Kuwait Finance and Investment Company K.S.C. (Closed)
And its subsidiaries

Consolidated Financial Statements and Independent Auditors' Report
31 December 2008

PRICEWATERHOUSECOOPERS

AL-HUMAIDI & PARTNERS
Independent Member of Baker Tilly International

Kuwait Finance and Investment Company K.S.C. (Closed)
And its subsidiaries

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Kuwait Finance and Investment Company K.S.C. (Closed)

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the financial statements

We have audited the accompanying consolidated financial statements of Kuwait Finance and Investment Company K.S.C.C. ("the Parent Company") and its subsidiaries ("the Group") which comprise the consolidated balance sheet as of 31 December 2008, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and of 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.

Kuwait Finance and Investment Company K.S.C. (Closed)

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

Report on Other Legal and Regulatory Requirements

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 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 count was duly carried out and that, to the best of our knowledge and belief, no violations of provision of the Commercial Companies Law of 1960, as amended, or of the Parent Company's Articles of Association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the Group or on its financial position.

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 2008.

Bader A. Al-Wazzan
License No. 62A
PricewaterhouseCoopers

Dr. Saud Al-Humaidi
License No. 51A
Al-Humaidi & Partners
Independent Member of Baker Tilly International

Kuwait
13 April 2009

Kuwait Finance and Investment Company K.S.C. (Closed)
And its subsidiaries

Consolidated Balance Sheet – as of 31 December 2008

	Note	Kuwaiti Dinars 2008	2007
ASSETS			
Cash and cash equivalents		2,986,689	5,547,387
Investments at fair value through profit or loss	3	29,090,110	69,863,210
Finance receivables	4	88,561,477	94,347,910
Investments available for sale	5	30,319,099	22,890,438
Investment in associates	6	25,104,711	-
Other assets	7	3,855,150	5,201,198
Property and equipment		908,709	947,040
Intangible assets	8	22,752,541	24,745,141
TOTAL ASSETS		203,578,486	223,542,324
LIABILITIES AND EQUITY			
LIABILITIES			
Bank overdraft	9	11,645,816	9,213,370
Term loans	10	121,129,666	81,306,333
Bonds	11	21,456,542	21,419,292
Other liabilities	12	5,527,169	4,975,104
		159,759,193	116,914,099
EQUITY			
Equity attributable for the Parent Company's shareholders			
Share capital	13	41,930,970	34,942,475
Share premium		2,210,849	2,210,849
Treasury shares		(13,836,304)	(5,316,181)
Statutory reserve		8,948,771	8,948,771
General reserve		7,704,302	7,704,302
Changes in fair value reserve		(4,777,937)	(216,106)
Treasury shares reserve		162,389	85,410
Foreign currency translation reserve		385,866	15,038
Equity transactions reserves	16	130,781	-
(Accumulated losses)/ retained earnings		(12,769,451)	29,636,168
		30,090,236	78,010,726
Non controlling interest		13,729,057	28,617,499
Total Equity		43,819,293	106,628,225
TOTAL LIABILITIES AND EQUITY		203,578,486	223,542,324

The attached notes form an integral part of these consolidated financial statements.

Sana Jumah
Chief Executive officer

Saleh Yacoub Al Humaizi
Chairman

Consolidated Statement of Income - Year ended 31 December 2008

	Note	Kuwaiti Dinars 2008	2007
REVENUES			
Finance income		11,817,770	11,019,030
Investment (losses)/ income	14	(24,558,917)	19,770,427
Group's share in associate's results	6	(113,734)	-
Gain from sale of investment properties		-	470,000
Management and advisory fees		3,202,677	3,584,388
Net brokerage commission		3,506,699	2,768,610
Other income		554,530	316,116
		(5,590,975)	37,928,571
EXPENSES			
Finance expenses		10,721,040	9,012,529
Staff expenses		4,036,753	2,653,595
Depreciation and amortization		439,271	291,496
Marketing expenses		233,128	428,656
Other operating expenses	7 , 8	5,774,825	1,506,825
Provisions	4	(238,180)	455,639
Board of Directors' remuneration		-	120,000
Contribution to Kuwait Foundation for the Advancement of Science (KFAS)		-	187,293
National labour support tax		-	561,917
Zakat expenses		-	12,506
		20,966,837	15,230,456
Net (loss)/ profit for the year		(26,557,812)	22,698,115
Attributable to:			
Shareholders of the Parent Company		(25,277,132)	21,788,829
Non controlling interest		(1,280,680)	909,286
Net (loss)/ profit for the year		(26,557,812)	22,698,115
(Losses)/ earnings per share (fils)	15	(63.82)	52.49

The attached notes form an integral part of these consolidated financial statements.

