Treasury shares | Cumulative changes in fair values | Foreign currency translation reserve | Retained earnings | | | Sub total |
| | KD | KD | KD | KD | KD | KD | KD | KD | KD | KD | KD | KD | |
| At 1 January 2007 | 41,583,802 | 13,807,658 | (8,877,658) | 4,308,984 | 3,748,162 | 817,190 | 360,218 | 9,056,448 | - | 22,237,462 | 87,042,266 | - | 87,042,266 |
| Recognised gains on available for sale investments during the year | - | - | - | - | - | - | - | (4,050,936) | - | - | (4,050,936) | - | (4,050,936) |
| Change in fair value of available for sale investment during the year | - | - | - | - | - | - | - | 9,222,171 | - | - | 9,222,171 | - | 9,222,171 |
| Foreign exchange translation adjustment | - | - | - | - | - | - | - | (4,086,344) | (4,086,344) | - | (4,086,344) | - | (4,086,344) |
| Total income and expenses for the year recognised directly in equity | - | - | - | - | - | - | - | 5,171,235 | (4,086,344) | - | 1,084,891 | - | 1,084,891 |
| Profit for the year | - | - | - | - | - | - | - | - | - | - | 25,375,490 | - | 25,375,490 |
| Total income and expenses for the year | - | - | - | - | - | - | - | 5,171,235 | (4,086,344) | 25,375,490 | 26,460,381 | - | 26,460,381 |
| Cost of share based transaction (Note 3) | - | - | - | - | - | 1,320,000 | - | - | - | - | 1,320,000 | - | 1,320,000 |
| Treasury shares transactions, net | - | - | 5,012,389 | - | - | - | 639,721 | - | - | - | 5,652,110 | - | 5,652,110 |
| Issue of share capital (Note 14) | 13,025,141 | 18,638,954 | - | - | - | - | - | - | - | - | 31,664,095 | - | 31,664,095 |
| Bonus shares issued (Note 14) | 4,158,380 | - | - | - | - | - | - | - | (4,158,380) | (4,158,380) | - | - | |
| Dividend paid | - | - | - | - | - | - | - | - | (12,475,141) | (12,475,141) | - | - | |
| Transfer to reserves | - | - | - | 2,636,138 | 2,636,138 | - | - | - | (5,272,276) | (2,636,138) | - | - | |
| Minority interest on subsidiaries | - | - | - | - | - | - | - | - | - | - | 31,500 | - | 31,500 |
| At 31 December 2007 | 58,767,323 | 32,446,612 | (3,865,269) | 6,945,122 | 6,384,300 | 2,137,190 | 999,939 | 14,227,683 | (4,086,344) | 25,707,155 | 139,663,711 | 31,500 | 139,695,211 |
| At 1 January 2006 | 31,171,820 | 4,448,820 | - | 2,214,697 | 1,653,875 | - | - | 1,685,152 | (141,744) | 9,994,161 | 51,026,781 | - | 51,026,781 |
| Recognised gains on available for sale investments during the year | - | - | - | - | - | - | - | (9,967,197) | - | - | (9,967,197) | - | (9,967,197) |
| Change in fair value of available for sale investment during the year | - | - | - | - | - | - | - | 17,338,493 | - | - | 17,338,493 | - | 17,338,493 |
| Foreign exchange translation adjustment | - | - | - | - | - | - | - | - | 141,744 | - | 141,744 | - | 141,744 |
| Total income and expenses for the year recognised directly in equity | - | - | - | - | - | - | - | 7,371,296 | 141,744 | - | 7,513,040 | - | 7,513,040 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 20,172,493 | 20,172,493 | - | 20,172,493 |
| Total income and expenses for the year | - | - | - | - | - | - | - | 7,371,296 | 141,744 | 20,172,493 | 27,685,533 | - | 27,685,533 |
| Cost of share based transaction (Note 3) | - | - | - | - | - | 817,190 | - | - | - | - | 817,190 | - | 817,190 |
| Treasury shares transactions, net | - | - | (8,877,658) | - | - | - | 360,218 | - | - | - | (8,517,440) | - | (8,517,440) |
| Issue of share capital | 6,671,364 | 9,358,838 | - | - | - | - | - | - | - | - | 16,030,202 | - | 16,030,202 |
| Bonus shares issued (Note 14) | 3,740,618 | - | - | - | - | - | - | - | (3,740,618) | (3,740,618) | - | - | |
| Transfer to reserves | - | - | - | 2,094,287 | 2,094,287 | - | - | - | (4,188,574) | (2,094,287) | - | - | |
| At 31 December 2006 | 41,583,802 | 13,807,658 | (8,877,658) | 4,308,984 | 3,748,162 | 817,190 | 360,218 | 9,056,448 | - | 22,237,462 | 87,042,266 | - | 87,042,266 |

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

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

1 ACTIVITIES

The consolidated financial statements of First Investment Company K.S.C. (Closed) ("the parent company") and its Subsidiaries ("the group") for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on 14 February 2008.

The parent company is a Kuwaiti closed shareholding company incorporated on 26 July 1997 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The parent company is regulated by the Central Bank of Kuwait as an investment company. Details of subsidiary companies are set out in Note 21.

The parent company is principally engaged in the provision of investment and financial services. All activities of the parent company are carried out in compliance with the Islamic Sharia. The parent company's registered office is at Souk Al Safat, Abdullah Mubarak Street, Kuwait City.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with the regulations of the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait requirement for a minimum general provision as discussed under the accounting policy for impairment of financial assets.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments carried at fair value through income statement and available for sale investments.

The consolidated financial statements have been presented in Kuwaiti dinars.

Changes in accounting policies

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

- i) IFRS 7 Financial Instruments: Disclosures; and
- ii) Amendments to International Accounting Standard (IAS 1) – Capital disclosures.

