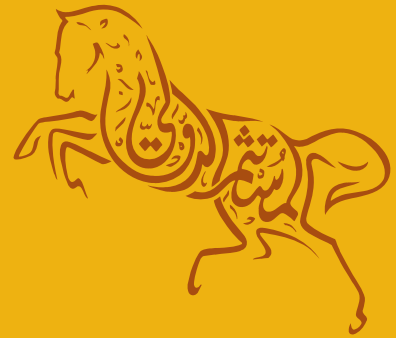


The  
International  
Investor



08

ANNUAL REPORT 2008

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## قَالَ تَعَالَى :

وَمَنْ يَتَّقِ اللَّهَ يَجْعَلْ لَهُ مَخْرَجًا وَيَرْزُقْهُ مِنْ حَيْثُ لَا يَحْتَسِبُ وَمَنْ يَتَوَكَّلْ عَلَى اللَّهِ فَهُوَ حَسْبُهُ إِنَّ اللَّهَ بَالِغُ أَمْرِهِ قَدْ جَعَلَ اللَّهُ لِكُلِّ شَيْءٍ قَدْرًا . صَدَقَ اللَّهُ الْعَظِيمِ (سُورَةُ الطَّلَاقِ الْآيَاتِ ٢ وَ ٣)

And whosoever fears of God and keeps his duty to him, He will make a way for him to get out (from every difficulty). And He will provide him from (sources) he never could imagine. And whosoever puts his trust in God, and then He will suffice him. Verily, God will accomplish his purpose. Indeed, God has set a measure for all things.

Surah 65:2-3





**H.H. Sheikh Sabah Al-Ahmad  
Al-Jaber Al-Sabah**  
Amir of the State of Kuwait



**H.H. Sheikh Nawaf Al-Ahmad  
Al-Jaber Al-Sabah**  
Crown Prince



# Pillars of Trust

**Integrity** We espouse the highest levels of personal and professional behaviour, acting in an honest and ethical manner at all times.

**Diversity** We constantly seek to expand our activities by identifying new opportunities in the financial services industry.

**Execution** In everything we do, quality is the objective. We are committed to leadership, excellence, innovation and global best practice. As well as abiding concern with Shari'a compliance.

# Chairman's Statement

## Dear Shareholders

On behalf of the Board of Directors of The International Investor (TII), it is my pleasure to report on the company's performance for 2008. 2008 was a challenging year but also one marked by our focus on streamlining our operations, controlling our expenses, and repositioning our business portfolio. This has resulted in improvements to our cost base over the previous year, and is expected to continue to improve throughout the coming year.

This year we focused on the consolidation of some of our portfolio of businesses, while restructuring others. However, few could have predicted how deeply the tightening of credit markets and the resulting global financial crisis would affect their performances. TII was not immune from this downturn, resulting in an exceptionally challenging year in 2008.

## OVERVIEW

Asset values across all markets have dropped by between 50% and 70% and, inevitably, this development contributed negatively to our bottom line. The prevailing situation caused us to slow down on new investments, reduce our holdings wherever possible, and maintain conservative financing levels. This pragmatic and conservative approach towards expansion mitigated our exposure relative to others.

Throughout much of 2008, we directed our efforts and resources into streamlining and restructuring our operations, divesting holdings, merging some of our key assets and making workforce redundancies where needed. Moreover, TII has competently and adroitly handled the challenges of managing its liabilities, which has given us a relative advantage. We are currently well positioned to take advantage of opportunities arising from the economic fall-out.

2008 was a difficult year, but one which will enable us to improve the quality of our business in the future. We were forced to face a deeper loss than predicted and to make adjustments to our business, undoubtedly these decisions were taken in order to ensure a more stable and rewarding future. As a result of the challenging business environment in 2008 TII recorded a loss of KD 28,934,805, and we have taken the decision not to distribute dividends this year.

We have limited the erosion to our share capital despite the losses. As a result we expect to be in a strong position to weather the current economic downturn and for our organisation to achieve better performance in the future.