Kuwait Finance and Investment Company K.S.C. (Closed)
And its subsidiaries

Consolidated Statement of Changes in Equity - Year ended 31 December 2008

	Equity attributable to the Parent Company's shareholders												
	Share capital	Share premium	Treasury shares	Statutory reserve	General reserve	Change in fair value reserve	Treasury shares reserve	Foreign currency translation reserve	Equity transactions reserves	Retained Earnings/ (accumulated losses)	Total	Non controlling interest	Total
Balance as of 31 December 2006	30,384,761	2,210,849	(5,556,022)	6,681,717	5,752,124	3,015,552	1,094,117	-	-	31,751,416	75,334,514	-	75,334,514
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	9,952,250	9,952,250
Consolidation of private equity fund	-	-	-	-	-	-	-	-	-	-	-	17,755,963	17,755,963
Change in fair value of investments	-	-	-	-	-	(675,171)	-	-	-	-	(675,171)	-	(675,171)
Transferred to the statement of income on sale of available for sale investments	-	-	-	-	-	(2,556,487)	-	-	-	-	(2,556,487)	-	(2,556,487)
Gain on sale of treasury shares	-	-	-	-	-	-	(1,008,707)	-	-	-	(1,008,707)	-	(1,008,707)
Translation of financial statements in foreign currencies	-	-	-	-	-	-	-	15,038	-	-	15,038	-	15,038
(Losses)/ gain recognized directly in equity	-	-	-	-	-	(3,231,658)	(1,008,707)	15,038	-	-	(4,225,327)	-	(4,225,327)
Net profit for the year	-	-	-	-	-	-	-	-	-	21,788,829	21,788,829	909,286	22,698,115
Total recognized (losses)/ profit	-	-	-	-	-	(3,231,658)	(1,008,707)	15,038	-	21,788,829	17,563,502	909,286	18,472,788
Issue of bonus shares for year 2006	4,557,714	-	-	-	-	-	-	-	-	(4,557,714)	-	-	-
Cash dividends for year 2006	-	-	-	-	-	-	-	-	-	(15,127,131)	(15,127,131)	-	(15,127,131)
Purchase of treasury shares	-	-	(23,030,354)	-	-	-	-	-	-	-	(23,030,354)	-	(23,030,354)
Sale of treasury shares	-	-	23,270,195	-	-	-	-	-	-	-	23,270,195	-	23,270,195
Transfers to reserves	-	-	-	2,267,054	1,952,178	-	-	-	-	(4,219,232)	-	-	-
Balance as of 31 December 2007	**34,942,475**	**2,210,849**	**(5,316,181)**	**8,948,771**	**7,704,302**	**(216,106)**	**85,410**	**15,038**	**-**	**29,636,168**	**78,010,726**	**28,617,499**	**106,628,225**
Balance as of 31 December 2007	**34,942,475**	**2,210,849**	**(5,316,181)**	**8,948,771**	**7,704,302**	**(216,106)**	**85,410**	**15,038**	**-**	**29,636,168**	**78,010,726**	**28,617,499**	**106,628,225**
Change in fair value of investments	-	-	-	-	-	(26,438,985)	-	-	-	-	(26,438,985)	(743,258)	(27,182,243)
Impairment in available for sale investments	-	-	-	-	-	22,261,557	-	-	-	-	22,261,557	-	22,261,557
Transferred to the statement of income on sale of available for sale investments	-	-	-	-	-	(384,403)	-	-	-	-	(384,403)	-	(384,403)
Reserve resulted from an increase in the holding of subsidiaries (Note: 16)	-	-	-	-	-	-	-	-	130,781	-	130,781	-	130,781
Gain on sale of treasury shares	-	-	-	-	-	-	76,979	-	-	-	76,979	-	76,979
Translation of financial statements in foreign currencies	-	-	-	-	-	-	-	370,828	-	-	370,828	(45,102)	325,726
(Losses)/ profit recognized directly in equity	-	-	-	-	-	(4,561,831)	76,979	370,828	130,781	-	(3,983,243)	(788,360)	(4,771,603)
Net loss for the year	-	-	-	-	-	-	-	-	-	(25,277,132)	(25,277,132)	(1,280,680)	(26,557,812)
Total recognized (losses) / profit	-	-	-	-	-	(4,561,831)	76,979	370,828	130,781	(25,277,132)	(29,260,375)	(2,069,040)	(31,329,415)
Purchase of shares in subsidiaries (Note 16)	-	-	-	-	-	-	-	-	-	-	-	(12,759,402)	(12,759,402)
Issue of bonus shares for 2007 (Note 13)	6,988,495	-	-	-	-	-	-	-	-	(6,988,495)	-	-	-
Cash dividends for year 2007 (Note 13)	-	-	-	-	-	-	-	-	-	(10,139,992)	(10,139,992)	(60,000)	(10,199,992)
Purchase of treasury shares	-	-	(10,861,551)	-	-	-	-	-	-	-	(10,861,551)	-	(10,861,551)
Sale of treasury shares	-	-	2,341,428	-	-	-	-	-	-	-	2,341,428	-	2,341,428
Balance as of 31 December 2008	**41,930,970**	**2,210,849**	**(13,836,304)**	**8,948,771**	**7,704,302**	**(4,777,937)**	**162,389**	**385,866**	**130,781**	**(12,769,451)**	**30,090,236**	**13,729,057**	**43,819,293**

The attached notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows - Year ended 31 December 2008

	Note	Kuwaiti Dinars 2008	2007
Operating Activities			
Net (loss)/ profit for the year		(26,557,812)	22,698,115
Adjustments for:			
Available for sale investments losses/ (income)	14	21,932,229	(8,686,627)
Group's share in associate's results	6	113,734	-
Negative goodwill resulted from acquisition of a subsidiary		-	(5,482,752)
Gain on sale of investment properties		-	(470,000)
Finance costs		10,721,040	9,012,529
Depreciation and amortization		439,271	348,454
Decline in the value brokerage license	8	1,979,300	-
Provisions	4	(238,180)	455,639
Amortization of bond issue fees		37,250	37,250
Losses from sale of property and equipment		-	373
Operating profit before changes in operating assets and liabilities:		8,426,832	17,912,981
Finance receivables		6,024,612	(3,465,783)
Investments at fair value through profit and loss		2,060,962	(10,522,942)
Other assets		1,346,048	(854,269)
Other liabilities		(1,873,185)	1,450,211
Net cash generated from operating activities		15,985,269	4,520,198
Investing Activities			
Purchase of property and equipment		(408,157)	(606,888)
Sale of property and equipment		20,517	27,268
Dividends received		575,798	212,166
Paid to acquire an associates		(5,744,699)	-
Purchase of investment properties		-	(5,250,000)
Sale of investment properties		-	5,720,000
Purchase of share in subsidiaries		-	(13,666,076)
Sale of share in subsidiaries		-	13,666,076
Acquisition of a subsidiary		-	(12,013,965)
Purchase of additional shares in subsidiaries	16	(12,628,621)	-
Acquisition of a mutual fund subsidiaries		-	(23,908,248)
Purchase of available for sale investments		(26,524,361)	(48,757,343)
Proceeds from sale of available for sale investments		12,844,460	93,096,270
Net cash (used in)/ generated from investing activities		(31,865,063)	8,519,260
Financing Activities			
Term loans & Overdraft facilities		42,255,779	16,341,612
Finance cost paid		(10,353,547)	(9,012,529)
Purchase of treasury shares		(10,861,551)	(23,030,354)
Sale of treasury shares		2,418,407	22,261,488
Dividends paid		(10,139,992)	(15,127,131)
Net cash generated from/ (used in) financing activities		13,319,096	(8,566,914)
(Decrease)/ increase in cash and cash equivalents		(2,560,698)	4,472,544
Cash and cash equivalents at beginning of year		5,547,387	1,074,843
Cash and cash equivalents at end of year		2,986,689	5,547,387

The attached notes form an integral part of these consolidated financial statements.

