



His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir of Kuwait



His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince of Kuwait



His Highness
Sheikh Naser Al-Mohammed Al-Ahmad Al-Sabah
The Prime Minister of Kuwait



BOARD OF DIRECTORS

Mr. Ali Hasan Al Bader

Chairman & Managing Director

Mr. Khaleefa Khalaf Al Enezi

Vice Chairman

Mr. Abdulmohsin Barrak Al Mutair

Board Member

Mr. Adel Fahad Al Humaidhi

Board Member

Mr. Abdulaziz Nasser Al Fouzan

Board Member

Mr. Ali Abdulrahman Al Hassawi

Board Member

Ms. Hetaf Mahmoud Khajah

Board Member



CHAIRMAN'S MESSAGE

Dear Shareholders

On behalf of the board of directors, I present to you the company's annual and financial report for the year ending December 31, 2007.

The company achieved a net profit of KD 1,418,574 representing a decline of 10.6% from 2006, while the shareholders equity reached KD 20,265,954 representing a growth of 7.6% over 2006.

The board of directors has recommended a share dividends distribution of 8.5% for the shareholders as of the date the annual general meeting.

The KSE witnessed an increase of 24% during the year 2007 amidst some corrections, the toughest of which was in the last quarter as the index lost around 9% of the highest increase witnessed, which was reflected on the performance of local investment companies.

As for the international investments, the year began with a promising note, but as of the second quarter, the performance started to deteriorate. More over, real estate investment performance was affected by the ramification of sub prime mortgage throughout the remainder of the year. However the company's international investment and various funds outperformed most of the benchmark indices, nevertheless, it was lagging.

Considering all of the above along with the request to list on The Kuwait Stock Exchange due to not meeting the conditions relating to the share book value of 2004, resulted in the postponement of a couple of product launches planned for the forth quarter.

As a result of the company developing its capabilities by attracting new experienced staff, building stronger relationships with local and international companies and the favorable outlook for listing in 2008, we are confident of the company's ability to grow the business and profitability in the coming years.

I take this opportunity to thank our valued clients for their confidence in the company, and our valued shareholders for their support and look to their continued support.



ALI H. AL-BADER
Chairman & Managing Director



Strategia Investment Company K.S.C. (Closed)
And Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS of Strategia Investment Company K.S.C. (Closed)

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

Director's Responsibility for the Financial Statements

The directors 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 for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the parent company's management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

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

2008, State of Kuwait



CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2007

	Notes	2007 KD	2006 KD
Fee income	3	1,156,495	1,401,318
Dividend income		131,384	62,941
Interest income		216,212	183,380
Realised loss on financial assets at fair value through income statement		(328,960)	(230,440)
Unrealised (loss) gain on financial assets at fair value through income statement		(46,870)	304,739
Realised gain on sale of financial assets available for sale		1,650,931	786,218
Other income		-	30,355
INCOME		2,779,192	2,538,511
Fee expenses		207,326	170,413
General and administration expenses		311,961	201,184
Staff costs		370,772	288,818
Depreciation		43,140	37,754
Interest expense		316,516	235,392
Charge (release of) provision for loans and advances		8,005	(33,433)
Exchange loss		89,196	15,753
EXPENSES		1,346,916	915,881
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), DIRECTORS' REMUNERATION & ZAKAT		1,432,276	1,622,630
Contribution to KFAS		(12,890)	(14,604)
Directors' remuneration		-	(21,000)
Contribution to Zakat		(812)	-
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		1,418,574	1,587,026
BASIC AND DILUTED EARNINGS PER SHARE	4	8.8 fils	9.8 fils

The attached notes 1 to 23 form part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 KD	2006 KD
ASSETS			
Bank balance and cash		1,010,259	2,408,623
Financial assets at fair value through income statement	5	12,869,012	2,563,283
Financial assets available for sale	6	8,240,444	15,190,600
Loans and advances	7	2,183,367	1,418,059
Other assets	8	1,394,857	607,705
Property and equipment		105,658	66,881
Goodwill		3,411,293	3,411,293
TOTAL ASSETS		29,214,890	25,666,444
EQUITY AND LIABILITIES			
Equity			
Share capital	9	16,200,000	15,000,000
Share premium	10	250,000	250,000
Statutory reserve	11	453,471	310,243
General reserve	12	45,347	31,024
Foreign currency translation reserve		39,780	54,601
Cumulative changes in fair value		431,609	390,752
Employee share option reserve	13	100,517	100,517
Retained earnings		2,745,230	2,684,207
Total equity		20,265,954	18,821,344
Liabilities			
Short term borrowings	14	8,593,906	6,453,124
Other liabilities		355,030	391,976
Total liabilities		8,948,936	6,845,100
TOTAL EQUITY AND LIABILITIES		29,214,890	25,666,444