Despite 2008 proving to be one of the most difficult in the company's history, our policy of operating a streamlined and consolidated business and reducing costs has positioned us with the maximum flexibility to gear up to opportunities in 2009.

## ACKNOWLEDGMENT

On behalf of the Board, I thank our shareholders, business partners, clients, and suppliers for their ongoing trust and dedication. I also acknowledge the valued contribution of TII's directors, management, and staff. Their hard work and commitment have made our achievements of the past year, and of future years, possible.

We now look forward with confidence to a new chapter in the growth and progress of TII, as we embrace imaginative and innovative strategies that will transform the status of our company. We have exciting years ahead, full of promise for all our stakeholders.



**Adnan Al Bahar**  
Chairman and Managing Director



## Payment and Loyalty Solutions Group

TII has been investing in the payment and loyalty card solution sector for a number of years, developing and fine-tuning an innovative and compelling business concept. We have consolidated Selektpoints, Flair and Procco into one entity which is now operating under the Payment and Loyalty Solutions Group. TII is seeing early signs of market growth and significant sales are expected to be generated going forward.

Our payment and loyalty business is structured to provide tailored solutions for its clients, offering three flexible but distinct configurations; an instalment card, a loyalty program, and Procco's IT Security Solutions.

The payment and loyalty card services will help the client benefit from the program's flexibility to offer white label solutions, enabling clients to strategically brand their own services on the payment card. Clients may, however, opt to use our existing branded payment card 'Flair' which is now perceived as a leading Islamic compliant payment solution in the Middle-East. The attractiveness of this solution is the way it complements recognised brands in the card lending business such as Visa, MasterCard and American Express. Our payment solutions are the only integrated payment product that is fully Shariah compliant and available today.

We have also been able to improve our payment technology services to meet the highest international industry standards in payment processes. Procco is now Payment Card Industry Security Standards Council (PCI SSC) compliant. This technology certification optimises the security of confidential cardholder information held on computer networks. In effect, we can now provide a service other financial institutions, including many banks, cannot offer.

The payment services are complemented by a 'Loyalty Solution' designed to reward customers and provide merchants with consumer purchasing behaviour data allowing better customer understanding and service.

Our third solution, is the IT security assurance services, providing a total solution to the client by identifying and managing security risks within their IT infrastructure. Our service offerings include the provision of network security assessments (penetration testing), server operating system and web application certification, social engineering, training, and security architecture design consulting.

All three businesses have been consolidated in one location based in Bahrain.

### **Bayt Al Mal Investment**

Bayt Al Mal is a corporate finance and investment banking subsidiary, with a number of external shareholders partnering with TII. Despite the challenges of 2008, it has ended the year with significantly reduced debt and fewer liabilities.

Additionally, Bayt Al Mal was able to diversify into leading sectors, such as energy and oil technology, real estate development, and a brokerage business including investment banking activities in the region. Bayt Al Mal accomplished this through acquiring stakes in Gulf Global Oil Technology Company, whose core business is oil sludge cleaning, BAM Real Estate Development, and The International Securities Firm in Saudi Arabia, which has acquired a full investment banking license.

Bayt Al Mal is currently assessing a number of investment deals for 2009. At the present time, Bayt Al Mal has postponed its listing on the Kuwait Stock Exchange until there is greater clarity on the current economic crisis.

### **Makkah Hills**

Makkah Hills is a project brought to us by Global Banking Corporation, a consortium of reputable and influential regional players.

The Makkah Hills project is a unique development within the holy city of Mecca. The property encompasses an area of more than 1.9 million square metres and is located in a prime

expansion between Jeddah and Mecca. The development is one of the first of its kind in the region and when complete, will consist of modern commercial, residential and mixed-use units.

### **Courts**

TII partnered with Baring Private Equity and Deutsche Bank to acquire two companies in Singapore and Malaysia, operating under the Courts brand with the objectives of taking both companies private, consolidating them into one venture, restructuring them and then selling the restructured business. Courts, a major furniture and electronics retail business in South East Asia, has experienced some challenges and our joint objective has been to rapidly improve profitability. Non-performing and sub-performing stores in Indonesia and Malaysia have been closed down and we ceased operations in Thailand as part of our strategic review.