As a result of the above adoptions, certain additional disclosures have been made that will enable users to evaluate:

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

International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations issued but not adopted

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

- IAS 1 *(Revised) Presentation of Financial Statements*
- IFRS 8 *Operating Segments*

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

IFRS 8 *Operating Segments* was issued by the IASB in November 2006 and will be effective for annual periods beginning on or after 1 January 2009. Under the requirements of the standard, the group would be required to disclose information used by management internally for the purpose of evaluating the performance of operating segments and allocating resources to those segments.

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

These consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December each year. 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 prepared for the same reporting year as the parent company, using uniform accounting policies for like transactions and other events in similar circumstances. Subsidiaries are fully consolidated from the date of acquisition, being the date on the group obtains control, and continues until the date that such control ceases.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra group transactions that are recognised in assets, are eliminated in full.

Minority interest represents the portion of profit and loss and net assets not held by the group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet separately from equity attributable to the equity holders of the parent company.

Revenue recognition

Murabaha, ijara and sukuk income are recognised on a time proportion basis so as to yield a constant periodic rate of return based on the net balance outstanding.

Placement and arrangement fees are recognised when securities are sold or when specific advisory services are rendered. Management fees relating to portfolios and fund management, custody and on-going advisory services are recognised as earned. Dividend income is recognised when the group's right to receive payment is established.

Share based transactions

The group operates an equity-settled, share-based Employee Stock Option Plan (ESOP). The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the market value of the parent company's shares at each reporting date and the date of final settlement to the exercise price with any change in intrinsic value recognised in the consolidated income statement.

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees exercise their rights. The cumulative expense recognised for equity-settled transactions at each reporting date until the exercise date reflects the extent to which the exercise period has expired and the number of awards that, in the opinion of the directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and balances with banks and other financial institutions and murabaha investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Investments

The group classifies its investments as "fair value through income statement" and "available for sale". Management determines the appropriate classification of each instrument at the time of acquisition. All financial assets and liabilities are initially measured at fair value of the consideration given plus transaction costs except for financial assets classified as fair value through income statement. Transaction costs on financial assets classified as fair value through income statement are recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Investments carried at fair value through income statement

These are financial assets that are either financial assets held for trading or those designated as investments at fair value through income statement upon initial recognition. A financial asset is classified in this category only if they are acquired principally for the purpose of generating profit from short-term fluctuation in price or if so designated by the management in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis. Financial assets classified as investments at fair value through income statement are subsequently measured and carried at fair value. Resultant unrealised gains and losses arising from changes in fair value are included in the consolidated income statement.

Available for sale investments

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets carried at fair value through income statement, held to maturity investments or loans and receivables.

After initial recognition available for sale investments are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is included in the consolidated income statement. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Fair value

Investments

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

For investments where there is no quoted market price, the fair value is determined by reference to a significant third party transaction, or to the market value of a similar instrument, or the expected discounted cash flows, broker's quotes, or appropriate valuation models.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

Where the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset.

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

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Murabaha and ijara

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Where the credit risk of the transaction is attributable to a bank, the amount due is classified as a murabaha investment. Where the credit risk is attributable to a party other than a bank, the amount due is classified as a murabaha receivable.

Ijara is an Islamic transaction involving purchase and immediate lease of an asset where the lessor conveys to the lessee the right to use the asset for an agreed period of time in return for a payment or a series of payments. At the end of the lease term, the lessee has the option to purchase the asset.

Murabaha and ijara receivables arising from the groups financing of transactions on an Islamic basis are stated at amortised cost. Third party expenses such as legal fees, incurred in granting a murabaha or ijara are treated as part of the cost of the transaction.

All murabaha and ijara receivables are recognized when the legal right to control the use of the underlying asset is transferred to the customer.

Investment in associates

The group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investments in associates is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the associate. The group recognises in the consolidated income statement its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate arising from changes in the associate's equity that have not been recognised in the associate's income statement. The group's share of those changes is recognised directly in equity.

Whenever impairment requirements of IAS 36 indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. Goodwill is included in the carrying amount of an investment in associate and, therefore, is not separately tested for impairment.

The reporting dates of the associates and the group are identical and in case of different reporting date of associate, which are not more than three months, from that of the group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the group's consolidated financial statements. The associate's accounting policies conform to those used by the group for the like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the group and its associate are eliminated to the extent of the group's interest in the associate.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any excess, at the date of acquisition, of the group's share in the acquiree's fair value of the net identifiable assets over the cost of the acquisition is recognised in the consolidated income statement.

Goodwill is allocated to each of the group's cash-generating units or groups of cash generating units and is tested annually for impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit, to which goodwill relates. The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit.

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Combination and Goodwill (continued)

If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Treasury shares

Treasury shares consist of the parent company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the group's voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are 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. Part of the reserves created or appropriated and retained earnings equivalent to the cost of treasury shares is not available for distribution throughout the holding period.

Murabaha payable

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

Foreign currencies

The consolidated financial statements are presented in Kuwaiti dinars, which is the parent company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, assets and liabilities of foreign entities are translated into Kuwaiti dinars at the year end rates of exchange and the results of these entities are translated into Kuwaiti dinars at the average rates of exchange for the year. On equity accounting, the carrying value of the associates is translated into Kuwaiti dinars at the year end rates of exchange and the results of the associates are translated into Kuwaiti dinars at the average rates of exchange for the year. All foreign exchange translation adjustments are taken to the foreign exchange translation reserve until disposal at which time they are recognised in the consolidated income statement.

Trade and settlement date accounting

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

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.

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

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

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Segment information

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

Impairment and uncollectibility of financial assets

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

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

Reversal, of impairment losses except for impairment losses relating to goodwill recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal of impairment losses are recognised in the consolidated income statement except for investments available for sale equity investments which are recognised in the cumulative changes in fair values.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The most significant use of judgments and estimates are as follows:

Classification of investments

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

Classification of investments as fair value through income statement depends on how management monitor the performance of these investments. When they have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement.