ALI HASAN MISHARI AL-BADER
(Chairman and Managing Director)



KHALIFA KHALAF EL ENEZI
(Vice Chairman)

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2007

	2007 KD	2006 KD
OPERATING ACTIVITIES		
Profit for the year	1,418,574	1,587,026
Adjustments for:		
Dividend income	(131,384)	(62,941)
Interest income	(216,212)	(183,380)
Realised gain on sale of financial assets available for sale	(1,650,931)	(786,218)
Unrealised loss (gain) on financial assets at fair value through income statement	46,870	(304,739)
Provision for employee share option plan (ESOP)	-	6,175
Depreciation	43,140	37,754
Interest expense	316,516	235,392
Charge (release of) provision for loans and advances	8,005	(33,433)
	(165,422)	495,636
Changes in operating assets and liabilities:		
Financial assets at fair value through income statement	(10,352,599)	667,647
Loans and advances	(773,313)	1,672,994
Other assets	(717,500)	(46,264)
Other liabilities	71,673	14,091
Cash (used in) from operating activities	(11,937,161)	2,804,104
Interest paid	(425,135)	(129,050)
Net cash (used in) from operating activities	(12,362,296)	2,675,054
INVESTING ACTIVITIES		
Dividend received	134,263	59,063
Interest received	143,681	173,233
Purchase of financial assets available for sale	(9,288,630)	(8,432,225)
Proceeds from sale of financial assets available for sale	17,930,574	4,038,136
Purchase of property and equipment	(81,917)	(7,504)
Net cash from (used in) investing activities	8,837,971	(4,169,297)
FINANCING ACTIVITIES		
Short term borrowings	2,140,782	3,350,924
Net cash from financing activities	2,140,782	3,350,924
Foreign currency translation reserve	(14,821)	73,222
(DECREASE) INCREASE IN BANK BALANCE AND CASH	(1,398,364)	1,929,903
Bank balance and cash at 1 January	2,408,623	478,720
BANK BALANCE AND CASH AT 31 DECEMBER	1,010,259	2,408,623

The attached notes 1 to 23 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Share capital		Share premium		Statutory reserve		General reserve		Foreign currency translation reserve		Cumulative changes in fair value		Employee share option reserve		Retained earnings		Total	
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2006	15,000,000	250,000	310,243	31,024	54,601	390,752	100,517	2,684,207	18,821,344									
Net unrealised gains on financial assets available for sale	-	-	-	-	-	1,691,788	-	-	-	-	-	-	-	-	-	-	-	1,691,788
Net realised gains on financial assets available for sale reclassified to the income statement on sale	-	-	-	-	-	(1,650,931)	-	-	-	-	(1,650,931)	-	-	-	-	-	-	(1,650,931)
Foreign currency translation adjustment	-	-	-	-	(14,821)	-	-	-	-	-	-	-	-	-	-	-	-	(14,821)
Total income (expense) recognised directly in equity	-	-	-	-	(14,821)	40,857	-	-	-	-	40,857	-	-	-	-	-	-	26,036
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,418,574	-	1,418,574
Total income and expense for the year	-	-	-	-	(14,821)	40,857	-	-	-	-	40,857	-	-	-	-	1,418,574	-	1,444,610
Issue of bonus shares (Note 15)	1,200,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,200,000)	-	-
Transfer to reserves	-	-	143,228	14,323	-	-	-	-	-	-	-	-	-	-	-	(157,551)	-	-
Balance at 31 December 2007	16,200,000	250,000	453,471	45,347	39,780	431,609	100,517	2,745,230	20,265,954									
Balance at 1 January 2006	15,000,000	250,000	147,980	14,798	(18,621)	1,051,406	94,342	1,275,670	17,815,575									
Net unrealised gains on financial assets available for sale	-	-	-	-	-	125,564	-	-	-	-	125,564	-	-	-	-	-	-	125,564
Net realised gains on financial assets available for sale reclassified to the income statement on sale	-	-	-	-	-	(786,218)	-	-	-	-	(786,218)	-	-	-	-	-	-	(786,218)
Foreign currency translation adjustment	-	-	-	-	73,222	-	-	-	-	-	-	-	-	-	-	-	-	73,222
Total income (expense) recognised directly in equity	-	-	-	-	73,222	(660,654)	-	-	-	-	(660,654)	-	-	-	-	-	-	(587,432)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,587,026	-	1,587,026
Total income and expense for the year	-	-	-	-	73,222	(660,654)	-	-	-	-	(660,654)	-	-	-	-	1,587,026	-	999,594
Employee share based payment (Note 13)	-	-	-	-	-	-	6,175	-	-	-	-	-	6,175	-	-	-	-	6,175
Transfer to reserves	-	-	162,263	16,226	-	-	-	-	-	-	-	-	-	-	-	(178,489)	-	-
Balance at 31 December 2006	15,000,000	250,000	310,243	31,024	54,601	390,752	100,517	2,684,207	18,821,344									