1. Constitution and activities

Kuwait Finance and Investment Company K.S.C. Closed (the Parent Company) is a Kuwaiti closed shareholding Company incorporated in 29 March 2000 in accordance with Kuwait's Commercial Companies Law No. 15 of 1960. The Parent Company is regulated by the Central Bank of Kuwait as an investment company and its shares are listed on the Kuwait Stock Exchange and the Dubai Financial Market.

The Parent Company and its following subsidiaries (the Group) are principally engaged in consumer and commercial financing activities, managing funds and portfolios on behalf of clients, investing in securities, brokerage activities and providing consulting services.

	Activity	Ownership	
		2008	2007
KFIC Financial Brokerage (Formerly Al Ahliya Financial Brokerage Company K.S.C.C.)	Brokerage	94%	65%
KFIC Private Equity Fund – WLL	Investment	66.97%	54.7%

In September 2008, the shareholders of the Parent Company approved the appointment of consultancy house to prepare the required studies to transform the Company's activities to be Sharia Compliant after receiving the approval of the Central Bank of Kuwait.

The Parent Company's registered office is at Rashid Salim Ali Al-Rashid Building, Murqab, Kuwait City.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 8 April 2009 and are subject to the approval of the shareholders of the Parent Company in General Assembly.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the State of Kuwait for financial institutions regulated by the Central Bank of Kuwait. Those regulations require adoption of all IFRS except for the International Accounting Standard 'IAS 39' requirements for general provisions, which has been replaced by the Central Bank of Kuwait's requirements for a minimum general provision as described in note (2.7).

The consolidated financial statements are presented in Kuwaiti Dinars and have been prepared under the historical cost basis of accounting, as modified by the revaluation of financial assets at fair value through profit or loss and available for sale investments and previously held equity interests in business combinations achieved in stages.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note (21).

2.2 Changes in accounting policies

The accounting policies are consistent with those used in the previous year except that the Group has early adopted revised IFRS 3 – Business Combinations and the amended IAS 27 - Consolidated and Separate Financial Statements issued in 2008. These revised standards have been applied to business combinations during the year (Note 16). The Group has also adopted the amendments to IAS 39 - "Financial Instruments-Recognition and Measurements) and changes to IFRS 7 - "Financial Instruments-Disclosures". According to these changes issued on October 2008 permit a reclassification of certain financial instruments held for trading if certain conditions are met to either loans or receivables or available for sale investments categories.

Amendments and interpretations that are not yet effective and have not been early adopted by the Group:

IAS 1	-	(Amendments) - Presentation of Financial Statements (effective 2009)
IFRS 8	-	Operating Segments (effective 2009)
IAS 16	-	(Amendments) - Property, Plant and Equipment (effective 2009)
IAS 19	-	Employee Benefits (effective from 1 January 2009)
IAS 28	-	Investments in Associates (effective from 1 January 2009)
IAS 36	-	(Amendments) - Impairment of Assets (effective 2009)
IAS 38	-	(Amendments) - Intangible assets (effective 2009)

The adoption of IAS 1 and IFRS 8 will result in amendments to the presentation of the consolidated financial statements of the Group.

The Group will adopt these new standards and amendments to other standards from their effective date. Their adoption is not expected to have a material impact on the consolidated financial statements of the Group.

2.4 Business Combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition is measured as the fair values of the assets given, equity interests issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The acquisition related costs are expensed when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at their fair values at the acquisition date. Non-controlling interest in the subsidiary acquired is recognized at the non-controlling interest's proportionate share of the acquiree's net assets.

When a business combination is achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognized in the statement of income. The fair value of the equity of the acquiree at the acquisition date is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

The Group separately recognizes contingent liabilities assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably.

An indemnification received from the seller in a business combination for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability that is recognised at the acquisition date at its acquisition-date fair value is recognized as an indemnification asset at the acquisition date at its acquisition-date fair value.

The Group uses provisional values for the initial accounting of a business combination and recognizes any adjustment to these provisional values within the measurement period which is twelve months from the acquisition date.

2.5 Consolidation

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of 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.

Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of the combination. Equity and net income are attributed to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interest is presented separately in the consolidated balance sheet and consolidated statement of income. The non controlling interest is classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non controlling interest.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements or audited financial information of subsidiaries. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full. If a parent loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non controlling interests. Any investment retained is recognized at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognized in the equity is transferred to the consolidated statement of income.

Transactions with non controlling interests

The Group treats transactions with non controlling interests which do not result in loss or a gain of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the Parent Company's share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non controlling interests are also recorded in equity as "Equity transactions reserve.".

2.6 Cash and cash equivalents

Cash on hand, cash at banks 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 consolidated statement of cash flows.

2.7 Financial Instruments

Classification

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

Financial assets at fair value through profit or 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 inception. 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 inception 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 management or an investment strategy. Derivatives are also categorized as held for trading unless they are designated as hedges.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise finance receivables, trade and other receivables and cash and cash equivalents in the balance sheet.

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 an indefinite period of time which could be sold when liquidity is needed or upon changes in rates of profit.

Financial liabilities

Financial liabilities "other than at fair value through profit or loss" are subsequently measured and carried at amortized cost using the effective yield method. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

Recognition and De-recognition

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is de-recognized when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where 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 de recognition of the original liability and recognition of a new liability.

All regular way purchase and sale of financial assets are recognized on the trade date- the date on which the Group commits to purchase or sell the financial instrument.

Measurement

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the consolidated statement of income. Subsequently, available for sale financial assets and financial assets at fair value through profit or loss are re-measured at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the consolidated statement of income in the period 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 profit or loss, while other changes are recognized in equity. When available-for sale financial assets are sold or impaired, the accumulated changes in fair value recognized in equity are transferred to the consolidated statement of income.

Fair values

The fair values of quoted instruments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. Available for sale investment whose fair value can not be reliably determined are recorded at cost less impairment.

Impairment of financial asset

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each consolidated balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of financial assets, may be impaired. In the case of financial asset classified as available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets 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 consolidated income statement, is removed from equity and recognized in the consolidated income statement. Impairment losses on investment available for sale for equity instruments recognized in the consolidated income statement are not reversed through the consolidated income statement.

Loans and receivables are subject to credit risk provision for loan impairment if there is objective evidence that the group will not be able to collect all amounts due. The amount of the provision is difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the contractual interest rate. The amount of loss arising from impairment is taken to the consolidated income statement.