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Impairment of investments

The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Valuation of unquoted investments

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

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- Other valuation models

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

3 EMPLOYEE STOCK OPTION PLAN

The parent company operates an employee stock option plan. Under this plan, the parent company may issue shares for cash to eligible employees by increasing its share capital.

On 1 April 2007 the annual general assembly of the parent company approved the increase of share capital by 5,500,000 shares (2006: 4,370,000 shares) to cover the issuance of options to employees.

The difference between market value and exercise price of shares was KD 0.240 (2006: KD 0.187) for which an expense of KD 1,320,000 (2006: KD 817,190) has been recognized in the consolidated income statement.

During the year, all the options were exercised and 5,500,000 shares (2006: 4,370,000 shares) were issued to employees according to the purchase scheme (Note 14).

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

4 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

| | <i>2007</i> <i>KD</i> | <i>2006</i> <i>KD</i> |
|-------------------------|--------------------------|--------------------------|
| Staff costs | <u>4,218,413</u> | <u>2,994,105</u> |
| Rent – Operating leases | <u>86,412</u> | <u>76,362</u> |

5 REALISED GAIN ON INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

| | <i>2007</i> <i>KD</i> | <i>2006</i> <i>KD</i> |
|--------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Trading securities | 4,088,699 | 1,811,498 |
| Investments designated as investments carried at fair value through income statement | <u>201,911</u> | <u>1,001,901</u> |
| | <u>4,290,610</u> | <u>2,813,399</u> |

6 UNREALISED GAIN ON INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

| | <i>2007</i> <i>KD</i> | <i>2006</i> <i>KD</i> |
|--------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Change in fair value of trading securities | 5,416,287 | 3,618,187 |
| Change in fair value of investments designated as investments carried at fair value through income statement | <u>3,853,773</u> | <u>187,419</u> |
| | <u>9,270,060</u> | <u>3,805,606</u> |

7 DIVIDEND INCOME

| | <i>2007</i> <i>KD</i> | <i>2006</i> <i>KD</i> |
|--------------------------------|--------------------------|--------------------------|
| Trading securities | 543,705 | 300,973 |
| Available for sale investments | <u>1,214,968</u> | <u>1,184,647</u> |
| | <u>1,758,673</u> | <u>1,485,620</u> |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

8 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are computed by dividing the profit for the year by the weighted average number of shares outstanding during the year after adjusting for treasury shares as follows:

| | 2007 | 2006 |
|-----------------------------------------------------------------------------------------------|--------------------|--------------------|
| Earnings: | | |
| Profit attributable to equity holders of the parent company | <u>25,375,490</u> | <u>20,172,493</u> |
| Total weighted average number of shares outstanding during the year | <u>555,628,921</u> | 495,275,391 |
| Less: weight average number of treasury shares | <u>(4,129,904)</u> | <u>(6,528,082)</u> |
| Weighted average number of shares outstanding during the year | <u>551,449,017</u> | <u>488,747,309</u> |
| Basic and diluted earnings per share attributable to the equity holders of the parent company | <u>46.02 fils</u> | <u>41.27 fils</u> |

Basic and diluted earnings per share for the previous year has been restated due to the issue of bonus shares and the bonus element of the rights issue during 2007 (Note 14).

9 INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

| | 2007 KD | 2006 KD |
|----------------------------|-------------------|-------------------|
| Held for trading: | | |
| Quoted equity securities | 24,214,565 | 15,395,474 |
| Managed funds | 3,796,724 | 3,056,894 |
| Designated: | | |
| Real estate portfolio | 21,010,528 | 1,544,400 |
| Unquoted equity securities | 196,558 | - |
| | <u>49,218,375</u> | <u>19,996,768</u> |

Certain investments in quoted equity securities amounting to KD Nil (2006 KD: 5,718,415) are registered in the name of nominees, as nominees for the parent company.

Quoted equity securities include securities of KD 18,120,931 (2006: KD 8,582,845) listed on the Kuwait Stock Exchange, KD Nil (2006: KD 6,067,386) listed on the Qatari Stock Exchange, KD 5,545,226 (2006: KD 745,243) listed on the Saudi Stock Exchange and KD 548,408 (2006: KD Nil) listed on Dubai Stock Exchange.

Managed funds are primarily invested in quoted securities and money market instruments.

Investments in designated real estate portfolio are registered in the name of nominees, as nominees for the parent company.

10 AVAILABLE FOR SALE INVESTMENTS

| | 2007 KD | 2006 KD |
|----------------------------|--------------------|-------------------|
| Unquoted equity securities | 44,290,497 | 34,022,223 |
| Quoted equity securities | 28,526,979 | 13,800,894 |
| Sukuk | 23,175,840 | 22,598,496 |
| Real estate portfolio | 6,953,510 | 2,316,600 |
| Unquoted funds | 1,203,955 | 1,106,371 |
| Managed funds | 15,997 | 1,327,880 |
| | <u>104,166,778</u> | <u>75,172,464</u> |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

10 AVAILABLE FOR SALE INVESTMENTS (continued)

Certain unquoted equity investments amounting to KD 3,080,190 (2006: KD 8,510,694) are carried at cost as the acquisition price of these investments is determined to be the fair value and these securities relates to either recently formed or acquired companies.

Certain unquoted investments amounting to KD 7,062,819 (2006: KD 3,564,720) are carried at cost as fair value cannot be measured reliably. Management is of the opinion that there has been no impairment in value of these investments and, given the difficulty in obtaining reliable valuations, believe it is more appropriate to carry these at cost. Fair values of other investments are not significantly different from the carrying values.