The attached notes 1 to 23 form part of these consolidated financial statements

1. ACTIVITIES

The consolidated financial statements of Strategia Investment Company K.S.C. (Closed) (the “parent company”) and its subsidiaries (“the group”) were authorised for issue by the parents company board of directors on 18 February 2008, and are issued subject to the approval of the Ordinary General Assembly of the shareholders of the parent Company.

Strategia Investment Company K.S.C. (Closed) is a Kuwaiti closed shareholding company incorporated in Kuwait in 1998 and is engaged in carrying out investment for own account and for clients, portfolio and fund management activities and is regulated by Central Bank of Kuwait. The parent company’s registered office is at 2nd floor, BKME Building, Joint Banking complex, Darwaza, Kuwait.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations of the State 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 International Accounting Standard (IAS) 39 requirement for a collective provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision as described under the accounting policy for impairment of assets.

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

The consolidated financial statements are prepared under the historical cost convention as modified for the revaluation at fair value of financial assets at fair value through income statement and financial assets available for sale.

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in previous year except as noted below:

International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee Interpretation (IFRIC) issued and adopted by the group:

IFRS 7 Financial Instruments: Disclosures
Amendment to IAS 1 – Capital disclosures

As a result the additional disclosures are made that will enable users to evaluate:

- a) the significance of financial instruments for the group’s financial position and performance;
- b) the nature and extent of risks arising from financial instruments to which the group is exposed during the year and at the reporting date, and how the group manages those risks; and
- c) the group’s objectives, policies and processes for managing capital.

The application of IFRIC 8, 9 and 10 does not have material impact on the consolidated financial statements of the group.

IASB Standards and IFRIC Interpretations issued, but not yet mandatory and have not been adopted

IAS 1: Presentation of Financial Statements (effective 2009)
IFRS 8: Operating Segments (effective 2009)
IFRIC 13: Customer Loyalty Program (effective 2008)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
31 December 2007**2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 2008)

The application of IAS 1 will result in amendments to the presentation of the consolidated financial statements of the group.

The application of IFRS 8, IFRIC 13 and IFRIC 14 are not expected to have material impact on the consolidated financial statements of the group.

Additional disclosures will be made in the consolidated financial statements when these standard and interpretation becomes effective.

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

Principles of consolidation

The consolidated financial statements include the accounts of the parent company and its subsidiaries. Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are 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 which the group obtains control, and continues until the date that such control ceases.

All material inter-company balances and transactions, including inter-company profits and unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The principal subsidiaries of the group are as follows:

	Name	Beneficial ownership	
		2007	2006
Subsidiaries			
Strategia Investors Inc (Incorporated in United State of America and principal activity is to serve as an investment manager and advisor)		100%	100%
Marquee Fund Manager Limited (Incorporated in United Kingdom and its principal activity is to serve as an investment manager and advisory services).		100%	100%
Strategia Investors Service Limited (Incorporated in Antigua and Burmuda and principal activity is to serve as an investment manger and advisor to a real estate fund)		100%	100%

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognised:

2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fee income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include management fees, advisory fees and commission income.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Interest income

Revenue is recognised as interest accrues (using the effective interest rate that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Financial assets and liabilities

The group classifies its financial assets and liabilities as "financial assets at fair value through income statement", "loans and receivables", "financial assets available for sale" or "financial liabilities other than at fair value through income statement".

A regular way purchase of financial assets is recognised using the trade date accounting. Financial liabilities other than at fair value through income statement are not recognised unless one of the parties has performed or the contract is a derivative contract.

Financial assets and liabilities are measured initially at fair value (transaction price) and, in case of a financial asset or financial liability not at fair value through income statement, including directly attributable transaction costs. Transaction costs on financial assets and financial liabilities at fair value through income statement are expensed immediately, while on other financial instruments they are amortized.

Financial assets at fair value through income statement

Financial assets at fair value through income statement include financial assets held for trading and financial assets designated upon initial recognition at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in consolidated income statement. Financial assets are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Interest earned or incurred is accrued in interest income or finance cost, respectively, according to the terms of the contract, while dividend income is recorded in 'Dividend income' when the right to the payment has been established.

After initial recognition, financial assets at fair value through income statement are remeasured at fair value with all changes in fair value recognised in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition loans and receivables are carried at amortised cost less impairment losses, if any. Loans and advances and other assets are classified as "loans and receivables".