In addition, in accordance with Central Bank of Kuwait (CBK) instructions, a minimum general provision of 2% is made on all loans and advances as of 31 December 2006 (net of certain restricted categories of collateral) that are not provided for specifically. In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 0.5% to 1% 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.

2.8 Investments in associates

Associates are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The excess of the cost of investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recognised as goodwill. Goodwill on acquisition of associates is included in the carrying values of investments in associates. Investments in associates are initially recognised at cost and are subsequently accounted for by the equity method of accounting from the date of significant influence to the date it ceases. Under the equity method, the Group recognises in the consolidated statement of income, its share of the associate's post acquisition results of operations and in equity, its share of post acquisition movements in reserves that the associate directly recognises in equity. The cumulative post acquisition adjustments, and any impairment, are directly adjusted against the carrying value of the associate. Appropriate adjustments such as depreciation, amortisation and impairment losses are made to the Group's share of profit or loss after acquisition to account for the effect of fair value adjustments made at the time of acquisition.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivable, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

2.9 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.

2.10 Intangible assets and goodwill

Identifiable non-monetary assets acquired in a business combination and from which future benefits are expected to flow are treated as intangible assets. Intangible assets comprise of brokerage licence and key money.

Intangible assets which have a finite life are amortized over their useful lives.

Goodwill arises in a business combination and is computed as the excess of the aggregate of: the consideration transferred; the non-controlling interests proportionate share of the acquiree's net identifiable assets, if any; and the acquisition-date fair value of the acquirer's, previously held, equity interest in the acquiree, over the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Any deficit is a gain from a bargain purchase and is recognised directly in the consolidated statement of income.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to each of the cash generating units for the purpose of impairment testing. Gains and losses on disposal of an entity or a part of the entity include the carrying amount of goodwill relating to the entity or the portion sold.

Goodwill and intangible assets with indefinite useful lives are tested at least annually for impairment and carried at cost less accumulated impairment losses.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units for the purpose of assessing impairment of goodwill and intangible assets. If the recoverable amount of the 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 pro rata, on the basis of the carrying amount of each asset in the unit. That relating to goodwill cannot be reversed in a subsequent period. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group prepares formal five year plans for its businesses. These plans are used for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the five year period. Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

2.11 Provisions for liabilities

Provisions for liabilities are recognized when as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation; and the amount can be reliably estimated.

2.12 End of service benefits

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

2.13 Revenue recognition

Financing income is recognized on a time proportion basis so as to yield a constant periodic interest rate on the balance outstanding. The recognition of financing income is suspended when loans become impaired such as when overdue by more than 90 days.

Dividends on equity instruments are recognized when the Group's right to receive payment is established.

Commission on brokerage services, Management and advisory fees are recognized as the service is provided.

2.14 Foreign currencies

The functional currency of the Group is the Kuwaiti Dinar, which is also the presentational currency of the consolidated financial statements. Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income.

Net assets in foreign subsidiaries and associates are translated at the exchange rates prevailing at the date of the consolidated balance sheet. Revenues and expenses are translated at the average exchange rates for the year. All resulting exchange differences are recognized in the reserve of translating financial statements with foreign currencies in the equity.

2.15 Share-based payment transactions

The share option program allows employees to acquire the Parent Company's shares. According to the requirements of IFRS (2) - "Share based payment". The fair value of options granted is recognized as an employee expense in the consolidated statement of income with corresponding increase in equity. The fair value is measured at grant date and allocated over the period during which the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest during each financial year.

The proceeds from share option plan received net of any directly attributable transaction costs are credited to share capital by nominal value and any excess is recorded as share premium.

2.16 Treasury shares

The cost of the Parent Company's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends. 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. Reserves equal to the cost of treasury shares held are not available for distribution.

3. Investments at fair value through profit or loss

	Kuwaiti Dinars	
	2008	**2007**
Held for trading investments – quoted	16,935	12,652,831
Designated at fair value at inception – quoted	577,273	14,669,981
Designated at fair value at inception – unquoted	28,495,902	42,540,398
	29,090,110	69,863,210

The fair value of quoted investments whose value was determined based on year end bid prices.

The fair value of unquoted investments was determined using recent arm's length market transactions between knowledgeable parties, and other valuation techniques.

Losses from change in fair value resulted has amounted to KD 5,521,597 these losses have been included in the consolidated statement of income for the year ended 31 December 2008.

During the year, and starting from 1 July 2008 the Group reclassified certain investments classified as held for trading amounting to KD 21,473,991 to available for sale upon the application of the amendments to IAS 39, due to the exceptional decline in market prices of investments. The amount of unrealized gains recognized in the consolidated statement of income for the period ended 30 June 2008 was KD 773,760. Had this change not been adopted the loss for the year would have been higher by KD 2,346,442.

The decline in the fair value below cost after 1 July 2008 amounting to KD 8,765,982 has been transferred from equity to consolidated statement of income.

Geographical analysis of investments at fair value:

	Kuwaiti Dinars	
	2008	**2007**
Middle East	29,040,864	69,532,726
Other countries	49,246	330,484
	29,090,110	69,863,210

4. Finance receivables

	Kuwaiti Dinars	
	2008	**2007**
Gross receivables	100,432,167	109,317,194
Less: discount effect	(9,022,736)	(11,883,150)
	91,409,431	97,434,044
Provision for credit losses	(2,847,954)	(3,086,134)
	88,561,477	94,347,910

Finance receivables that are due for less than three months are not considered impaired. The total amount of the finance receivables which are past due but not impaired is KD 5,969,132 as of 31 December 2008 (KD 14,247,486 as of 31 December 2007).

The following is the maturity analysis of finance receivables:

	Kuwaiti Dinars	
	2008	**2007**
Less than three months	25,053,682	10,715,923
More than three months and less than six months	7,729,694	5,853,438
More than six months and less than one year	27,502,170	37,993,883
More than a year and up to 5 years	31,123,885	42,870,800
	91,409,431	97,434,044

The fair value of collaterals held against finance receivables is KD 92,232,951 as of 31 December 2008 (31 December 2007 - KD 122,172,197).

The fair value of finance receivables as of 31 December 2008 is KD 90,054,392 (2007: KD 94,453,718) by using current discount market rates prevailing at the consolidated financial statements date.