Available for sale investments include investments amounting to KD 34,147,488 (2006: KD 21,946,809) whose fair values are determined using recent market transactions and valuation techniques that are not based on observable market prices or rates.

Certain investments in quoted equity securities amounting to KD 10,605,836 (2006: KD 2,794,798) are registered in the name of nominees, as nominees for the parent company.

Sukuk are carried at cost as their fair values cannot be measured reliably. Management is of the opinion that there has been no impairment in value of these investments and, given the difficulty in arriving at a reliable and small range of valuations, believe it is more appropriate to carry these at cost. Sukuk have an original maturity of 25 years.

Investments in designated real estate portfolio are registered in the name of nominees, as nominees for the parent company.

11 MURABAHA AND IJARA RECEIVABLES

| | <i>Murabaha</i> | | <i>Ijara</i> | | <i>Total</i> | |
|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | <i>2007</i> <i>KD</i> | <i>2006</i> <i>KD</i> | <i>2007</i> <i>KD</i> | <i>2006</i> <i>KD</i> | <i>2007</i> <i>KD</i> | <i>2006</i> <i>KD</i> |
| Gross amount | 11,187,263 | 14,692,973 | 3,230,865 | 2,684,076 | 14,418,128 | 17,377,049 |
| Less: deferred income | (188,028) | (223,986) | (99,548) | (531,337) | (287,576) | (755,323) |
| | <u>10,999,235</u> | <u>14,468,987</u> | <u>3,131,317</u> | <u>2,152,739</u> | <u>14,130,552</u> | <u>16,621,726</u> |
| Less: provision for Impairment | (256,605) | (256,605) | (1,187,620) | (1,187,620) | (1,444,225) | (1,444,225) |
| | <u>10,742,630</u> | <u>14,212,382</u> | <u>1,943,697</u> | <u>965,119</u> | <u>12,686,327</u> | <u>15,177,501</u> |

Average profit rate attributable to murabaha receivables during the year was 5.37% per annum (2006: 6.32%) and attributable to ijara receivables during the year was 12.37% per annum (2006: 10.78%).

Movement in provision for impairment on murabaha and ijara receivables is as follows:-

| | <i>2007</i> <i>KD</i> | <i>2006</i> <i>KD</i> |
|---------------------|--------------------------|--------------------------|
| At 1 January | 1,444,225 | 1,172,264 |
| Charge for the year | - | 577,524 |
| Provision reversed | - | (305,563) |
| At 31 December | <u>1,444,225</u> | <u>1,444,225</u> |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

12 INVESTMENT IN ASSOCIATES

The group has the following investments in associates:

| <i>Name of company</i> | <i>Principal activity</i> | <i>Country of registration</i> | <i>Percentage of ownership</i> | | <i>2007 KD</i> | <i>2006 KD</i> |
|------------------------------------------------------|-----------------------------------|--------------------------------|--------------------------------|-------------|--------------------|--------------------|
| | | | <i>2007</i> | <i>2006</i> | | |
| First Arabian Equity 2000 Fund | Equity based fund | Kuwait | 47.81 % | 56.14 % | 1,219,805 | 1,487,042 |
| First Real Estate Investment Company K.S.C. (Closed) | Real estate investments | Kuwait | 19.79 % | 19.79 % | 2,580,633 | 2,456,030 |
| First Education Company K.S.C. (Closed) | Investments in educational sector | Kuwait | 16.49 % | 16.49 % | 2,722,665 | 2,572,690 |
| Mashair Al-Ola L.L.C. | Real estate services | Saudi Arabia | 30.00 % | 30.00 % | 4,484,525 | 4,751,578 |
| Taameer Investment Company (O.L.L.C) | Real estate investment | Oman | 50.00 % | - | 5,908,478 | - |
| First Energy Resource Company K.S.C.(Closed) | Investment in energy sector | Kuwait | 33.29 % | - | 8,323,250 | - |
| Arkan Al-Kuwait Real Estate Company K.S.C.(Closed) | Real estate financing and leasing | Kuwait | 21.79 % | - | 8,272,689 | - |
| First Investment Bank B.S.C.(Closed) | Investment bank | Bahrain | 24.63 % | - | 6,874,372 | - |
| First Gulf Equity Fund | Equity based fund | Bahrain | 26.24 % | - | 613,014 | - |
| | | | | | 40,999,431 | 11,267,340 |

Classification of an investment as an investment in associate where the group holds less than 20 percent of the voting power of the investee is based on the existence of significant influence exercised by the group. This is evidenced by the group's representation on the board of directors and participation in the policy and decision making process of the investee to a sufficient degree for the group to demonstrate that it has significant influence over the associate.

The movement in the carrying amount of investment in associates during the year is as follows:

| | <i>2007 KD</i> | <i>2006 KD</i> |
|--------------------------------------------------------------------------|--------------------|--------------------|
| At 1 January | 11,267,340 | 14,166,966 |
| Fair value of share of net assets acquired | 21,407,071 | 4,751,578 |
| Disposals during the year | (1,324,288) | (1,645,898) |
| Transfer from investments carried at fair value through income statement | 4,754,307 | - |
| Transfer to investments carried at fair value through income statement | - | (6,113,620) |
| Dividend received | (115,875) | - |
| Foreign currency translation adjustment | (797,788) | 141,744 |
| Gain (loss) on disposal of associates | 148,111 | (270,900) |
| Share of result of associates | 2,975,734 | 237,470 |
| | 38,314,612 | 11,267,340 |
| Goodwill on acquisition | 2,684,819 | - |
| | 40,999,431 | 11,267,340 |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

12 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates summarised financial information of the group's investment in associates:

| | 2007 KD | 2006 KD |
|-------------------------------------------------|-------------------|-------------------|
| Share of associates' balance sheet: | | |
| Assets | 43,525,123 | 11,409,752 |
| Liabilities | (5,210,511) | (142,412) |
| Goodwill arising on acquisition of associate | 2,684,819 | - |
| Net assets | <u>40,999,431</u> | <u>11,267,340</u> |
| Share of associates' revenue and profit: | | |
| Revenue | <u>3,971,403</u> | <u>337,168</u> |
| Profit | <u>2,975,734</u> | <u>237,470</u> |

Share of results of associates amounting to KD 2,630,014 (2006: 237,470) is based on accounts prepared by these company's managements. In the opinion of the directors of the parent company, the profit reported in the management accounts will not be materially different if these management accounts had been audited by the auditors of the respective entities.