2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through income statement or loans and receivables.

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

Financial liabilities other than at fair value through income statement

These are stated using effective interest rate method. Short term borrowings and other liabilities are classified as "financial liabilities other than at fair value through income statement".

Fair value

The fair value of financial assets and liabilities traded in recognised financial markets is their quoted market price, based on the current bid price. For all other financial assets or liabilities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current fair value of another instrument that is substantially the same, recent arm's length market transactions or discounted cash flow analysis or net asset value.

De recognition

A financial asset (in whole or in part) is derecognised either when: the rights to receive the cash flows from the asset have expired; the group has transferred its right to receive cash flows from the assets or 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 right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor is transferred control of the asset, the asset recognised to the extent of the group's continuing involvement in the asset.

A financial liability is derecognized 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 derecognizing 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.

Offsetting

Financial assets and liabilities are offset when the group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Hedge accounting

The Group makes use of non derivative financial instruments to manage exposures to foreign currency risks including exposures arising from forecast transactions. Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated income statement. In order to manage particular risks, the Group applies hedge accounting for transactions, which meet the specified criteria.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the consolidated income statement.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in shareholders' equity and the ineffective portion is recognised in the consolidated income statement. For cash flow hedges affecting future transactions that subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses which are recognised in shareholders' equity are re-classified into the consolidated income statement in the same period or periods during which the financial asset or financial liability affects the consolidated income statement.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur or the designation is revoked. At that point in time, the net cumulative gain or loss recognised in shareholders' equity is transferred to the consolidated income statement. In the case of fair value hedges of interest-bearing financial instruments, any adjustment to its carrying value relating to the hedge is amortised over the remaining term to maturity.

Business Combinations 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 an acquisition over the group's share of the acquirer's fair value of the net identifiable assets as at the date of the acquisition. Following initial recognition, goodwill is measured at cost less impairment losses. Any excess, at the date of acquisition, of the group's share in the acquirer'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. 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



2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Business Combinations and Goodwill - Continued

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.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation difference and goodwill is recognised in the consolidated income statement.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not.

Provisions

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

Share based payment transactions

The group operates equity settled share based compensation plans. The fair value of the employee services received in exchange for the grant of options or shares are recognised as expenses. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable or shares that will be granted. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

Foreign currency

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

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity and for non-monetary assets whose change in fair values are recognised in the consolidated income statement are recognised in the consolidated income statement. Assets including goodwill and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the balance sheet date. Operating results of such entities are translated at average rates of exchange for the entities period of operations. The resulting exchange differences are accumulated in a separate section of the equity (foreign currency translation reserve) until the disposal of the entities.

2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Impairment of assets

An assessment is made at each balance sheet date to determine, in case of financial asset, whether there is objective evidence that a specific financial asset may be impaired and, in case of other assets, whether there is an indication that a specific asset may be impaired. A financial asset or a group of financial assets are impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence or indication exists, any impairment loss is recognised in the consolidated income statement.

The group assesses whether objective evidence of impairment exists on an individual basis for each individual significant loan and collectively for others. The main criteria that the group uses to determine that there is objective evidence of an impairment consideration include whether any payment of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral, etc. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Impairment is determined as follows:

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

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 financial assets 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 further directive from the Central Bank of Kuwait.

Contingencies

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

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



2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fiduciary assets

Assets held in trust or fiduciary capacity are not treated as assets or liabilities of the group and accordingly are not included in the consolidated balance sheet.

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.

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions 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 assumptions and 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 financial instruments

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

Impairment losses on loans and advances

The group reviews its problem loans and advances on an annual 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.

Impairment of financial assets available for sale

The group treats financial assets available for sale 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 judgement.

Valuation of unquoted equity 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; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;

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

2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Impairment of goodwill

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

3. FEE INCOME

	2007 KD	2006 KD
Management fees from fiduciary activities	1,141,676	1,241,447
Advisory fees and consultancy fees	14,819	159,871
	1,156,495	1,401,318

4. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing profit for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the year is as follows:

	2007 KD	2006 KD
Profit for the year attributable to the equity holders of the parent company	1,418,574	1,587,026
	Shares	Shares
Weighted average number of shares outstanding during the year for basic earnings per share	162,000,000	162,000,000
Basic and diluted earnings per share	8.8 fils	9.8 fils

Basic and diluted earnings per share have been restated for bonus shares issued during the year (Note 15).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2007

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2007 KD	2006 KD
<i>I. Held for trading:</i>		
Quoted equity securities	11,573,180	1,201,850
<i>II. Designated upon initial recognition at fair value through income statement:</i>		
Managed equity funds	1,295,832	1,361,433
	12,869,012	2,563,283

6. FINANCIAL ASSETS AVAILABLE FOR SALE

	2007 KD	2006 KD
Quoted equity securities	-	4,792,882
Unquoted equity securities	1,401,170	2,167,711
Managed equity funds	6,839,274	8,230,007
	8,240,444	15,190,600

At 31 December 2007, unquoted investments amounting to KD 3,997,054 (2006: KD 3,844,148) were carried at cost due to the non availability of quoted market prices or other reliable measures of their fair values. The management believes there is no impairment in value.