The movements in provisions are as follows:

	Kuwaiti Dinars		
	Specific provision	**General provision**	**Total**
Balance as at 1 January 2007	784,245	1,846,250	2,630,495
Provision no longer required	(130,027)	(549,445)	(679,472)
Amounts charged during the year	528,764	606,347	1,135,111
Balance as at 31 December 2007	1,182,982	1,903,152	3,086,134
Provision no longer required	(204,100)	(1,648,682)	(1,852,782)
Amounts charged during the year	992,077	622,525	1,614,602
Net provision movement during the year	787,977	(1,026,157)	(238,180)
Balance as at 31 December 2008	1,970,959	876,995	2,847,954

During the year and based on the instructions of Central Bank of Kuwait KD 923,125 has been written back from 1% general provision as of 31 December 2006.

The following is the degree of exposure to the credit risk for the finance receivable:

	Kuwaiti Dinars		
	Neither past due nor impaired		
	High Qualitiy	**Medium Qualitiy**	**Total**
2008			
Finance receivables:			
Consumer finance	16,641,689	6,477,599	23,119,288
Commercial finance	55,002,092	3,608,956	58,611,048
	71,643,781	10,086,555	81,730,336
2007			
Finance receivables:			
Consumer finance	21,450	30,283,479	30,304,929
Commercial finance	50,496,460	389,714	50,886,174
	50,517,910	30,673,193	81,191,103

5. Investments available for sale

	Kuwaiti Dinars	
	2008	**2007**
Quoted equity	22,965,316	14,157,536
Unquoted equity	7,353,783	8,732,902
	30,319,099	22,890,438

Market risk by geographical analysis:

	Kuwaiti Dinars	
	2008	**2007**
Middle East	29,959,291	22,889,071
Other countries	359,808	1,367
	30,319,099	22,890,438

During the year, the Group has recorded an impairment loss of KD 22,261,557 (2007: Nil) for certain quoted investments. This impairment is the difference between the acquisition cost and the fair value of those investments as of 31 December 2008.

6. Investment in associates

Name	Legal form	Incorporation	% of ownership	Kuwaiti Dinars Carrying value 2008	Carrying value 2007
Arabian Capital Investment and Finance	K.S.C.C.	Kuwait	24.49%	7,328,600	-
Salbookh Trading Co	K.S.C.C.	Kuwait	23.48%	9,321,983	-
Arab Finance House Holding	S.A.L.	Lebanon	29.17%	8,454,128	-
Total				25,104,711	-

On July 2008, The Group acquired 24.49% of Arabian Capital Investment and Finance (K.S.C.C.) for KD 7,568,182 which includes a provisional goodwill of KD 2,778,201 as of 31 December 2008.

During December 2008, the Group acquired 23.48% of Salbokh Trading Company K.S.C.C. as an associate, which includes a provisional goodwill of KD 1,689,230 as of 31 December 2008.

The Parent Company is currently preparing a study for cost of purchase allocation over the acquired assets and liabilities, within the permitted period to prepare such a study, which is 12 months from the acquisition date.

Arab Finance House Holding S.A.L. has been reclassified as an associate from investments at fair value through profit or loss as the Group owns 29.17% of its share capital. This investment includes goodwill of KD 3,350,076 as of 31 December 2008.

The following is the Group's share in the assets, liabilities, revenues and results of the associates in accordance with latest financial statements.

Name	Assets	Liabilities	Revenues	Net (loss)/ profit	Fair Value
Arabian Capital Investment and Finance (K.S.C.C.)	7,283,005	2,732,606	1,130,788	(162,579)	Unquoted
Salbookh Trading Co (K.S.C.C.)	10,384,178	2,751,425	765,995	-	8,364,615
Arab Finance House Holding (S.A.L.)	10,055,209	4,951,157	502,950	48,845	Unquoted
				(113,734)	

7. Other assets

	Kuwaiti Dinars	
	2008	**2007**
Kuwait Clearing Company	301,717	160,232
Other receivables	1,708,360	1,362,304
Accrued income	1,634,707	3,147,953
Prepayments	154,566	280,709
Deposit with clearing Company	55,800	250,000
	3,855,150	5,201,198

Accrued income represents portfolio management fee due from clients and funds managed by the Group.

Other operating expenses include provisions amounting to KD 1,548,238 for dues from brokerage clients. (2007: Nil).

8. Intangible assets

	Kuwaiti Dinars	
	2008	**2007**
Brokerage licence	22,729,308	24,708,608
Key money	23,233	36,533
	22,752,541	24,745,141

Management has recognized a decline in value of KD 1,979,300 in the brokerage license based on the current trading patterns at the Kuwait Stock Exchange which is subject to re-evaluation.

Impairment testing

The Group determines whether intangible assets with indefinite useful lives are impaired, at least on an annual basis. This requires an estimation of the recoverable amount which is determined based on the higher of value-in-use calculations or fair value less cost to sell.

Management used the following approach to determine values to be assigned to the following key assumptions in the value in use calculations:

Key assumption	**Basis used to determine value to be assigned to key assumption**
Growth rate	3% based on expectations of Growth Domestic Product
Discount rate	Discount rates range from 12% to 15% per annum The Discount rate used is pre-tax and reflect specific risks relating to the relevant cash generating unit.

The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors result in any impairment in the license.

These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a four year period.

9. Bank overdrafts

Bank overdrafts are in Kuwaiti Dinars and are secured by a negative pledge over the Group's assets.

10. Term loans

These loans are due to local and foreign financial institutions secured by a negative pledge over the Group's assets.

Loan balance analysis as follows:

	Kuwaiti Dinars			
	2008		**2007**	
	Loan balance	**Interest rate**	**Loan balance**	**Interest rate**
Within one year	110,129,666	6.06%	66,703,667	7.35%
From one to two years	4,000,000	6.13%	11,602,666	7.58%
From two to five years	7,000,000	6.57%	3,000,000	8%
	121,129,666		81,306,333	

11. Bonds

In 2006, the Parent Company issued floating interest rate bonds with a principal amount of KD 21,500,000 at an issue price of 100%, (1.5% per annum above the Central Bank of Kuwait discount rate) payable semi-annually. The bonds are mature on 1 March 2010 and the interest rate on these bonds is 5.25% (2007: 7.75%). The bonds are secured by a negative pledge over the Group's assets with a permission to arrange a syndicated loan of US Dollar 300 million.