Quoted associates with a carrying value of KD 8,272,689 (2006: KD Nil) have a fair value of KD 8,738,590 (2006: KD Nil). Other associates are not listed in any of the public stock exchanges, so fair valuation of these investments in associates is not determinable.

During the year, the parent company's management reclassified its equity interest in Arkan Al-Kuwait Real Estate Company K.S.C.(Closed) (the investee), which at 31 December 2006 was classified as investment carried at fair value through income statement, to investment in associate based on the parent company's ability to exercise significant influence over the operations of the investee by virtue of its representation on the investee's supervisory and management board. The investment in Arkan Al-Kuwait Real Estate Company K.S.C. (Closed) was acquired piecemeal, with significant influence being obtained on 30 April 2007. The management has carried out the fair valuation of identifiable assets and liabilities to determine the goodwill of KD 2,684,819 and the same is included in the carrying value of the investment in associate.

13 OTHER ASSETS

| | 2007 KD | 2006 KD |
|-----------------------------------------------------------|------------------|-------------------|
| Receivable from sale of investments / portfolio | - | 11,694,010 |
| Advance paid for the acquisition of real estate portfolio | 1,184,314 | - |
| Management fees receivable | 1,767,241 | 1,517,500 |
| Due from related parties (Note 20) | 3,836,130 | 851,479 |
| Others | 1,024,771 | 507,674 |
| | <u>7,812,456</u> | <u>14,570,663</u> |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

14 SHARE CAPITAL

During the year, the parent company increased its share capital from KD 41,583,802 to KD 58,767,323 through the following:

- 1) Issuance of 41,583,802 (2006: 37,406,180) bonus shares of 100 fils each equivalent to 10 % (2006: 12 %) of paid-up share capital as at 31 December 2006.

Bonus shares and issuance of shares described below were approved by the annual general assembly held on 1 April 2007.

- 2) Issuance of 30% (2006: 20%) share capital to share holders on register at the date of Annual General Assembly on 1 April 2007.

124,751,406 new shares (2006: 62,343,640 shares) were issued for KD 0.245 per share representing par value of KD 0.100 per share and share premium of KD 0.145 per share.

- 3) Issuance of 5,500,000 (2006: 4,370,000) shares to employees in the course of exercising employee's share purchase scheme (Note 3).

New shares were issued for KD 0.200 per share (2006: KD 0.173) representing par value of KD 0.100 per share and share premium of KD 0.100 per share.

At 31 December 2007, authorised, issued and fully paid up capital of the parent company amounted to 587,673,228 shares (2006: 415,838,020 shares) of 100 fils each.

15 PROPOSED DIVIDEND

The Board of Directors has proposed a cash dividend of KD 0.030 (2006: KD 0.030) per share and an issue of bonus shares of 10% (2006: 10%) of paid up share capital which is subject to the approval of the shareholders at the annual general assembly.

On 1 April 2007, the annual general assembly of the shareholders of the parent company approved cash dividend of KD 0.030 per share amounting to KD 12,475,141.

16 TREASURY SHARES

Treasury shares comprise of 7,900,000 shares which represent 1.34% of total issued shares as at the year end (2006: 17,235,000). The cost of acquiring these shares was KD 3,865,269 (2006: KD 8,877,658). These shares are not entitled to receive any cash dividend. The market value of these shares at the year end is KD 3,831,500 (2006: KD 8,531,325).

17 STATUTORY RESERVE AND GENERAL RESERVE

As required by Law of Commercial Companies and the parent company's articles of association, 10% of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax, Zakat and directors' remuneration has been transferred to the statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid-up share capital.

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

As required by the parent company's articles of association, 10% of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax, Zakat and directors' remuneration has been transferred to the general reserve. There are no restrictions on the distribution of this reserve.

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

18 MURABAHA PAYABLES

Murabaha payables represent murabaha contracts with local financial institutions maturing within 6 months from the balance sheet date (Note 23). The average effective cost attributable to these contracts ranges from 4.5 % to 8.5 % per annum (2006: 6% to 8.25%).

19 OTHER LIABILITIES

| | 2007 | 2006 |
|-------------------|------------------|------------------|
| | KD | KD |
| Director's fees | 100,000 | 70,000 |
| Accrued expenses | 3,909,236 | 2,474,284 |
| Other liabilities | 5,764,724 | 5,271,734 |
| | <u>9,773,960</u> | <u>7,816,018</u> |

Director's fees of KD 100,000 (2006: KD 70,000) is within the amount permissible under local regulations and is subject to approval of Annual General Meeting.

20 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the group's management.