7. LOANS AND ADVANCES

	2007 KD	2006 KD
Gross amount	2,220,339	1,447,026
Less: Provision for credit losses	(36,972)	(28,967)
	2,183,367	1,418,059

Movement in the provision for credit losses relating to loans and advances is as follows:

	2007 KD	2006 KD
At 1 January	28,967	62,400
Charge (release) for the year	8,005	(33,433)
At 31 December	36,972	28,967

7. LOANS AND ADVANCES - (Continued)

The analysis of provisions set out above is based on the requirements of the Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, a minimum general provision of 1% for cash facilities has been made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically. The general provision in excess of the present 1% for cash facilities amounting to KD 14,769 would be retained as a general provision until further directive from the Central Bank of Kuwait.

8. OTHER ASSETS

	2007 KD	2006 KD
Accrued management fees	469,161	522,988
Other receivables	849,113	76,995
Prepaid expenses	76,583	7,722
	1,394,857	607,705

9. GOODWILL

The goodwill arose in 2004 on acquisition of the investment management and advisory services business of the real estate division of Kuwait and Middle East Financial Investment Company K.S.C. (Closed) ("KMEFIC"). The consideration paid to KMEFIC amounting to KD 3,559,610 as reduced by amortisation of KD 148,317 till the year ended 31 December 2004 is treated as goodwill.

10. SHARE CAPITAL

The authorised, issued and paid share capital as of 31 December 2007 comprised 162,000,000 shares (2006: 150,000,000) of 100 fils each. During the year 12,000,000 shares of 100 fils each were issued as bonus shares (Note 15).

11. SHARE PREMIUM

The share premium account is not available for distribution.

12. STATUTORY RESERVE

In accordance with the Commercial Companies Law and the parent company's Articles of Association, 10% of the profit for the year before contribution to KFAS, director's remuneration and zakat has been transferred to the statutory reserve. The parent company may resolve to discontinue such annual transfers, when the reserve equals 50% of paid-up capital.

Distribution of the statutory 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.

13. GENERAL RESERVE

In accordance with the parent company's Articles of Association, 1% of profit for the year before contribution to KFAS, director's remuneration and zakat is transferred to the general reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2007

14. SHARE BASED PAYMENTS

The parent company has a stock option plan for all of its employees. Options are exercisable at a price approved by Board of Directors at the date of grant. The weighted average vesting period is three years. The options expire if they are not exercised within the period specified in the grant. If an employee leaves the group before the options vest they are forfeited. Share Options totalling 4,147,500 shares were granted with a vesting period of 3 years. This is the final year in which shares options granted have fully vested to the employees still employed with the group. No expense was recognised during the year on account of share based payments.

The shares under the stock option plan have already been issued to a related party. The related party will issue these shares to the employees at the completion of the vesting period and once the parent company is listed on the Kuwait stock exchange.

15. SHORT TERM BORROWINGS

	2007 KD	2006 KD
Floating interest rate loans	-	4,792,882
Fixed interest rate loans	8,593,906	1,660,242
	8,593,906	6,453,124

Fixed interest rate loans bear interest rate ranging from 5% to 7.5% (2006: 4.15% to 7.25%) per annum and are due within 1 month (2006: 4 months) of the balance sheet date.

Loans from related parties amounted to KD 3,700,000 (2006: KD 6,453,124) (note 16).

All loans are unsecured.

16. PROPOSED ISSUE OF BONUS SHARES AND DIRECTORS' REMUNERATION

The board of directors of the parent company have proposed stock dividends at the rate of 8.5% of the paid up share capital as at 31 December 2007, amounting to KD 1,377,000. This proposal is subject to the approval of the ordinary general assembly of the shareholders of the parent company.

At the Ordinary General Assembly of the shareholders of the parent company held on 24 April 2007, stock dividends at the rate of 8% per share amounting to KD 1,200,000 and directors' remuneration of KD 21,000 for the year 2006 were approved (Note 9).

17. RELATED PARTY 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. Pricing policies and terms of these transactions are approved by the group's management.