12. Other liabilities

	Kuwaiti Dinars	
	2008	**2007**
Due to suppliers and others	2,346,401	820,104
Due to related parties	-	29,925
Employees' end of service benefits	318,244	186,949
Accrued expenses and other payables	2,862,524	3,938,126
	5,527,169	4,975,104

13. Share capital and reserves

On 9 April 2008, the general assembly of the Shareholders approved issue of bonus shares of 20% of the share capital. Accordingly, the issued and paid up capital of the Parent Company as of 31 December 2008 is KD 41,930,970 comprising of 419,309,700 shares of 100 fils per share (2007: KD 34,942,475 comprising of 349,424,750 shares of 100 fils per share).

On 2 September 2008, an extraordinary general assembly of shareholders of the Parent Company approved to increase of the Parent Company's share capital from KD 41,930,970 to KD 63,735,075 as follows:

- Issue 125,792,911 shares to existing shareholders at 100 fils per share and a share premium of 95 fils per plus and an issue fee of 5 fils per share.
- Issue 83,861,941 shares to new shareholders after current shareholders waive their right to these shares at 100 fils per share and a share premium of 145 fils per share plus an issue fees 5 fils per share.
- Issue 8,386,195 shares to employees in accordance with the approved Employee Share Option Plan at 100 fils per share and a premium of 70 fils per share plus an issue fee of 5 fils.

The shareholders have delegated the Board of Directors in finalizing the procedures of capital increase. The Board of Directors has not called up the above capital increase.

Treasury shares

	Kuwaiti Dinars	
	2008	**2007**
Number of shares (share)	41,739,466	11,525,000
% to the share capital	9.95	3.3
Market value (KD)	9,487,219	4,494,750

Statutory reserve

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the net profit for the year before contribution to Kuwait Foundation for Advancement of sciences, directors' remuneration, and National Labour Support Tax and Zakat expense should be transferred to the statutory reserve. The Parent Company may resolve to discontinue such annual transfers when it equals 50% of the issued 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 in years when retained earnings are not sufficient for the payment of a dividend of that amount. There is no transfer to statutory reserve in the current year due to losses.

General reserve

In accordance with Kuwait's Law of Commercial Companies and the Parent Company's article of association, the Board of Directors may propose appropriation from net profit to the general reserve. Due to losses, no such appropriation is proposed (2007: 10% of net profit).

Dividends

In April 2008, the shareholders approved a cash dividend of 30 fils per share after deduct the treasury shares and a bonus share issue of 20% for the year ended 31 December 2007.

14. Investment (losses)/ income

	Kuwaiti Dinars	
	2008	**2007**
Available for sale investments:		
Cash dividends	575,798	212,166
Impairment	(22,261,557)	-
(Losses)/ gains on sale	(246,470)	8,474,461
	(21,932,229)	8,686,627
At fair value through profit or loss		
Gain on sale	1,719,500	3,273,641
Change in fair value	(6,325,874)	2,125,262
Dividend Income	1,959,974	-
	(2,646,400)	5,398,903
Interest income	19,712	202,145
Negative goodwill on acquisition of a subsidiary	-	5,482,752
	(24,558,917)	19,770,427

15. (Losses)/ earnings per share

(Losses)/ earnings per share is computed by dividing the net (losses)/ profit for the year by the weighted average number of ordinary shares outstanding during the year as follows:

	Kuwaiti Dinars	
	2008	**2007 (Restated)**
Net (loss)/ profit for the year	(25,277,132)	21,788,829
Weighted average number of outstanding shares during the year	396,057,569	415,079,313
(Losses)/ earnings per share (fils)	(63.82)	52.49

The bonus shares issued in 2008 have been have been taken into consideration when calculating the earnings per share for the current and previous year.

16. Acquisition of additional shares in subsidiaries

During the year, the Group acquired additional equity shares of 29% and 9.48% of its subsidiaries KFIC Brokerage Company and Private Equity Fund respectively. Accordingly the Group's share in these subsidiaries increased to 94% and 66.97% respectively.

The following are the assets and liabilities acquired as of 31 March 2008 for KFIC brokerage and 30 June 2008 for Private Equity Fund (the acquisition dates).

	KFIC brokerage	**Private Equity Fund**	**Total**
Cash and cash equivalent	2,531,388	92,995	2,624,383
Receivables	353,690	1,128,358	1,482,048
Investments at fair value through profit or loss	6,612,382	44,878,393	51,490,775
Guarantee of Brokerage operation	250,000	-	250,000
Investments available for sale	9,923,933	-	9,923,933
Fixed and intangible assets	188,703	-	188,703
License	24,708,608	-	24,708,608
Payables	(14,930,547)	(720,943)	(15,651,490)
End of service indemnity	(48,065)	-	(48,065)
Term loan	-	(1,322,166)	(1,322,166)
Net assets on acquisition date	29,590,092	44,056,637	73,646,729
Group's share in net assets acquired	8,581,127	4,178,275	12,759,402
Paid for acquisition	7,830,000	4,798,621	12,628,621
Equity transaction reserve	751,127	(620,346)	130,781

The difference between amount paid on acquisition and the corresponding share of net asset value is included in equity as "Equity holder transactions reserve".

From the date of acquisition, KFIC brokerage has contributed revenues of KD 894,488 and net losses for the year ended 31 December 2008 of KD 595,225 to the net profit of the group. If the acquisition had taken place on 1 January 2008, the Group revenue would have been higher by KD 317,654 and net losses would have been lower by KD 235,849.

From the date of acquisition, Private Equity Fund has contributed expenses of KD 425,166 and net loss of KD 819,204 to the net profit of the group. If the acquisition had taken place on 1 January 2008, the Group expenses would have been lower by KD 346,717 and net losses would have been lower by KD 297,796.

There is no effect from adopting of IFRS '3' and IAS '27' on the consolidated financial statements, as the Group was treating,minority interest as inter-Group transaction.

17. Related parties transactions

Related parties represent major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions are carried out on terms approved by Group management.

