



إستراتیجیا
STRATEGIA

Investment Company ناستثماری



ANNUAL
REPORT
2008



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

Ms. Hetaf Mahmoud Khajah

Chairman

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. Mohamed Nadom

Board Member

CHAIRMAN'S MESSAGE

In the Name of God Most Gracious Most Merciful

Dear Shareholders,

On behalf of my colleagues, members of the Board, and the employees of Strategia Investment Company, it is my pleasure to present to you the Annual Report and Audited Financial Statements of your company for the financial year ended December 31, 2008.

During 2008, the world has witnessed an unprecedented decline across all asset classes due to the global financial crisis and its effects on future growth. The world's largest economy, presented by the United States of America, went into a recession and faces one of the toughest times in its history since the thirties. The slowdown of US economy triggered the fall of the economies of all other countries around the world, including the GCC region in general and the Kuwaiti economy in particular.

Signs of weakness in the Kuwaiti Stock Market appeared at the beginning of March 2008 upon the end of dividends distribution outburst. Prices of major leading companies declined, while the price index continued to rise based on speculative reasons rather than fundamental ones.

The signs of the financial crisis in Kuwait became clearer in June 2008 as many companies were unable to settle their local and international liabilities. Moreover, the unjustified rise of real estate values, the slowdown in the growth and profitability of local companies, particularly the investment companies, and the sharp decline in oil prices, have magnified the problem and created fears among consumers regarding the revenues of the country. A decrease in government spending will most likely affect the economy's future growth and liquidity in the market.

In the second half of last year, the Kuwaiti Stock Exchange witnessed its most difficult time since the eighties and continued to decline to its lowest level in 2008 and closed the year under 7,800 points, which is the lowest level since 2005. The prices of most listed companies fell to double the loss of the general market indices where the weighted index and the price index both decreased by -43.12% and -38.03%, respectively.

Globally, financial markets witnessed a tremendous decline due to the bankruptcy of various leading international banks, the collapse of some of the largest real estate financing companies and the deterioration of credit market conditions. This has led to the loss of consumer confidence in financial markets, which pushed asset values across all categories to unprecedented low levels.

Amid these unfortunate times, management proactively adopted throughout the year a more defensive strategy in order to preserve its liquidity position. Such procedures included the redemption of the company's investments in hedge funds and international listed shares, while keeping its investments in liquid real estate markets. This dynamic strategy played a positive and effective role and earned the company "The Best Real Estate Investment Manager in Kuwait and the MENA" awarded by Euromoney for the second year in a row.

However, we were not isolated from the difficult market conditions and the extraordinary events beyond the company's control. This resulted in a loss equal to 10,391,898 Kuwaiti Dinars, a decline of 11,810,472 Kuwaiti Dinars compared to 2007 profit. The shareholders' equity amounted to 9,488,970 Kuwaiti Dinars, a decline of 10,776,984 Kuwaiti Dinars from the previous year. The Board of Directors did not recommend any dividend distributions for the current year on the date of the General Assembly meeting, due to the realized and unrealized losses incurred in 2008.

Under these difficult circumstances and their negative impact throughout 2009 on companies in general, and on investment companies in particular, the company is making its best efforts to review its current financial position, including the reduction of its administrative and operating expenses and negotiation with banks to reduce the cost of loans and rescheduling them. On a more positive note, the company continues to seek unique investment opportunities during these volatile markets that may benefit its clients and meet their investment goals. The company also strives to maintain its highest level of services and transparency provided to its clients by reaching out to them both in good and difficult times. We hope that we succeed in our endeavors for the benefit of both our investors and shareholders.

In conclusion, I would like to thank our valuable clients for their trust and our shareholders for their support. I hope that such confidence and support will continue throughout the foreseeable future.



Hetaf Mahmoud Khajah
Chairman



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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

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 (collectively "the group"), which comprise consolidated balance sheet as at 31 December 2008 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.

Management's Responsibility for the Financial Statements

The management of the parent company 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. 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 2008, 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.

Emphasis of Matter

Without qualifying our opinion above, we draw attention to Note 2 to the consolidated financial statements, which indicate that the group has incurred a loss of KD 10,391,898 during the year ended 31 December 2008, and retained losses amount to KD 9,023,668. For these reasons, the group's ability to continue as going concern is dependent on rescheduling the finance facilities and improving earnings and cash flows.