Transactions with related parties are as follows:

| | <u>2007</u> | | | <u>2006</u> | | |
|----------------------------------------|-------------------|------------------------------|--------------|-------------------|------------------------------|--------------|
| | <i>Associates</i> | <i>Other related parties</i> | <i>Total</i> | <i>Associates</i> | <i>Other related parties</i> | <i>Total</i> |
| | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> |
| Consolidated income statement | | | | | | |
| Management fees | - | 93,719 | 93,719 | - | 72,751 | 72,751 |
| Placement and arrangement fees | - | - | - | - | 1,500,000 | 1,500,000 |
| Sukuk income | 2,435,744 | - | 2,435,744 | 874,140 | - | 874,140 |
| Consolidated Balance sheet | | | | | | |
| Murabaha and ijara receivables | 104,000 | - | 104,000 | - | - | - |
| Murabaha payables | - | 7,874,952 | 7,874,952 | - | - | - |
| Management fees receivable | 50,678 | 1,500,000 | 1,550,678 | - | 1,500,000 | 1,500,000 |
| Due from related parties | 3,818,631 | 17,499 | 3,836,130 | 851,479 | - | 851,479 |
| Key management compensation: | | | | 2007 | 2006 | |
| | | | | KD | KD | |
| Incentives | | | | 1,686,599 | 761,091 | |
| Salaries and other short term benefits | | | | 282,600 | 246,000 | |
| Terminal benefits | | | | 23,550 | 22,250 | |

Assets amounting to KD 17,416,803 (2006: KD 5,000,000) and KD 86,770 (2006: KD Nil) are being managed on behalf of associates and other related parties.

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

21 SUBSIDIARY COMPANIES

Details of subsidiary companies are set out below:

| Name | Country of incorporation | Voting capital held % | | Principal activity |
|---------------------------------------------------|--------------------------|-----------------------|------|--------------------------------------------------------|
| | | 2007 | 2006 | |
| Yasmeen Al Kuwait Real Estate Company W.L.L. | Kuwait | 97 | 100 | Real estate trading |
| First Investment Fund E.C. | Bahrain | 100 | 100 | Special purpose company for fiduciary assets |
| Al Marwa Holding Company K.S.C. (Closed) | Kuwait | 97 | 100 | Real estate development in the Kingdom of Saudi Arabia |
| Masadar Energy Company for General Trading W.L.L. | Kuwait | 98 | - | General trading |
| Deema Real Estate Investment Company L.L.C. | Saudi Arabia | 100 | - | Real estate investment |
| Sorouh Real Estate Investment Company L.L.C. | Saudi Arabia | 100 | - | Real estate investment |

The voting capital of the Deema Real Estate Investment Company L.L.C. and Sorouh Real Estate Investment Company L.L.C. are partially held by nominees on behalf of the parent company. These nominees have confirmed in writing that the parent company is the beneficial owner of the shares.

The parent company holds voting capital in First Investment Fund E.C to manage the funds and fiduciary assets and does not have a beneficial interest in the underlying assets in its capacity as a holding company.

22 SEGMENTAL INFORMATION

Primary segment information

For management purposes the group is organised into two major business segments. The principal activities and services under these segments are as follows:

- Islamic financing : Providing a range of Islamic products to corporate and individual customers.
- Investment : Managing real estate investments, investment securities and investment in associates.

31 December 2007

| | Islamic financing KD | Investment KD | Others KD | Total KD |
|-----------------------------------------------------------|-------------------------|--------------------|------------------|--------------------|
| ASSETS | | | | |
| Bank balances and cash | - | - | 656,868 | 656,868 |
| Investment carried at fair value through income statement | - | 49,218,375 | - | 49,218,375 |
| Available for sale investments | - | 104,166,778 | - | 104,166,778 |
| Murabaha and Ijara receivables | 12,686,327 | - | - | 12,686,327 |
| Investment in associates | - | 40,999,431 | - | 40,999,431 |
| Other assets | - | 4,494,198 | 3,318,258 | 7,812,456 |
| Furniture and equipments | - | - | 103,388 | 103,388 |
| TOTAL ASSETS | 12,686,327 | 198,878,782 | 4,078,514 | 215,643,623 |
| LIABILITIES | | | | |
| Murabaha payables | - | 66,174,452 | - | 66,174,452 |
| Other liabilities | - | 1,785,848 | 7,988,112 | 9,773,960 |
| TOTAL LIABILITIES | - | 67,960,300 | 7,988,112 | 75,948,412 |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

22 SEGMENTAL INFORMATION (continued)

| Year ended 31 December 2007 | Islamic financing KD | Investment KD | Others KD | Total KD |
|--------------------------------------------------------------|----------------------------|--------------------|------------------|--------------------|
| Segment revenue | 1,919,592 | 35,397,738 | - | 37,317,330 |
| Segment profit | 1,305,307 | 24,070,183 | - | 25,375,490 |
| 31 December 2006 | Islamic financing KD | Investment KD | Others KD | Total KD |
| ASSETS | | | | |
| Bank balances and cash | - | - | 3,141,793 | 3,141,793 |
| Investment carried at fair value through income statement | - | 19,996,768 | - | 19,996,768 |
| Available for sale investments | - | 75,172,464 | - | 75,172,464 |
| Murabaha and Ijara receivables | 15,177,501 | - | - | 15,177,501 |
| Investment in associates | - | 11,267,340 | - | 11,267,340 |
| Other assets | - | 12,388,659 | 2,182,004 | 14,570,663 |
| Furniture and equipments | - | - | 155,419 | 155,419 |
| TOTAL ASSETS | 15,177,501 | 118,825,231 | 5,479,216 | 139,481,948 |
| LIABILITIES | | | | |
| Murabaha payables | - | 44,623,664 | - | 44,623,664 |
| Other liabilities | 2,092,219 | 433,253 | 5,290,546 | 7,816,018 |
| TOTAL LIABILITIES | 2,092,219 | 45,056,917 | 5,290,546 | 52,439,682 |
| Year ended 31 December 2006 | | | | |
| Segment revenue | 2,783,147 | 24,125,464 | - | 26,908,611 |
| Segment profit | 2,086,433 | 18,086,060 | - | 20,172,493 |

Secondary segment information

The group operates mainly in the Middle East region. Majority of the assets of the group are located in the Middle East region. The segment revenue earned by the assets and operation outside the Middle East region is immaterial.