In late 2008, Courts Singapore was taken into private ownership and we have further plans to consolidate some of the functions and reorganise our operations to keep reducing unnecessary expenses.

### **CreditOne**

TII launched CreditOne with strategic partners to offer a Shariah compliant consumer-financing company. CreditOne has been profitable since inception and it is expected that CreditOne will be ready for listing on the Kuwait Stock Exchange in 2009.

## Fleet-Corp Turkey

Our vehicle leasing company, Fleet-Corp Turkey, is now among the largest leasing firms in Turkey. TII has worked with the Fleet-Corp Turkey management to bring its operations up to international standards. This included a total restructuring of the company with the introduction of new senior management, and investment in cutting edge technology solutions to streamline business processes. The changes were necessary to position Fleet-Corp Turkey to take advantage of the opportunities of the fast growing fleet leasing business in Turkey.

With a diverse clientele ranging from multi-national companies in industries such as pharmaceuticals, and food & beverage, to logistic companies, Fleet-Corp provides a suite of value-added services including insurance and operating lease options, whilst tailoring the leasing and insurance package to their specifications. These value-added services free our customers from time and monetary demands whilst saving them the distraction of dealing with taxes, repairs and maintenance.

## Outlook for 2009

As we look ahead to 2009 and beyond, we expect the coming year to remain challenging. Our ability to advance and improve our business will be driven by identifying opportunities with good prospects at attractive valuations. With the good house-keeping enforced in 2008, we hope to be able to move quickly and decisively where suitable opportunities arise.

We have earmarked the sale of some of our investments in 2009, and we will continue to prioritise Kuwait and the GCC region for acquisition targets. Our goal is to ensure a return to profitability and maximum growth once the market recovers, while concurrently optimising our current portfolio.

## Corporate Social Responsibility

During the past year, we continued to demonstrate our commitment to the society in which we live and work. TII participated in, and has developed, several education-focused programs with universities in Kuwait, sponsoring events and conferences at Kuwait University and the Gulf University for Science and Technology (GUST). Our objective in doing so is to help bridge the divide between academia and the corporate world, by helping to mentor future graduates in the field of investment banking. This activity will, unfortunately, be downscaled during 2009 to allow the business to focus on its core objectives. However, TII has a strong commitment to continue its CSR activities as soon as these objectives are met.



# Board of Directors

**Adnan Abdulaziz Al Bahar**

*Chairman and Managing Director*

Before founding Tii in 1992 , Adnan was Managing Director of AL Rajhi Company for Islamic Investment in London and prior to this, General Manager of Kuwait Finance House, He has served as Advisor to the Finance Committee of the Kuwait Parliament and as Director of Kuwait Investment Authority, Kuwait Stock Exchange and Kuwait Higher Planning Board .

**Faisal Abdul Mohsin Al Khatrash**

*Deputy Chairman*

Faisal was previously Deputy Managing Director of Kuwait Foreign Trading, Contracting and Investment Company and Vice Chairman of Kuwait Finance House, He is currently an Executive Board member of Salhia Real Estate Company .

**Masaud M.J.Hayat**

*Director*

Chairman of KAMCO (KIPCO Asset Management Company), Tunis International Bank, Syria Gulf Bank, and United Gulf Financial Services Co. and Managing Director of United Gulf Bank/ Bahrain. He is also Deputy Chairman of Algeria Gulf Bank and Vice Chairman – The Royal Capital Group – Abu Dhabi. Masoud holds a BA in accounting and a high Diploma in banking studies.

**Abdallah Mohamed Al-Beijan**

*Director*

Abdallah is Chairman and Managing Director of AL-Seedawi Sweet Factory and a Partner and General Manager of AL-Enma Management Consultancy . He is also a Chairman of Kuwait Foodstuff Merchants and Manufacturers Union, Regional Manager of Arab Federation for Food Industry in Kuwait, Board Member in the Kuwait Public Transport Co. and Board Member in Public Authority for Industry.