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 2008 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 2008.



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



DR. SAUD AL HUMAIDI
LICENCE NO. 51 A
AL-HUMAIDI & PARTNERS
INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL

8 March 2009
Kuwait

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2008

	Notes	2008 KD	2007 KD
Fee income	4	902,911	1,156,495
Dividend income		436,666	131,384
Interest income		132,518	216,212
Realised loss on financial assets at fair value through income statement	7	(5,582,705)	(328,960)
Unrealised loss on financial assets at fair value through income statement	7	(2,927,331)	(46,870)
Realised (loss) gain on sale of financial assets available for sale		(524,054)	1,650,931
Other income		57,392	-
Fee expenses		314,030	207,326
Administrative expenses		328,982	311,961
Staff costs		335,071	370,772
Depreciation		50,003	43,140
Interest expense		817,407	316,516
Provision for credit losses	9,10	159,842	8,005
Impairment losses	6	891,044	-
Foreign currency exchange (gain)/loss		(9,084)	89,196
(LOSS)/PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS) AND ZAKAT		(10,391,898)	1,432,276
Contribution to KFAS		-	(12,890)
Zakat		-	(812)
(LOSS)/PROFIT FOR THE YEAR		(10,391,898)	1,418,574
BASIC AND DILUTED (LOSS)/ EARNINGS PER SHARE	5	(59.12) fils	8.07 fils

The attached notes 1 to 24 form part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2008

	Notes	2008 KD	2007 KD
ASSETS			
Bank balances and cash		3,948,048	1,010,259
Financial assets at fair value through income statement	7	5,197,009	12,869,012
Loans and advances	9	118,061	2,183,367
Financial assets available for sale	8	4,884,124	8,240,444
Other assets	10	2,000,606	1,394,857
Property and equipment		150,367	105,658
Goodwill	11	3,011,293	3,411,293
TOTAL ASSETS		19,309,508	29,214,890
EQUITY AND LIABILITIES			
Equity			
Share capital	12	17,577,000	16,200,000
Share premium	13	250,000	250,000
Statutory reserve	14	453,471	453,471
General reserve	15	45,347	45,347
Foreign currency translation reserve		39,774	39,780
Cumulative changes in fair value		46,529	431,609
Employee share option reserve	16	100,517	100,517
(Accumulated deficit)/ retained earnings		(9,023,668)	2,745,230
Total equity		9,488,970	20,265,954
Liabilities			
Short term borrowings	17	9,345,545	8,593,906
Other liabilities		474,993	355,030
Total liabilities		9,820,538	8,948,936
TOTAL EQUITY AND LIABILITIES		19,309,508	29,214,890



Hetaf Mahmoud Khajah
(Chairman)



Khalifa Khalaf El Enezi
(Vice Chairman)

The attached notes 1 to 24 form part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2008

	2008 KD	2007 KD
OPERATING ACTIVITIES		
(Loss)/profit for the year	(10,391,898)	1,418,574
Adjustments for:		
Dividend income	(436,666)	(131,384)
Interest income	(132,518)	(216,212)
Realised loss / (gain) on sale of financial assets available for sale	524,054	(1,650,931)
Unrealised loss/ (gain) on financial assets at fair value through income statement	2,927,331	46,870
Depreciation	50,003	43,140
Interest expense	817,407	316,516
Provision for credit losses	159,842	8,005
Impairment loss	891,044	-
	(5,591,401)	(165,422)
Changes in operating assets and liabilities:		
Financial assets at fair value through income statement	4,744,672	(10,352,599)
Loans and advances	2,020,214	(773,313)
Other assets	(814,396)	(717,500)
Other liabilities	(89,855)	71,673
Cash from/ (used in) operating activities	269,234	(11,937,161)
Interest paid	(607,589)	(425,135)
Net cash used in operating activities	(338,355)	(12,362,296)
INVESTING ACTIVITIES		
Dividend received	436,666	134,263
Interest received	226,415	143,681
Purchase of financial assets available for sale	(832,359)	(9,288,630)
Proceeds from sale of financial assets available for sale	2,788,501	17,930,574
Purchase of property and equipment	(94,712)	(81,917)
Net cash from investing activities	2,524,511	8,837,971
FINANCING ACTIVITIES		
Short term borrowings	751,639	2,140,782
Net cash from financing activities	751,639	2,140,782
Foreign currency translation reserve	(6)	(14,821)
INCREASE/ (DECREASE) IN BANK BALANCE AND CASH	2,937,789	(1,398,364)
Bank balance and cash at 1 January	1,010,259	2,408,623
BANK BALANCE AND CASH AT 31 DECEMBER	3,948,048	1,010,259