The related party transactions included in the consolidated financial statement are as follows:

	Number of directors and executive officers		Amount (Kuwaiti Dinars)	
	2008	2007	2008	2007
Directors				
Finance receivables	2	3	2,020,954	2,800,609

Related parties balances

	Kuwaiti Dinars	
	2008	2007
Due from other related parties	-	29,925
Investments and funds managed in a fiduciary capacity	39,372,068	43,932,129

Related parties transactions

	Kuwaiti Dinars	
	2008	2007
Management fees earned	191,772	231,095
Interest income	11,327	187,074
Key management compensation:		
Salaries and other short term benefits	1,427,401	1,402,022

18. Employee Share Ownership Plan (ESOP)

As mentioned in Note (13), the shareholders approved issue of 8,386,195 shares as share option plan for employees' at 170 fils per share (100 fils per share plus 70 fils share premium)

During the year ended 31 December 2008, the ESOP terms have been finalised, its terms do not have a material impact on the Group's consolidated financial statements.

19. Segment Information

The Group is operating principally in the state of Kuwait through the following segments:

	Kuwaiti Dinars									
	Finance		Investment and corporate finance		Asset management		Financial brokerage and online trading		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Segment results	11,946,742	11,582,339	(3,878,503)	9,178,909	(16,711,214)	13,278,478	3,052,000	3,888,845	(5,590,975)	37,928,571
Allocated expenses	6,351,370	6,183,961	4,164,155	4,256,688	3,975,808	2,529,812	6,475,504	1,378,278	20,966,837	14,348,739
Unallocated expenses	-	-	-	-	-	-	-	-	-	881,717
Net profit/ (loss)	5,595,372	5,398,378	(8,042,658)	4,922,221	(20,687,022)	10,748,666	(3,423,504)	2,510,567	(26,557,812)	22,698,115
Segment assets	91,289,529	95,661,166	72,380,393	21,703,453	9,547,506	34,539,851	30,361,058	71,637,854	203,578,486	223,542,324
Segment liabilities	69,250,827	52,721,951	54,396,640	31,764,836	35,185,221	31,700,358	926,505	726,954	159,759,193	116,914,099

20. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. Market risk is being subdivided into interest rate risk, equity price risk, currency risk and prepayment risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group has Risk Management department whereby risks are identified, measured and monitored. Following is the general framework of the risk management policies applied in the Group.

Risk management structure

Board of Directors

The Board of Directors of the Parent Company is responsible for developing the overall risk management framework, and approving risk strategies and principles.

Treasury Department

Treasury department is responsible for managing the Group's assets and liabilities and also responsible for monitoring the funding and liquidity management.

Risk management and reporting system

Monitoring of risks is managed through reports provided by risk management department and through limits set by the Board of Directors. These limits reflect the Group's business strategy and market conditions and the environment in which the Group is operating.

20.1 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 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.

(i) Foreign *currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Group is exposed to foreign exchange risk arising from various currency exposures, US Dollar, United Arab Emirates Dirham, Saudi Riyal and Qatari Riyal.

The Group monitors foreign currency exposure on an ongoing basis.

In case of an increase in the exchange rate of the following currencies with 5% against the Kuwaiti Dinar, with all other variables held constant, the Group's net income and equity would have been shifted by the following amounts :

Description	2008		2007	
	Impact on the consolidated statement of income	Impact on equity	Impact on the consolidated statement of income	Impact on equity
USD	572,831	190,569	1,173,938	298,300
SAR	5,919	25,013	-	45,572
UAD	6,465	470,193	148,867	319,108
QR	1,897	292,170	604,787	-
Other	30,324	37,879	-	-

The following is the net position of foreign currencies:

2008	USD	SAR	UAD	QR	Other
Net position of major currencies	15,268,007	618,625	9,533,156	5,881,346	1,364,074

2007	USD	SAR	UAD	QR	Other
Net position of major currencies	29,444,753	911,431	9,359,495	12,095,748	1,122,442

(ii) Price risk

Equity price risk arises from changes in the fair value of equity investments, The Group is exposed to price risk arising from investments that are classified as "available for sale", or "at fair value through profit or loss".

To manage this risk, the Group diversifies its investments in various segments and markets to avoid concentration risk. Furthermore, the Group has its own policies in terms of studying and evaluating investment opportunities. These policies are implemented through the authority matrix approved by the board of directors.

For unquoted investments, the Group on a regular basis prepares studies to determine whether there is an impairment in value of these investments.

The table below summarizes the impact of an increase in the various stock exchange indexes on the group's net (loss)/ profit for the year and on equity. The following analysis is based on the assumption that the equity indexes would increase by 10% with all other variables held constant.

	Impact on the consolidated statement of income		Impact on Equity	
	2008	2007	2008	2007
Kuwait stock exchange	1,694	746,588	1,049,323	777,538
Qatar stock exchange	-	1,209,575	584,341	-
Dubai stock exchange	-	58,221	571,300	638,216
Jordan market	57,727	-	-	-
Other	-	-	125,784	-
Total	59,421	2,014,384	2,330,748	1,415,754

The following analysis is based on the assumption that the equity indexes would decrease by 10% with all other variables held constant.

	Impact on the consolidated statement of income		Impact on Equity	
	2008	2007	2008	2007
Kuwait stock exchange	669,733	746,588	381,284	777,538
Qatar stock exchange	584,341	1,209,575	-	-
Dubai stock exchange	281,979	58,221	289,321	638,216
Jordan market	57,727	-	27,116	-
Other	98,668	-	-	-
Total	1,692,448	2,014,384	697,721	1,415,754

(iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect the value of the underlying financial instruments. The Group is exposed to the risk of fluctuations in cash flows resulting from changes in interest rates through borrowings bear floating interest rates.

The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprise in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

If interest rates increased by 5%, the net (loss)/ profit would have decreased by the KD 459,593 for the year ended 31 December 2008 (2007: KD 450,626)

The Group's exposure to change in interest rates on term loans as follows:

	Kuwaiti Dinars	
	2008	2007
Within six months	84,145,250	23,306,333

20.2 Credit risk

Credit risk is the risk that the Group will incur a loss because counterparties failed to discharge their contractual obligations. Assets that are exposed to credit risk are cash, cash equivalents, deposits with banks and financial institutions, and finance receivables.

The Group manages the credit risk related to cash, and deposits at banks through dealing with local and foreign financial institutions, which have a good credit reputation. In terms of the finance receivables, the Group established the following policies to mitigate the credit risk of the finance receivable.