**Faisal Ebrahim Almusallam**

*Director*

Faisal is currently working as deputy manager in the Direct Investment Department of Kuwait's Public Institution for Social Security and responsible for private equity funds Since 1993.

**Mr. Talal Anwar AL Mulla**

*Director*

Mr. Talal Al Mulla holds a Masters Degree in HFID and a Bachelors Degree in Finance both from Bentley College. Mr. Talal currently holds the position of Group Manager - Investments of Al Mulla Group Holding Co. KSCC, Kuwait. In addition, Mr. Talal holds the position of Chairman of Al Mulla Rental & Leasing of Vehicles & Equipment Co. KSCC.

**Mr. Anwar Abdul Aziz Al-Usaimi**

*Director*

Mr. Anwar graduated with a bachelor of science degree in Business from Emporia Kansas State College, U.S.A. He currently holds the position of Vice Chairman in Al-Asima Real Estate Company and board member & Deputy Managing Director of Al-Salhia Real Estate Company, in addition to being the board of Key Property Investments Ltd., U.K and Haddia GmbH , Germany. Mr. Al-Usaimi was also a board member in Commercial Bank of Kuwait.



# Report of the Shariah Supervisory Board

**In the name of God the Merciful the  
Compassionate**

Praise is to God, the Lord of all creation, and prayer and peace be upon Prophet Muhammad, his family, companions and followers.

The Fatwa and Shari' a Supervisory Board of the International Investor held several meetings during 2008, wherein all questions and contracts related to this year's operations, as presented by Management, were studied.

The Board accordingly made all necessary recommendations, decisions and Fatwa.

Additionally, the Board studied the internal Shari'a audit report of all operations for 2008.

In light of the above, and what has been presented to it, the Board noted some Shari' a infractions, which were duly brought to the company's attention, to rectify and take measures to avoid their recurrence.

**Sheikh Ahmed Bazie' Al-Yaseen  
Chairman**

**Dr. Khled Mathkour Al-Mathkour  
Deputy Chairman**

**Dr. Muhammed Fawzi Faidullah  
Member**

**Dr. Abdul Aziz Khalifa Al-Qassar  
Member**

**Sheikh Abdul-Rahman Ibn  
Abdullah Ibn Aqeel.  
Member**



# Auditors' Report to the Shareholders

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

### **Management's Responsibility for the Consolidated Financial Statements**

The Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait. 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 did not audit the financial statements of Asia Retail Group Limited, an associate of the Parent Company, which accounts for a loss of KD 3,398,436 (31 December 2007: 2,280,635), net of negative goodwill and total assets of KD 18,706,042 (31 December 2007: 22,634,540) of the Group's total loss for the year ended 31 December 2008 and total assets at 31 December 2008 respectively. Those financial statements were

audited by another auditor whose unqualified audit report has been furnished to us and our report, in so far as it relates to the amounts included for the associate, is based solely on the unqualified audit report of the other auditor. 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, based on our audit and the unqualified report of another auditor, 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.

## 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 examination, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the year ended 31 December 2008.

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

ALI A. AL-HASAWI  
License No.30-A  
RÖdl Middle East  
Burgan – InteRNAtional accountants

6 April 2009  
Kuwait

## CONSOLIDATED FINANCIAL STATEMENTS

31 December 2008

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25	Consolidated Statement of Changes in Equity
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**CONSOLIDATED BALANCE SHEET**  
At 31 December 2008