The attached notes 1 to 24 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2008

	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
Balance at 1 January 2008	16,200,000	250,000	453,471	45,347	39,780	431,609	100,517	2,745,230	20,265,954
Net unrealised gains on financial assets available for sale	-	-	-	-	-	(948,272)	-	-	(948,272)
Net realised gains on financial assets available for sale reclassified to the income statement on sale	-	-	-	-	-	524,054	-	-	524,054
Unrealised gain on cash flow hedge	-	-	-	-	-	39,138	-	-	39,138
Foreign currency translation adjustment	-	-	-	-	(6)	-	-	-	(6)
Total expense recognised directly in equity	-	-	-	-	(6)	(385,080)	-	-	(385,086)
Loss for the year	-	-	-	-	-	-	-	(10,391,898)	(10,391,898)
Total expense for the year	-	-	-	-	(6)	(385,080)	-	(10,391,898)	(10,776,984)
Issue of bonus shares (Note 12)	1,377,000	-	-	-	-	-	-	(1,377,000)	-
Balance at 31 December 2008	17,577,000	250,000	453,471	45,347	39,774	46,529	100,517	(9,023,668)	9,488,970
Balance at 1 January 2007	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	-	-	-	-	-	1,759,122	-	-	1,759,122
Net unrealised gains on financial assets available for sale reclassified to the Income statement on sale	-	-	-	-	-	(1,650,931)	-	-	(1,650,931)
Unrealised loss on cash flow hedge	-	-	-	-	-	(67,334)	-	-	(67,334)
Foreign currency translation adjustment	-	-	-	-	(14,821)	-	-	-	(14,821)
Total income (expense) recognised directly in equity	-	-	-	-	(14,821)	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	-	1,418,574	1,444,610
Issue of bonus shares (Note 12)	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

The attached notes 1 to 24 form part of these consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

1. ACTIVITIES

The consolidated financial statements of Strategia Investment Company K.S.C. (Closed) (the "parent company") and its subsidiaries (collectively "the group") were authorised for issue by the parent company board of directors on 8 December 2009. The Ordinary General Assembly of the shareholders of the parent company have the power to amend these financial statements after the issuance.

The parent company 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 was admitted to Kuwait stock exchange on 3 December 2008.

The parent company's registered office is at Al Nassar Tower, Fahed Al Salem Street, P. O. Box 1346 Dasman - 15464 Kuwait.

2. FUNDAMENTAL ACCOUNTING CONCEPT

The group has incurred losses of KD 10,391,898 for the year ended 31 December 2008 and, as of that date, the group has total accumulated deficit of KD 9,023,668. The consolidated financial statements have been prepared under the going concern concept.

The ability of the group to continue as a going concern is dependent on availability of the continued support from the financial institutions (i.e. rescheduling of the interest bearing loans from short term to medium/long term loans) (note 17) and the shareholders and the ability of the group to improve profitability and cash flows. The management is confident that they will be able to renegotiate the terms of these short term loans as contemplated at this stage. The directors of the parent company consider that the group has adequate resources to continue in operational existence for the foreseeable future, and accordingly the going concern basis continues to be adopted in preparing these consolidated financial statements. In arriving at this view, the directors have taken account of the present and prospective profitability of the various businesses in the group and of the plans for their future development.

3. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Future changes in accounting policies

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these consolidated financial statements. The group intends to comply with these standards from the effective dates.

Revised IAS 1 – Presentation of Financial Statements (applicable for annual reporting periods beginning on or after 1 January 2009)

The revised standard introduces changes to the presentation of financial statements and does not affect the recognition, measurement or disclosure of specific transactions. The standard will not affect the financial position or results of the group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the group. The changes are not expected to be of any significance to the current level of disclosure in the consolidated financial statements.