Transactions with related parties included in the consolidated financial statements are as follows:

17. RELATED PARTY TRANSACTIONS - (Continued)

	Major shareholders	Directors and key management KD	Total 2007 KD	Total 2006 KD
Consolidated Balance sheet				
Loans and advances	-	24,990	24,990	24,990
Short-term borrowings	3,700,000	-	3,700,000	6,453,124
Other liabilities	7,888	73,023	80,911	30,447
Consolidated income statement				
Interest income	-	602	602	1,242
Interest expense	285,499	-	285,499	116,880
Compensation of key management personnel				
Provision for management executive bonus	-	24,500	24,500	33,648

The remuneration of directors and other members of key management during the year were as follows:

	2007 KD	2006 KD
Share based payment	-	5,525
Short-term benefits	230,170	129,060
Termination benefits	20,050	9,191
	250,220	143,776

18. FIDUCIARY ASSETS

The group manages portfolios on behalf of customers and maintains cash balances and securities in fiduciary accounts which are not reflected in group's consolidated balance sheet. The aggregate value of assets held in a fiduciary capacity by the group at 31 December 2007 amounted to KD 96,958,884 (2006: KD 79,505,348).

19. 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:

Proprietary investment management : Investing of group funds in securities, lending to corporate and individual customers and managing the Group's liquidity requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2007

19. SEGMENTAL INFORMATION - (Continued)

Investment management & advisory services : Discretionary and non-discretionary investment portfolio management, managing of local and international investment funds and providing advisory and structured finance services and other related financial services.

31 December 2007	Proprietary investment management	Investment management and advisory services	Total
ASSETS	KD	KD	KD
Bank balances and cash	803,432	206,827	1,010,259
Financial assets at fair value through income statement	12,869,012	-	12,869,012
Financial assets available for sale	8,240,444	-	8,240,444
Loans and advances	2,183,367	-	2,183,367
Other assets	744,410	650,447	1,394,857
Property and equipment	104,764	894	105,658
Goodwill	-	3,411,293	3,411,293
TOTAL ASSETS	24,945,429	4,269,461	29,214,890
LIABILITIES			
Short term borrowings	8,593,906	-	8,593,906
Other liabilities	280,455	74,575	355,030
TOTAL LIABILITIES	8,874,361	74,575	8,948,936
Year ended 31 December 2007			
Segment income	1,622,697	1,156,495	2,779,192
Segment profit	469,460	949,114	1,418,574
Other Segment information			
Capital expenditure:			
Property and equipment	81,917	-	81,917
Depreciation	43,085	55	43,140
Charge of provision for loans and advances	8,005	-	8,005
Credit commitments	370,611	-	370,611

31 December 2006	Proprietary investment management	Investment management and advisory services	Total
ASSETS	KD	KD	KD
Bank balances and cash	2,222,261	186,362	2,408,623
Financial assets at fair value through income statement	2,563,283	-	2,563,283
Financial assets available for sale	15,190,600	-	15,190,600
Loans and advances	1,418,059	-	1,418,059
Other assets	557,983	49,722	607,705
Property and equipment	65,980	901	66,881
Goodwill	-	3,411,293	3,411,293
TOTAL ASSETS	22,018,166	3,648,278	25,666,444
LIABILITIES			
Short term borrowings	6,453,124	-	6,453,124
Other liabilities	374,413	17,563	391,976
TOTAL LIABILITIES	6,827,537	17,563	6,845,100
Year ended 31 December 2006			
Segment income	1,137,193	1,401,318	2,538,511
Segment profit	356,745	1,230,281	1,587,026
Other Segment information			
Capital expenditure:			
Property and equipment	7,504	-	7,504
Depreciation	37,130	624	37,754
Release of provision for loans and advances	(33,433)	-	(33,433)
Credit commitments	1,238,364	-	1,238,364

Secondary segment information

The group operates in different geographical areas. A geographical analysis based on location of assets is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2007

19. SEGMENTAL INFORMATION - (Continued)

	Segment revenue		Segment profit	
	2007 KD	2006 KD	2007 KD	2006 KD
Geographical areas:				
Middle East	1,440,056	1,035,897	189,142	312,006
United States of America	405,228	571,617	272,220	416,840
Europe	661,688	799,373	384,955	726,556
Others	272,220	131,624	572,257	131,624
	2,779,192	2,538,511	1,418,574	1,587,026

	Assets		Liabilities	
	2007 KD	2006 KD	2007 KD	2006 KD
Geographical areas:				
Middle East	21,721,419	15,050,605	8,682,348	6,827,537
United States of America	4,317,753	3,753,549	266,588	678
Europe	2,128,412	2,016,489	-	16,885
Others	1,047,306	4,845,801	-	-
	29,214,890	25,666,444	8,948,936	6,845,100