23 RISK MANAGEMENT

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

Risk management structure

The Board of Directors are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

23 RISK MANAGEMENT (continued)

23.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an ongoing basis. It also obtains security when appropriate.

The group has policies and procedures in place to limit the amount of credit exposure to any counter party. These procedures include the non-concentration of credit risk.

Maximum exposure to credit risk

The group's policy is to enter in to murabaha and ijara arrangements only with recognised, creditworthy third parties. The maximum exposure is the carrying amount as disclosed in Note 11. In addition, these receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the group, which comprise bank balances and cash, investments carried at fair value through income statement and available for sale investments, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum risk credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Collateral and other credit enhancements

The murabaha and ijara receivables from non financial institutions are secured against the real estate properties and the quoted securities. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit losses.

The group can sell the collateral in case of default by the borrower in accordance with the agreements entered with the borrowers. The group has an obligation to return the collateral on the settlement of the receivable.

The fair value of collateral that the group holds relating to receivables at 31 December 2007 amounts to KD 21,516,000 (2006: KD 18,476,000).

Risk concentration of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

The group's assets, before taking into account any collateral held or credit enhancements can be analysed by the industry sector as follows:

| | 2007 KD | 2006 KD |
|----------------------------------|-------------------|-------------------|
| Industry sector: | | |
| Banks and financial institutions | 2,299,333 | 13,736,613 |
| Construction and real estate | 2,649,775 | 12,504,874 |
| Others | 15,022,229 | 6,648,470 |
| | <u>19,971,337</u> | <u>32,889,957</u> |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

23 RISK MANAGEMENT (continued)

23.1 CREDIT RISK (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the balance sheet, without taking account of any collateral and other credit enhancements. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

| BY CLASS OF FINANCIAL ASSETS | Gross Maximum exposure 2007 KD | Gross Maximum exposure 2006 KD |
|-------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Bank balances and cash (excluding cash in hand) | 656,868 | 3,141,793 |
| Murabaha and ijara receivables | 12,686,327 | 15,177,501 |
| Other assets | 6,628,142 | 14,570,663 |
| Total credit risk exposure | 19,971,337 | 32,889,957 |

Credit quality of financial assets that are neither past due nor impaired

For murabaha and ijara receivables, neither internal credit grading system nor external credit grades are used by the group as the murabaha and ijara transactions are not significant and are granted only to credit worthy customers.

The group manages the credit quality by ensuring that adequate collaterals are available for all the individual facilities granted, which the management reviews on a regular basis.

The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of financing and investing activities.

Financial asset by class that are individually impaired

| | Gross exposure KD | Impairment provision KD | Fair value of collateral KD |
|----------------------------|-------------------------|-------------------------------|-----------------------------------|
| At 31 December 2007 | | | |
| Ijara receivables | 986,355 | (986,355) | - |
| | Gross exposure KD | Impairment provision KD | Fair value of collateral KD |
| At 31 December 2006 | | | |
| Ijara receivables | 1,077,305 | (1,077,305) | - |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

23 RISK MANAGEMENT (continued)

23.1 CREDIT RISK (continued)

Analysis of past due but not impaired

The group does not have any past due but not impaired financial assets at 31 December 2007 and 31 December 2006.

23.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date based on the contractual repayment agreement. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

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

At 31 December 2007

| | <i>Less than one year KD</i> | <i>Over one year KD</i> | <i>Total KD</i> |
|------------------------------------------------------------|--------------------------------------|---------------------------------|---------------------|
| ASSETS | | | |
| Bank balances and cash | 656,868 | - | 656,868 |
| Investments carried at fair value through income statement | 49,218,375 | - | 49,218,375 |
| Available for sale investments | - | 104,166,778 | 104,166,778 |
| Murabaha and ijara receivables | 12,092,964 | 593,363 | 12,686,327 |
| Investment in associates | - | 40,999,431 | 40,999,431 |
| Other assets | 7,812,456 | - | 7,812,456 |
| Furniture and equipments | - | 103,388 | 103,388 |
| TOTAL ASSETS | 69,780,663 | 145,862,960 | 215,643,623 |
| LIABILITIES | | | |
| Murabaha payables | 66,174,452 | - | 66,174,452 |
| Other liabilities | 9,773,960 | - | 9,773,960 |
| TOTAL LIABILITIES | 75,948,412 | - | 75,948,412 |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

23 RISK MANAGEMENT (continued)

23.2 LIQUIDITY RISK (continued)

At 31 December 2006

| | <i>Less than one year KD</i> | <i>Over one year KD</i> | <i>Total KD</i> |
|------------------------------------------------------------|--------------------------------------|---------------------------------|---------------------|
| ASSETS | | | |
| Bank balances and cash | 3,141,793 | - | 3,141,793 |
| Investments carried at fair value through income Statement | 19,996,768 | - | 19,996,768 |
| Available for sale investments | - | 75,172,464 | 75,172,464 |
| Murabaha and ijara receivables | 15,177,501 | - | 15,177,501 |
| Investment in associates | - | 11,267,340 | 11,267,340 |
| Other assets | 14,570,663 | - | 14,570,663 |
| Furniture and equipments | - | 155,419 | 155,419 |
| TOTAL ASSETS | <u>52,886,725</u> | <u>86,595,223</u> | <u>139,481,948</u> |
| LIABILITIES | | | |
| Murabaha payables | 44,623,664 | - | 44,623,664 |
| Other liabilities | 7,816,018 | - | 7,816,018 |
| TOTAL LIABILITIES | <u>52,439,682</u> | <u>-</u> | <u>52,439,682</u> |

The table below summarises the maturity profile of the group's financial liabilities and contingent liabilities and commitments at 31 December based on contractual undiscounted repayment obligations.

| | <i>2007 KD</i> | <i>2006 KD</i> |
|----------------------------|--------------------|--------------------|
| At 31 December 2007 | | |
| Murabaha payables | 67,132,015 | 45,175,957 |
| Other liabilities | 9,773,960 | 7,816,018 |
| | <u>76,905,975</u> | <u>52,991,975</u> |

Murabaha payables and other liabilities are due with in one year of the balance sheet date.