Revised IFRS 3 – Business Combinations and consequential amendments to IAS 27 – Consolidated and Separate Financial Statements (applicable for business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after 1 July 2009).

The main changes to the standard that affects the group's current policies is that acquisition related costs are expensed in the consolidated income statement in the periods in which the costs are incurred and the services received, except for costs related to the issue of debt (recognised as part of the effective interest rate) and the cost of issue of equity (recognised directly in equity). Currently, the group recognizes acquisition costs as part of the purchase consideration. Also, changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity and will have no impact on goodwill nor will it give rise to a gain or loss.

IFRS 8 – Operating Segments (applicable for annual reporting periods beginning on or after 1 January 2009)

The standard relates to disclosure requirements for segmental information and replaces IAS 14 – Segmental Reporting. The new standard intends to disclose segment information in line with information provided to the top management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 subsidiaries of the group are as follows:

Name	Beneficial ownership	
	2008	2007
<u>Subsidiaries</u>		
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 Bermuda 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:

3. 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 advances”, “financial assets available for sale” or “financial liabilities other than at fair value through income statement”.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through income statement, directly attributable transaction costs. The group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and advances

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.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 realize the asset and settle the liability simultaneously.

Hedge accounting

The group makes use of non derivative financial instruments to manage exposures to foreign currency risks including exposures arising from forecast transactions. In order to manage particular risks, the group applies hedge accounting for transactions, which meet the specified criteria for cash flow hedges.

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 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 financial assets 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 assets 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 a 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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Estimation uncertainty

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

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;
- An earnings multiple or industry specific earnings multiple;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result these investments are carried at cost less any impairment in value.

Judgements

In the process of applying the group's accounting policies, the parent company's directors have made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of financial assets

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

The group classifies financial assets as trading if they are acquired primarily for the purpose of making a short-term profit by the dealers.

Classification of financial assets as fair value through income statement depends on how the directors monitor the performance of these financial assets. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as at fair value through income statement. All other financial assets are classified as available for sale.

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3. 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.

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.

4. FEE INCOME

	2008 KD	2007 KD
Management fees from fiduciary activities	821,619	1,141,676
Advisory fees and consultancy fees	81,292	14,819
	902,911	1,156,495

5. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earnings per share amounts are calculated by dividing (loss) 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 (loss) earnings per share based on weighted average number of shares outstanding during the year is as follows:

	2008	2007
(Loss) profit for the year attributable to the equity holders of the parent company (KD)	(10,391,898)	1,418,574
Weighted average number of shares outstanding during the year for basic earnings per share	175,770,000	175,770,000
Basic and diluted (loss) earnings per share	(59.12) fils	8.07 fils

Basic and diluted (loss) earnings per share have been restated for bonus shares issued during the year (note 12).

6. IMPAIRMENT LOSSES

	2008 KD	2007 KD
Financial assets available for sale (note 8)	491,044	-
Goodwill (note 11)	400,000	-
	891,044	-

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2008 KD	2007 KD
I. Held for trading:		
Quoted equity securities	4,309,280	11,573,180
II. Designated upon initial recognition at fair value through income statement:		
Managed equity funds	887,729	1,295,832
	5,197,009	12,869,012

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7. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT (CONTINUED)

Loss on financial assets at fair value through income statement, analyzed by category, is as follows:

	2008 KD	2007 KD
I. Realised loss on financial assets:		
Held for trading	5,582,705	328,960
II. Unrealised loss on financial assets:		
Held for trading	(2,519,228)	18,730
Designated at fair value through income statement	(408,103)	(65,600)
	(2,927,331)	(46,870)

8. FINANCIAL ASSETS AVAILABLE FOR SALE

	2008 KD	2007 KD
Unquoted equity securities	1,221,838	1,401,170
Managed equity funds	3,662,286	6,839,274
	4,884,124	8,240,444

At 31 December 2008, unquoted financial assets amounting to KD 3,698,904 (2007: KD 3,997,054) were carried at cost due to the non availability of quoted market prices or other reliable measures of their fair values.

An impairment charge of KD 491,044 (2007: KD Nil) has been recognised in respect of certain financial assets available for sale for which there has been a significant or prolonged decline in fair value below cost (note 6).