	Notes	2008 KD	(Restated) 2007 KD
<b>ASSETS</b>			
Cash and bank balances	3	3,667,971	20,743,368
Mutual fund investments		-	5,492,092
Murabaha investments	4	10,944,524	380,102
Financial assets at fair value through income statement	5	7,266,778	2,626,335
Murabaha and Ijara receivables	6	3,585,933	3,539,431
Amount paid to DBHC	7	251,443	17,175,661
Assets used in operating leases	8	49,540,338	61,374,051
Other assets	9	18,280,916	33,297,583
Financial assets available for sale	10	6,993,132	5,738,651
Investment in associates	11	25,955,721	32,946,872
Investment property		930,962	-
Furniture and equipment		6,732,911	4,146,911
Goodwill	12	10,370,972	11,292,290
<b>TOTAL ASSETS</b>		<b>144,521,601</b>	<b>198,753,347</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accruals	13	13,069,951	11,499,538
Due to banks	14	86,205,535	91,643,243
Lease obligations	15	1,873,573	3,889,426
<b>Total liabilities</b>		<b>101,149,059</b>	<b>107,032,207</b>
<b>Equity</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	16	49,222,195	44,747,450
Share premium	16	26,972,353	26,972,353
Treasury shares	17	(11,817,466)	(126,508)
Treasury shares reserve		4,267	-
Statutory reserve	18	1,180,931	1,180,931
(Accumulated losses) retained earnings		(29,653,535)	10,468,060
Foreign currency translation reserve		(2,592,011)	(2,274,408)
Cumulative changes in fair values		(169,211)	(102,910)
Minority interests		33,147,523	80,864,968
		10,225,019	10,856,172
<b>Total equity</b>		<b>43,372,542</b>	<b>91,721,140</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>144,521,601</b>	<b>198,753,347</b>

**Adnan A. Aziz Al Bahar**  
Chairman and Managing Director

The attached notes 1 to 36 form part of these consolidated financial statements

**CONSOLIDATED INCOME STATEMENT**  
Year Ended 31 December 2008

	Notes	2008 KD	(Restated) 2007 KD
Management fees	26	465,303	820,204
Murabaha and ijara income		964,030	574,371
Brokerage fees	7	2,326,808	234,150
Compensation received on advance for acquisition of subsidiary		418,768	2,587,749
Rental income from operating lease transactions		7,846,990	12,683,060
(Loss) gain on disposal of assets used in operating leases		(961,136)	310,305
Gain on mutual fund investments		260,392	362,484
Unrealised gain on financial assets at fair value through income statement		1,779,951	1,183,185
Realised (loss) gain from disposal of financial assets at fair value through income statement		(12,587)	90,451
Share of results of associates	11	(2,607,797)	13,429,873
Dividend income		678,929	209,528
Finance income		1,379,769	705,159
Other income		2,785,661	730,960
Gain on partial disposal of investment in a subsidiary		-	14,635
<b>INCOME</b>		<b>15,325,081</b>	<b>33,936,114</b>
General and administrative expenses	19	14,420,422	14,987,091
Murabaha and finance costs		6,717,213	5,068,259
Depreciation		8,495,216	4,665,908
Foreign exchange loss (gain)		7,561,848	(4,186,650)
Provision for credit losses		806,153	252,391
Realised loss on financial assets available for sale		80,443	128,658
Impairment of financial assets available for sale	10	4,983,422	-
Impairment of DBHC receivables	7	372,099	-
Restructuring cost on investment in associate	11	2,701,013	-
Loss on disposal of investment in associate	11	2,096	-
Loss on disposal of investment in a subsidiary	20	1,045,137	-
<b>EXPENSES</b>		<b>47,185,062</b>	<b>20,915,657</b>
<b>(Loss) profit before taxes and directors fees</b>		<b>(31,859,981)</b>	<b>13,020,457</b>
(Provision) release for deferred tax liability		(1,184,963)	316,646
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		-	(85,944)
Provision for National Labour Support Tax (NLST)		-	(295,233)
Zakat		-	(5,784)
Directors' remuneration		-	(90,000)
<b>(LOSS) PROFIT FOR THE YEAR</b>		<b>(33,044,944)</b>	<b>12,860,142</b>
Attributable to:			
Equity holders of the parent		(28,934,805)	11,648,991
Minority interests		(4,110,139)	1,211,151
		<b>(33,044,944)</b>	<b>12,860,142</b>
<b>BASIC (LOSS) EARNINGS PER SHARE</b>	21	<b>(62.64) fils</b>	<b>24 fils</b>
<b>DILUTED (LOSS) EARNINGS PER SHARE</b>	21	<b>(62.23) fils</b>	<b>23.51 fils</b>