31 December 2007	Middle East KD	United States of America KD	Europe KD	Others KD	Total KD
Other Segment information					
Capital expenditure:					
Property and equipment	81,917	-	-	-	81,917
Depreciation	43,085	55	-	-	43,140
Charge for provision for loans and advances	8,005	-	-	-	8,005
Credit commitments	370,611	-	-	-	370,611
31 December 2006	Middle East KD	United States of America KD	Europe KD	Others KD	Total KD
Other Segment information					
Capital expenditure:					
Property and equipment	7,504	-	-	-	7,504
Depreciation	37,130	624	-	-	37,754
Charge (release of) provision for loans and advances	(33,433)	-	-	-	(33,433)
Credit commitments	1,238,364	-	-	-	1,238,364

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, financial assets at fair value through income statement, financial assets available for sale, loans and advances and other assets. Financial liabilities consist of short term borrowings and other liabilities.

Fair values of all financial instruments, except for financial assets available for sale as stated in note 6, are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. Fair value of all the financial assets carried at fair value through income statement and quoted financial assets available for sale are based on quoted market price.

21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarizes 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. The maturity profile is monitored by management to ensure adequate liquidity is maintained. Except for financial asset at fair value through income statement and financial asset available for sale, the maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements. The maturity profile for financial asset at fair value through income statement and financial asset available for sale is determined based on management's estimate of liquidation of those investments.

The maturity profile of assets and liabilities at 31 December are as follows:

31 December 2007

	Up to 1 month KD	1 - 3 months KD	4 - 12 months KD	Over 1 year KD	Total KD
ASSETS					
Bank balance and cash	1,010,259	-	-	-	1,010,259
Financial assets at fair value through income statement	11,573,180	616,433	679,399	-	12,869,012
Financial assets available for sale	-	-	1,130,306	7,110,138	8,240,444
Loans and advances	-	-	530,656	1,652,711	2,183,367
Other assets	744,411	650,446	-	-	1,394,857
Property and equipment	-	-	-	105,658	105,658
Goodwill	-	-	-	3,411,293	3,411,293
TOTAL ASSETS	13,327,850	1,266,879	2,340,361	12,279,800	29,214,890
LIABILITIES					
Short term borrowings	8,593,906	-	-	-	8,593,906
Other liabilities	355,030	-	-	-	355,030
TOTAL LIABILITIES	8,948,936	-	-	-	8,948,936
Credit commitments	370,611	-	-	-	370,611

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2007

21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES - (Continued)

31 December 2006

	Up to 1 month KD	1 - 3 months KD	4 - 12 months KD	Over 1 year KD	Total KD
ASSETS					
Bank balance and cash	2,408,623	-	-	-	2,408,623
Financial assets at fair value through income statement	1,201,850	689,819	671,614	-	2,563,283
Financial assets available for sale	-	-	4,792,882	10,397,718	15,190,600
Loans and advances	490,000	-	39,200	888,859	1,418,059
Other assets	522,988	-	84,717	-	607,705
Property and equipment	-	-	-	66,881	66,881
Goodwill	-	-	-	3,411,293	3,411,293
TOTAL ASSETS	4,623,461	689,819	5,588,413	14,764,751	25,666,444
LIABILITIES					
Short term borrowings	-	1,660,242	4,792,882	-	6,453,124
Other liabilities	327,657	-	39,355	24,964	391,976
TOTAL LIABILITIES	327,657	1,660,242	4,832,237	24,964	6,845,100
Credit commitments	1,238,364	-	-	-	1,238,364

22. 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 liquidity risk and market risk, the latter being 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.

22.1 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 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.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers as required. Commitments to extend credit represent unused portions of authorisations to extend cash credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. At 31 December 2007, the group had credit commitments amounting to KD 370,611 (2006: KD 1,238,364) in respect of loans and advances (Note 7).

22. RISK MANAGEMENT - (Continued)

Gross Maximum exposure to credit risk

The group's policy is to grant loans and advances to employees, margin financing to portfolio clients and loans provided through syndicated loan arrangements with reputed financial/banking institutions.

The maximum exposure towards loans and advances is the carrying amount as disclosed in Note 7. In addition, loans and advances 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 and other assets, 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 credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

	2007 KD	2006 KD
Bank balance and cash	1,010,259	2,408,623
Loans and advances	2,183,367	1,418,059
Other assets	1,318,274	599,983
Gross maximum credit risk exposure before consideration of credit risk mitigation	4,511,900	4,426,665

The exposures set above are based on net carrying amounts as reported in the consolidated balance sheet.

Collateral and other credit enhancements

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 loan.