9. LOANS AND ADVANCES

	2008 KD	2007 KD
Gross amount	200,125	2,220,339
Less: Provision for credit losses	(82,064)	(36,972)
	118,061	2,183,367

9. LOANS AND ADVANCES (CONTINUED)

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

	2008 KD	2007 KD
At 1 January	36,972	28,967
Release of provision	(34,970)	-
Charge for the year	80,062	8,005
At 31 December	82,064	36,972

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 2,001 would be retained as a general provision until further directive from the Central Bank of Kuwait.

10. OTHER ASSETS

	2008 KD	2007 KD
Accrued management fees	590,906	469,161
Other receivables	1,382,719	849,113
Prepaid expenses	26,981	76,583
	2,000,606	1,394,857

At 31 December 2008, gross receivable amounting to KD 114,750 (2007: Nil) were impaired.

11. 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 which was subsequently reduced by KD 148,317 till the year ended 31 December 2004 is treated as goodwill.

The recoverable amount has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate of 12% applied to cash flow projections which are extrapolated using a projected growth rate in a range of -25 % to +5%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. GOODWILL (CONTINUED)

The calculation of value in use for each segment unit is sensitive to the following assumptions:

- Margins;
- Discount rates;
- Projected growth rates used to extrapolate cash flows beyond the budget period & Inflation rates.

Margins

Margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

Market share assumptions

These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period.

Projected growth rates and local inflation rates

Assumptions are based on published industry research.

Sensitivity to changes in assumptions

Management has determined that the potential effect of using reasonably possible alternatives as inputs to the valuation model would reduce goodwill by KD176,587 using more favorable assumptions and reduce goodwill by KD 691,005 using less favorable assumptions.

Based on the analysis, management has recognised impairment loss of KD 400,000 (2007: Nil) for decline in fair value below the carrying value (note 6).

12. SHARE CAPITAL

The Annual General Assembly held on 7 May 2008 approved proposed bonus shares of 8.5% for the year ended 31 December 2007 to the shareholders of the parent company. This resulted in an increase in the number of authorised and issued shares by 13,770,000 shares and share capital by KD 1,377,000. The Extra-ordinary General Meeting of the shareholders of the parent company held on 7 May 2008 approved the increase of authorised share capital from KD 16,200,000 to KD 17,577,000.

As at 31 December 2008, the issued and paid up capital amounts to KD 17,577,000.

13. SHARE PREMIUM

The share premium account is not available for distribution.

14. 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.

15. 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.

16. 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 was the final year in which shares options granted have fully vested to the existing employees of the parent company.

The shares under the stock option plan have already been issued to a related party in previous year which holds the shares under trust capacity.

17. SHORT TERM BORROWINGS

	2008 KD	2007 KD
Fixed interest rate loans	9,345,545	8,593,906

Fixed interest rate loans bear interest rate ranging from 5.75 % to 10.75 % (2007: 5% to 7.5%) per annum and are due within 1 month (2007: 4 months) of the balance sheet date.

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17. SHORT TERM BORROWINGS (CONTINUED)

Short term loan facility amounting to KD 8,100,000 (31 December 2007: Nil) is secured against listed equity securities classified as financial assets at fair value through income statement with carrying value of KD 4,195,600 at 31 December 2008.

At 31 December 2008, parent company is in breach of covenants in the credit facility agreement with one of the banks. The parent company's management is in constructive discussions with the lending banks to arrive at an acceptable debt restructuring solution.

The debt restructuring may involve upfront repayment of a part of debt by capital injection, bundling of existing debt into a new syndicated facility amortizing over a medium term, providing extra collaterals to the financiers over the parent company's investments, renegotiating the pricing of credit facilities, restrictions on the corporate actions associated with the distribution of cash and stock dividends and other terms and restrictions usually associated with debt restructuring process.

Loans from related parties amounted to KD NIL (2007: KD 3,700,000) (note 18).

18. 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:

	Other related parties KD	Directors and key management KD	Total 2008 KD	Total 2007 KD
Consolidated Balance sheet				
Loans and advances	-	-	-	24,990
Short-term borrowings	-	-	-	3,700,000
Other liabilities		94,819	94,819	80,911
Consolidated income statement				
Interest income	8,635	225	8,860	602
Interest expense	201,965	-	201,965	285,499

Compensation of key management personnel

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

	2008 KD	2007 KD
Short-term benefits	283,561	254,670
Termination benefits	14,100	20,050
	297,661	274,720

19. 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 2008 amounted to KD 80,297,665 (2007: KD 96,958,884).