The attached notes 1 to 36 form part of these consolidated financial statements

**CONSOLIDATED CASH FLOW STATEMENT**  
Year Ended 31 December 2008

	Note	2008 KD	(Restated) 2007 KD
<b>OPERATING ACTIVITIES</b>			
(Loss) profit for the year		<b>(33,044,944)</b>	12,860,142
Adjustments for:			
Depreciation		<b>8,495,216</b>	4,665,908
Provision for credit losses		<b>806,153</b>	252,391
Loss (gain) on disposal of assets used in operating lease		<b>961,136</b>	(310,305)
Restructuring cost on investment in associate		<b>2,701,013</b>	-
Loss on disposal of associate		<b>2,096</b>	-
Dividend income		<b>(678,929)</b>	(209,528)
Share of results of associates		<b>2,607,797</b>	(13,429,873)
Loss on disposal of investment in a subsidiary		<b>1,045,137</b>	-
Impairment of financial assets available for sale		<b>4,983,422</b>	-
Realised loss on financial assets available for sale		<b>80,443</b>	128,658
Impairment of DBHC receivables		<b>372,099</b>	-
		<b>(11,669,361)</b>	3,957,393
Changes in operating assets and liabilities:			
Murabaha investments		<b>380,102</b>	(28,102)
Financial assets at fair value through income statement		<b>(4,640,443)</b>	(2,500,201)
Murabaha and ijara Receivables		<b>(852,655)</b>	(2,040,017)
Other assets		<b>3,854,819</b>	1,470,624
Accounts payable and accruals		<b>1,773,574</b>	5,538,763
Cash flows (used in) from operations		<b>(11,153,964)</b>	6,398,460
Payment of contribution to KFAS		<b>(111,883)</b>	-
Payment of provision for NLST		<b>(331,989)</b>	(285,255)
Payment of directors' remuneration		<b>(90,000)</b>	(90,000)
Net cash flows (used in) from operating activities		<b>(11,687,836)</b>	6,023,205
<b>INVESTING ACTIVITIES</b>			
Partial recovery of amount paid to DBHC		<b>16,552,119</b>	6,120,519
Acquisition of subsidiaries, net of cash acquired	22	<b>15,559,345</b>	(119,076)
Purchase of financial assets available for sale		<b>(6,931,107)</b>	(4,714,186)
Proceeds from disposal of financial assets available for sale		<b>546,460</b>	2,826,424
Purchase of investment in associates		<b>(2,179,908)</b>	(17,540,281)
Purchase of investment property		<b>(930,962)</b>	-
Proceeds from disposal of investment in an associate		<b>4,500,000</b>	-
Purchase of assets used in operating leases		<b>(14,511,625)</b>	(13,767,413)
Proceeds from disposal of assets used in operating lease		<b>18,899,577</b>	6,023,859
Purchase of furniture and equipment		<b>(2,270,525)</b>	(1,845,046)
Proceeds on disposal of investment in a subsidiary classified as held for sale		-	5,816,758
Dividend received		<b>678,929</b>	209,528
Blocked bank balances		-	1,087,350
Net cash flows from (used in) investing activities		<b>29,912,303</b>	(15,901,564)
<b>FINANCING ACTIVITIES</b>			
Due to banks		<b>(8,215,385)</b>	33,619,625
Lease obligations		<b>(2,015,853)</b>	(516,207)
Purchase of treasury shares		<b>(11,954,060)</b>	(6,442,462)
Proceeds from disposal of treasury shares		<b>267,369</b>	2,370,518
Net movement in minority interests		<b>(646,113)</b>	(181,757)
Dividends paid		<b>(6,712,045)</b>	(6,704,995)
Net cash flows (used in) from financing activities		<b>(29,276,087)</b>	22,144,722
Foreign currency translation adjustment		<b>(571,345)</b>	(6,298,799)
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(11,622,965)</b>	5,967,564
Cash and cash equivalents at 1 January		<b>26,235,460</b>	20,267,896
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	23	<b>14,612,495</b>	26,235,460