Credit Risk Management framework

The group placed credit policy to define the criteria of credit granting process. The Board of Directors approved this credit policy. Any amendment to that policy has to be approved from the board of directors. Furthermore, Credit committees have been formed to decide on granting loans process.

Collateral

Finance receivables are secured against investments in quoted and unquoted securities, real estate and balances held in fiduciary portfolios, on behalf of the borrowers, managed by the Group. 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 provision for credit losses.

The Group classifies its customers according to risk exposure as the following:

- **High Quality:** Regular exposures covered fully by collateral in excess of 100% of the amount outstanding.
- **Standard Quality:** All other regular exposures where the collateral does not fully cover the amount outstanding.

As of 31 December 2008 the finance receivables which are fully covered by collateral is 55% % (2007: 57%) of the total balance of the finance receivables.

Credit Risk Measurement

The Group measures credit risk in terms of asset quality using two primary measures – the provisioning ratio and the non performing finance receivables ratio.

Definitions of past due and impaired

The following classification of credit exposures is considered by the Group for identifying impaired credit facilities.

No of days past due	Classification
More than 30 days but not exceeding 90 days	Watch list
More than 90 days but not exceeding 180 days	Substandard
More than 180 days but not exceeding 365 days	Doubtful
More than 365 days	Bad

The maximum exposure to credit risk as at the consolidated balance sheet date is the carrying amount of each financial asset on the consolidated balance sheet date.

Hereunder, the assets exposed to credit risk with out considering the collaterals.

	Kuwaiti Dinars	
	2008	**2007**
Cash at banks	2,986,689	5,547,387
Finance receivables	88,561,477	94,347,910
	91,548,166	99,895,297

20.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. To provide liquidity, the Group provided various funding sources, and managing its assets to provide the required liquidity and monitoring the cash flows on regular basis. This requires an estimate of the future cash flows and guarantees the sufficient collaterals to obtain the required facility in the reasonable time when required.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated 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.

Maturity profile of liabilities at 31 December 2008:

	Kuwaiti Dinars					
	Up to 3 month	**3 - 6 months**	**6 months – 1 year**	**1 – 3 years**	**Over 3 years**	**Total**
LIABILITIES						
Bank overdraft	11,645,816	-	-	-	-	11,645,816
Term loans	69,801,375	16,252,517	27,047,256	8,068,110	4,405,370	125,574,628
Bonds	352,660	285,323	576,917	21,684,990	-	22,899,890
Other liabilities	5,527,169	-	-	-	-	5,527,169
	87,327,020	16,537,840	27,624,173	29,753,100	4,405,370	165,647,503

Maturity profile of liabilities at 31 December 2007:

	Kuwaiti Dinars					
	Up to 3 month	**3 - 6 months**	**6 months – 1 year**	**1 – 3 years**	**Over 3 years**	**Total**
LIABILITIES						
Bank overdraft	9,213,370	-	-	-	-	9,213,370
Term loans	40,250,782	17,637,730	11,287,744	14,523,576	1,018,288	84,718,120
Bonds	407,903	394,017	792,365	23,327,201	-	24,921,486
Other liabilities	4,975,104	-	-	-	-	4,975,104
	54,847,159	18,031,747	12,080,109	37,850,777	1,018,288	123,828,080

20.4 Prepayment risk

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

20.5 Capital risk management

The Parent Company objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. To maintain or change, the Parent Company may adjust the dividends paid to the shareholders, or return the capital, or issue new shares or sale assets to reduce its debts. In order to maintain or adjust the capital structure, as followed by the other Companies in the same business, the Group monitors capital on the basis of gearing ratio. The ratio is calculated as net debt 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 the year, and due to unusual and unexpected circumstances in the global economy, the gearing ratio of the Group has been affected significantly due to the severe decrease in the equity market which in turn resulted in a severe decrease in the equity of the Group, the management is currently working to resolve the gearing ratio to 50% through effecting a capital increase.

The gearing ration as at 31 December 2008 and 2007 were as follows:

	Kuwaiti Dinars	
	2008	**2007**
Total borrowings	154,232,024	111,938,995
Less: Bank balances	(2,986,689)	(5,547,387)
Net debt	151,245,335	106,391,608
Total equity	43,819,293	106,628,225
Total capital	195,064,628	213,019,833
Gearing ratio	77.54%	49.94%

21. Critical accounting estimates and assumptions

The following are the areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements.

Judgments

Classification of financial instruments

Management has to decide on acquisition of a financial instrument whether it should be classified as at fair value through profit and loss or available for sale. In making that judgment the Company considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the consolidated income statement or directly in equity. The Group classified investments as trading investments when acquired principally for the purpose of generating profits in the short term. All other investments are classified as available for sale investments

Evidence of impairment

Management determines the impairment in equity instruments classified as available for sale when there is a significant or prolonged decline in the fair value of these investments. Determination of what is significant or prolonged requires judgment from management. The Group evaluates, among other factors, the usual fluctuation of listed stock prices, expected cash flows and discount rates of unquoted investments, impairment is considered appropriate when there is objective evidence on the deterioration of the financial position for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Impairment in tangible assets

The Group studies the impairment in value of intangible assets as per the accounting policy mentioned in Note (2.10). The recoverable amount is determined on its value-in-use. This requires setting some estimates as mentioned in Note (8).

Estimation uncertainty

The Group determines assumptions relating to future. The outcomes of accounting estimation are rarely equal to the actual results. Estimations and assumptions that have material impact attributable to adjustments affecting the carrying values of the assets and liabilities during the next financial year are as follows:

Fair value of unquoted equity investments

Valuation techniques of 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 leased by the practices generally. 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.

Impairment losses on loans and receivables

The Group reviews non performing loans on an ongoing basis to assess whether a provision for impairment should be recorded in the consolidated 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.

Tangible and intangible assets

The Group estimates useful lives and residual values of tangible assets and intangible assets with definite useful lives.

22. Contingent liabilities

	Kuwaiti Dinars	
	2008	**2007**
Purchase of available for sale investments	-	275,000

23. Fiduciary assets

As of 31 December 2008, portfolios under management amounted to KD 406,079,072 (2007: KD 782,768,240).

24. Subsequent events

Subsequent to the consolidated balance sheet date there has been a significant dilution in the markets where the Group's investments are listed. As a result the market value of the Group's investments subsequently declined from KD 23,559,524 to KD 22,071,361.