The total income earned from trust and other fiduciary activities amounted to KD 902,911 (2007:1,156,495 KD).

20. 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.
- Investment management and 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 2008	Proprietary investment management	Investment management and advisory services	Total
ASSETS	KD	KD	KD
Bank balances and cash	3,809,526	138,522	3,948,048
Financial assets at fair value through income statement	5,197,009	-	5,197,009
Financial assets available for sale	4,884,124	-	4,884,124
Loans and advances	118,061	-	118,061
Other assets	1,409,700	590,906	2,000,606
Property and equipment	149,770	597	150,367
Goodwill	-	3,011,293	3,011,293
TOTAL ASSETS	15,568,190	3,741,318	19,309,508
LIABILITIES			
Short term borrowings	9,345,545	-	9,345,545
Other liabilities	453,808	21,185	474,993
TOTAL LIABILITIES	9,799,353	21,185	9,820,538

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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20. SEGMENTAL INFORMATION (CONTINUED)

Segment (loss) income	(8,407,514)	902,911	(7,504,603)
Segment (loss) profit	(10,980,779)	588,881	(10,391,898)

Other Segment information

Capital expenditure:

Property and equipment	22,225	-	22,225
Depreciation	50,003	-	50,003
Provision for credit losses	159,842	-	159,842
Impairment losses	491,044	400,000	891,044

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 2008

Segment income	1,622,697	1,156,495	2,779,192
Segment profit	469,460	949,114	1,418,574

20. SEGMENTAL INFORMATION (CONTINUED)

31 December 2007	Proprietary investment management KD	Investment management and advisory services KD	Total KD
Other Segment information			
Capital expenditure:			
Property and equipment	81,917	-	81,917
Depreciation	43,085	55	43,140
Provision for credit losses	8,005	-	8,005
Credit commitments	370,611	-	370,611

Secondary segment information

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

	Segment (loss) revenue		Segment (loss) profit	
	2008	2007	2008	2007
	KD	KD	KD	KD
Geographical areas:				
Middle East	(7,422,397)	1,440,056	(10,117,590)	189,142
United States of America	(121,157)	405,228	(222,372)	272,220
Europe	400,925	661,688	310,038	384,955
Others	(361,974)	272,220	(361,974)	572,257
	(7,504,603)	2,779,192	(10,391,898)	1,418,574

	Assets		Liabilities	
	2008	2007	2008	2007
	KD	KD	KD	KD
Geographical areas:				
Middle East	14,448,485	21,721,419	9,783,073	8,682,348
United States of America	3,054,649	4,317,753	-	266,588
Europe	1,770,164	2,128,412	37,465	-
Others	36,210	1,047,306	-	-
	19,309,508	29,214,890	9,820,538	8,948,936

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20. SEGMENTAL INFORMATION (CONTINUED)

	Middle East	United States of America	Europe	Others	Total
31 December 2008	KD	KD	KD	KD	KD

Other Segment information

Capital expenditure:

Property and equipment	22,225	-	-	-	22,225
Depreciation	50,003	-	-	-	50,003
Provision for credit losses	159,842	-	-	-	159,842
Impairment losses	682,500	208,544	-	-	891,044

	Middle East	United States of America	Europe	Others	Total
31 December 2007	KD	KD	KD	KD	KD

Other Segment information

Capital expenditure:

Property and equipment	81,917	-	-	-	81,917
Depreciation	43,085	55	-	-	43,140
Provision for credit losses	8,005	-	-	-	8,005
Credit commitments	370,611	-	-	-	370,611

21. 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 8, 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 are based on quoted market price or net asset value.