The attached notes 1 to 36 form part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CHANGES EQUITY

Year Ended 31 December 2008

	Attributable to the equity holders of the parent										
	Share capital KD	Share premium KD	Treasury shares KD	Treasury shares reserve KD	Statutory reserve KD	(Accumulated losses) retained earnings KD	Foreign currency translation reserve KD	Cumulative changes in fair values KD	Total KD	Minority interests KD	Total equity KD
At 1 January 2008	44,747,450	26,972,353	(126,508)	-	1,180,931	10,468,060	(2,274,408)	(102,910)	80,864,968	10,856,172	91,721,140
Foreign currency translation adjustment	-	-	-	-	-	-	(317,603)	-	(317,603)	-	(317,603)
Net realised loss on disposal of financial assets available for sale reclassified to the consolidated income statement	-	-	-	-	-	-	-	80,443	80,443	-	80,443
Net unrealised loss on financial assets available for sale	-	-	-	-	-	-	-	(5,130,166)	(5,130,166)	-	(5,130,166)
Impairment in value of financial assets available for sale	-	-	-	-	-	-	-	4,983,422	4,983,422	-	4,983,422
Net expense recognised directly in equity	-	-	-	-	-	-	(317,603)	(66,301)	(383,904)	-	(383,904)
Loss for the year	-	-	-	-	-	(28,934,805)	-	-	(28,934,805)	(4,110,139)	(33,044,944)
Total recognised expense for the year	-	-	-	-	-	(28,934,805)	(317,603)	(66,301)	(29,318,709)	(4,110,139)	(33,428,848)
Dividends (Note 25)	-	-	-	-	-	(6,712,045)	-	-	(6,712,045)	-	(6,712,045)
Bonus issue (Note 25)	4,474,745	-	-	-	-	(4,474,745)	-	-	-	-	-
Minority interest on acquisition of subsidiaries (Note 22)	-	-	-	-	-	-	-	-	-	4,125,099	4,125,099
Net movement in minority interests	-	-	-	-	-	-	-	-	(11,954,060)	(646,113)	(12,599,173)
Purchase of treasury shares	-	-	(11,954,060)	-	-	-	-	-	(11,954,060)	-	(11,954,060)
Sale of treasury shares	-	-	263,102	4,267	-	-	-	-	267,369	-	267,369
<b>At 31 December 2008</b>	<b>49,222,195</b>	<b>26,972,353</b>	<b>(11,817,466)</b>	<b>4,267</b>	<b>1,180,931</b>	<b>(29,653,535)</b>	<b>(2,592,011)</b>	<b>(169,211)</b>	<b>33,147,523</b>	<b>10,225,019</b>	<b>43,372,542</b>
At 1 January 2007, restated (Note 36)	44,747,450	27,721,939	-	-	1,039,128	8,861,717	389,994	3,990	82,764,218	9,689,739	92,453,957
Foreign currency translation adjustment	-	-	-	-	-	-	(2,664,402)	-	(2,664,402)	-	(2,664,402)
Net realised loss on disposal of financial assets available for sale reclassified to the consolidated income statement	-	-	-	-	-	-	-	(128,658)	(128,658)	-	(128,658)
Net unrealised loss on financial assets available for sale	-	-	-	-	-	-	-	21,758	21,758	-	21,758
Loss on sale of treasury shares to employees under the employees' share option scheme	-	(749,586)	-	-	(1,039,128)	(2,156,722)	-	-	(3,945,436)	-	(3,945,436)
Net expense recognised directly in equity	-	(749,586)	-	-	(1,039,128)	(2,156,722)	(2,664,402)	(106,900)	(6,716,738)	1,211,151	(6,716,738)
Profit for the year	-	-	-	-	-	11,648,991	-	-	11,648,991	-	12,860,142
Total recognised (expense) income for the year	-	(749,586)	-	-	(1,039,128)	9,492,269	(2,664,402)	(106,900)	4,932,253	1,211,151	6,143,404
Transfer to reserve	-	-	-	-	1,180,931	(1,180,931)	-	-	-	-	-
Dividends	-	-	-	-	-	(6,704,995)	-	-	(6,704,995)	-	(6,704,995)
Arising on acquisition of a new subsidiary	-	-	-	-	-	-	-	-	-	(88,394)	(88,394)
Net movement in minority interests	-	-	-	-	-	-	-	-	-	43,676	43,676
Purchase of treasury shares	-	-	(6,442,462)	-	-	-	-	-	(6,442,462)	-	(6,442,462)
Sale of treasury shares to employees under the employees' share option scheme	-	-	6,315,954	-	-	-	-	-	6,315,954	-	6,315,954
At 31 December 2007, restated (Note 36)	44,747,450	26,972,353	(126,508)	-	1,180,931	10,468,060	(2,274,408)	(102,910)	80,864,968	10,856,172	91,721,140