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

| | <i>2007 KD</i> | <i>2006 KD</i> |
|------------------------|--------------------|--------------------|
| Contingent liabilities | 1,464,769 | 1,009,845 |
| Commitments | 11,084,000 | 11,221,531 |
| | <u>12,548,769</u> | <u>12,231,376</u> |

Contingent liabilities and commitments are due with in one year of the balance sheet date.

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

23 RISK MANAGEMENT (continued)

23.3 MARKET RISK

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

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

23.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The group is not exposed to interest rate risk as the group does not have interest bearing liabilities.

23.3.2 Foreign Currency risk

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

Currency risk is managed by the treasury department of the parent company on the basis of limits determined by the group's Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposures.

The group had the following net foreign currency exposures at 31 December:

| | 2007 KD <i>Equivalent</i> | 2006 KD <i>Equivalent</i> |
|-----------------|---------------------------------|---------------------------------|
| US Dollars | (3,047,740) | 9,871,521 |
| Qatari Riyals | 11,202,829 | 8,580,636 |
| UAE Dirhams | 2,075,854 | 1,637,376 |
| Euros | 27,254 | 20,092 |
| Saudi Riyals | 89,411,960 | 66,444,296 |
| Bahraini Dinars | 2,338,169 | 2,305,227 |
| GBP | 1,057,015 | - |
| Omani Riyals | 3,899,996 | - |
| | <u>106,965,337</u> | <u>88,859,148</u> |

The effect on profit before KFAS, NLST and Zakat (due to change in the fair value of monetary assets and liabilities) and on equity, as a result of change in currency rate, with all other variables held constant is shown below:

| Currency | 2007 | | | 2006 | | |
|---------------|------------------------------------|---------------------------|---------------------------|------------------------------------|---------------------------|---------------------------|
| | Change in currency rate in % | Effect on profit KD | Effect on equity KD | Change in currency rate in % | Effect on profit KD | Effect on equity KD |
| Saudi Riyals | +5 | 2,446,391 | 2,024,207 | +5 | 792,454 | 2,529,761 |
| Qatari Riyals | +5 | - | 550,571 | +5 | (183,891) | 612,923 |
| US Dollars | +5 | (673,237) | 520,850 | +5 | - | 155,140 |
| Omani Riyals | +5 | - | 212,727 | +5 | - | - |
| Others | +5 | 28,008 | 238,750 | +5 | 285,091 | 251,480 |

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

23 RISK MANAGEMENT (continued)

23.3.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the parent company. The unquoted equity price risk exposure arises from the group's investment portfolio. The group manages this through diversification of investments in terms of geographical distribution and industry concentration. The majority of the group's quoted investments are listed on GCC Stock Exchanges.

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

| Market indices | 2007 | | | 2006 | | |
|----------------|--------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|
| | Change in equity price % | Effect on equity KD | Effect on profit KD | Change in equity price % | Effect on equity KD | Effect on profit KD |
| Kuwait | +5 | 212,558 | 625,295 | +5 | 9,293 | 247,556 |
| Qatar | +5 | 793,140 | - | +5 | 472,654 | 220,485 |
| Others | +5 | - | 335,860 | +5 | - | 24,332 |

23.3.4 Prepayment risk

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.

23.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

24 CAPITAL MANAGEMENT

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

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years end 31 December 2007 and 31 December 2006.

The group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The group's policy is to keep the gearing ratio less than 100%. The group includes within net debt, Islamic borrowings less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less cumulative changes in fair values.

First Investment Company K.S.C. (Closed) And its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

24 CAPITAL MANAGEMENT (continued)

| | <i>2007</i> <i>KD</i> | <i>2006</i> <i>KD</i> |
|---------------------------------------------------------|--------------------------|--------------------------|
| Islamic borrowings | 66,174,452 | 44,623,664 |
| Less: Bank balances and cash | <u>(656,868)</u> | <u>(3,141,793)</u> |
| Net debt | 65,517,584 | 41,481,871 |
| Equity attributable to the equity holders of the parent | 139,663,711 | 87,042,266 |
| Less:- Cumulative changes in fair values | <u>(14,227,683)</u> | <u>(9,056,448)</u> |
| Total capital | 125,436,028 | 77,985,818 |
| Capital and net debt | <u>190,953,612</u> | <u>119,467,689</u> |
| Gearing ratio | <u>34%</u> | <u>35%</u> |

25 FIDUCIARY ACCOUNTS

The group manages portfolios on behalf of others and maintains cash balances and securities in fiduciary accounts which are not reflected in the group's balance sheet. Assets under management at 31 December 2007 amounted to KD 67,156,597 (2006: KD 95,942,612). The total income earned from fiduciary activities amounted to KD 611,802 (2006: KD 580,420).

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, investments carried at fair value through income statement, available for sale investments and receivables. Financial liabilities consist of murabaha payables and other liabilities.

The fair values of financial instruments, with the exception of certain available for sale investments carried at cost (see note 10) are not materially different from their carrying values.

27 COMMITMENTS AND CONTINGENCIES

At 31 December 2007, there are commitments in respect of available for sale investments for uncalled capital amounting to KD 443,250 (2006: KD 8,904,031).

There are commitments in respect of investment in associate for uncalled capital amounting to KD 10,640,750 (2006: KD 2,317,500).

At 31 December 2007, the group had contingent liability in respect of bank guarantee for which the management anticipates that no material liabilities will arise, amounting to KD 1,464,769 (31 December 2006: KD 1,009,845).