22. 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 assets at fair value through income statement and financial assets 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 assets at fair value through income statement and financial assets 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 2008	Up to 1 month KD	1 – 3 months KD	4 – 12 months KD	Over 1 year KD	Total KD
ASSETS					
Bank balance and cash	3,948,048	-	-	-	3,948,048
Financial assets at fair value through income statement	4,309,280	371,176	516,553	-	5,197,009
Financial assets available for sale	-	578,285	606,934	3,698,905	4,884,124
Loans and advances	-	-	39,600	78,461	118,061
Other assets	1,231,904	115,479	653,223	-	2,000,606
Property and equipment	-	-	-	150,367	150,367
Goodwill	-	-	-	3,011,293	3,011,293
Total Assets	9,489,232	1,064,940	1,816,310	6,939,026	19,309,508
LIABILITIES					
Short term borrowings	9,345,545	-	-	-	9,345,545
Other liabilities	218,174	-	118,021	138,798	474,993
Total liabilities	9,563,719	-	118,021	138,798	9,820,538

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22. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

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

23. RISK MANAGEMENT

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to 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.

23.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The group 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.

23. RISK MANAGEMENT (CONTINUED)

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 authorizations 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 2008, the group had credit commitments amounting to KD NIL (2007: KD 370,611) in respect of loans and advances.

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 9. 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.

	2008 KD	2007 KD
Bank balance and cash	3,948,048	1,010,259
Loans and advances	118,061	2,183,367
Other assets	2,000,606	1,318,274
Gross maximum credit risk exposure before consideration of credit risk mitigation	6,066,715	4,511,900

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.

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23. RISK MANAGEMENT (CONTINUED)

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 2008 amounts to KD 285,425 (2007: KD 2,500,000).

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:

	Middle East KD	United States of America KD	Europe KD	Others KD	Total KD
As at 31 December 2008					
Bank balance and cash	3,809,526	1,508	137,014	-	3,948,048
Loans and advances	118,061	-	-	-	118,061
Other assets	658,756	894,411	447,439	-	2,000,606
Maximum exposure to credit risk assets	4,586,343	895,919	584,453	-	6,066,715

	Middle East KD	United States of America 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

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:

23. RISK MANAGEMENT (CONTINUED)

	2008 KD	2007 KD
Banks and financial institutions	3,948,048	1,010,259
Construction and real estate	1,339,135	1,251,829
Managed funds	590,906	964,663
Others	188,626	1,285,149
	6,066,715	4,511,900

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 2008 and 31 December 2007.

23.2 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 summarizes 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 2008

	Up to 1 month KD	1 – 12 months KD	Over 1 year KD	Total KD
LIABILITIES				
Short term borrowings	9,409,795	-	-	9,409,795
Other liabilities	215,351	120,843	138,799	474,993
Total liabilities	9,625,146	120,843	138,799	9,884,788

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23. RISK MANAGEMENT (CONTINUED)

31 December 2007

	Up to 1 month KD	1 – 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

23.3 MARKET Risk

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

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

23.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future 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 investments and financial liabilities that could have a material impact on the group's profit before KFAS, directors' remuneration and Zakat.

23.3.2 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk is managed by the treasury department of the parent company 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 group had the following significant net exposures denominated in foreign currencies as of 31 December:

23. RISK MANAGEMENT (CONTINUED)

	2008 KD	2007 KD
	Equivalent	Equivalent
US Dollars	4,301,565	8,009,223
Euro	430,761	338,856

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	
	2008 KD	2007 KD	2008 KD	2007 KD
USD	161,984	131,871	53,094	170,777
Euro	(1,510)	57,653	23,048	12,409

23.3.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the parent company. The unquoted equity price risk exposure arises from the group's investment portfolio. The group manages this through diversification of financial assets 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 2008) 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 2008) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	Change in equity price by 5 %			
Market indices	Effect on equity		Effect on profit before KFAS, directors' remuneration and Zakat	
	2008 KD	2007 KD	2008 KD	2007 KD
Kuwait	30,347	-	215,464	578,659
Others	28,914	-	44,386	-

23.3.4 Prepayment risk

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

23. RISK MANAGEMENT (CONTINUED)

23.4 OPERATIONAL Risk

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

24. CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the year ended 31 December 2008.

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.

	2008 KD	2007 KD
Short term borrowings	9,345,545	8,593,906
Other liabilities	474,993	355,030
Less: Bank balances and cash	(3,948,048)	(1,010,259)
Net debt	5,872,490	7,938,677
Equity attributable to the equity holders of the parent	9,488,970	20,265,954
Less:- Cumulative changes in fair values	(46,529)	(431,609)
Total capital	9,442,441	19,834,345
Capital and net debt	15,314,931	27,773,022
Gearing ratio	38.34%	28.58%