The fair value of collateral that the group holds relating to loans and advances at 31 December 2007 amounts to KD 2,500,000 (2006: KD 1,850,000).

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 gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the geographical regions as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2007

22. RISK MANAGEMENT - (Continued)

	Middle East KD	US KD	Europe KD	Others KD	Total KD
As at 31 December 2007					
Bank balance and cash	803,432	1,055	205,772	-	1,010,259
Loans and advances	2,183,367	-	-	-	2,183,367
Other assets	355,662	435,125	87,709	439,778	1,318,274
Maximum exposure to credit risk assets	3,342,461	436,180	293,481	439,778	4,511,900
As at 31 December 2006					
Bank balance and cash	2,199,020	23,241	186,362	-	2,408,623
Loans and advances	1,418,059	-	-	-	1,418,059
Other assets	48,092	449,383	102,508	-	599,983
Maximum exposure to credit risk assets	3,665,171	472,624	288,870	-	4,426,665

The group's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sector as:

	2007 KD	2006 KD
Banks and financial institutions	1,010,259	2,408,623
Construction and real estate	1,251,829	486,520
Managed funds	964,663	580,612
Others	1,285,149	950,910
	4,511,900	4,426,665

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

For loan and advances, neither internal credit grading system nor external credit grade are used by the group as the loans granted are not significant and are granted only to portfolio clients, employees and through syndicated loan arrangements with reputed financial institutions.

The group manages the credit quality by ensuring that all loans granted have a minimum collateral coverage of 100% of the loans granted, which the management reviews on a regular basis.

Analysis of financial assets 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.

Analysis of financial assets impaired

The group does not have any impaired financial assets at 31 December 2007 & 31 December 2006.

22.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by the treasury department of the parent company. To manage this risk, the group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the group's liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December was as follows:

31 December 2007

	Up to 1 Month KD	1 - 3 Months KD	4 - 12 months KD	Over 1 year KD	Total KD
LIABILITIES					
Short term borrowings	8,637,767	-	-	-	8,637,767
Other liabilities	355,030	-	-	-	355,030
Total liabilities	8,992,797	-	-	-	8,992,797
Credit commitments	370,611	-	-	-	370,611

31 December 2006

	Up to 1 Month KD	1 - 3 Months KD	4 - 12 months KD	Over 1 year KD	Total KD
LIABILITIES					
Short term borrowings	-	1,680,911	4,907,199	-	6,588,110
Other liabilities	327,657	-	39,355	24,964	391,976
Total liabilities	327,657	1,680,911	4,946,554	24,964	6,980,086
Credit commitments	1,238,364	-	-	-	1,238,364

22.3 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2007

22. RISK MANAGEMENT - (Continued)

22.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability of financial instruments. Interest rate risk is managed by the treasury department of the parent company. The group is not significantly exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities since it does not own significant floating rate financial assets and financial liabilities that could have a material impact on the group's profit before KFAS, directors' remuneration and Zakat.

22.3.2 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 by continuous assessment of the group's open positions and current and expected exchange rate movements and hedging transactions to manage any significant risk in foreign currencies such as Euro and Omani Riyal. The effect on profit before KFAS 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:

	Change in currency rate by 5%			
	Effect on equity		Effect on profit before KFAS, directors' remuneration and Zakat	
	2007 KD	2006 KD	2007 KD	2006 KD
USD	131,871	143,965	170,777	133,566
Euro	57,653	62,211	12,409	9,450

22.3.3 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 the Kuwait Stock Exchange.

The effect on equity (as a result of a change in the fair value of financial assets available for sale at 31 December 2007) and group's profit (as a result of a change in the fair value of financial assets 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	Change in equity price by 5%			
	Effect on equity		Effect on profit before KFAS, directors' remuneration and Zakat	
	2007 KD	2006 KD	2007 KD	2006 KD
Kuwait	-	-	578,659	60,093
Others	-	239,644	-	-

22.3.4 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.

22.4 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, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

23. 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 between 15% and 50%. The group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less cumulative changes in fair values.

	2007 KD	2006 KD
Short term borrowings	8,593,906	6,453,124
Other liabilities	355,030	391,976
Less: Bank balances and cash	(1,010,259)	(2,408,623)
Net debt	<u>7,938,677</u>	<u>4,436,477</u>
Equity attributable to the equity holders of the parent	20,265,954	18,821,344
Less:- Cumulative changes in fair values	(431,609)	(390,752)
Total capital	<u>19,834,345</u>	<u>18,430,592</u>
Capital and net debt	<u>27,773,022</u>	<u>22,867,069</u>
Gearing ratio	<u>28.58%</u>	<u>19.40%</u>