The attached notes 1 to 36 form part of these consolidated financial statements

## 1- ACTIVITIES AND CORPORATE INFORMATION

The consolidated financial statements of The International Investor Company K.S.C. (Closed) (the Parent Company) and its subsidiaries (the Group) were authorised for issue in accordance with a resolution of the Parent Company's directors on 6 April 2009 and were approved by the relevant regulatory authorities before issuance. The shareholders' general assembly has the power to amend these consolidated financial statements after issuance.

The Parent Company, The International Investor Company K.S.C. (Closed), was legally incorporated as a closed shareholding company on 29 November 1992 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The Parent Company is regulated by the Central Bank of Kuwait as an investment company.

The Parent Company operates under the Islamic Sharee'a and is principally engaged in providing banking and investment advisory and financial services permissible under Islamic Sharee'a. Its registered office is at Wafra Real Estate Building, Ahmad Al-Jaber Street, Sharq, Kuwait.

## 2- SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

The consolidated financial statements as at and for the year ended 31 December 2007 have been restated in accordance with IAS 8 (International Accounting Standard) Accounting Policies, Changes in Accounting Estimates and Errors (Note 36).

### Statement of compliance

The consolidated financial statements of the Group 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 IAS 39 requirement for collective impairment provision, which has been replaced by the CBK's requirement for a minimum general provision as described below:

The impairment provision for finance facilities complies in all material respects with the specific provision requirements of the CBK and IFRS. In March 2007, the CBK issued a circular amending the basis of making general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 2% to 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 consolidated financial statements are presented in Kuwaiti Dinars (KD) which is the functional currency of the Parent Company.

### Changes in accounting policies

The accounting policies are consistent with those used in the previous years.

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

IAS 1: Presentation of Financial Statements, effective 1 January 2009

Amendments to IAS 16: Property, Plant and Equipment, effective 1 January 2009

IAS 27: Consolidated and separate financial statements (Revised), effective 1 July 2009

Amendments to IAS 28: Investment in Associates, effective 1 January 2009

Amendments to IAS 36: Impairment of Asset, effective 1 January 2009

IFRS 3: Business Combinations (Revised), effective 1 July 2009

IFRS 8: Operating Segments, effective 1 January 2009

Following are the major changes:

#### *IAS 1 (Amended):*

The revised standard introduces changes to the presentation of consolidated financial statements and does not affect the recognition, measurement or disclosure of specific transactions. The standard will not affect the consolidated financial position or results of the Group but will introduce some changes to the presentation of the consolidated financial position, changes in equity and consolidated financial results of the Group. Other changes to the standard are not expected to have material impact on the consolidated financial statements of the Group.

#### *IFRS 3 (Revised) Business Combinations*

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

#### *IFRS 8: Operating Segments*

IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. The new standard intends to disclose segment information in line with information provided to the top management.

The adoption of amendments to other standards is not expected to have material impact on the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements  
Year Ended 31 December 2008

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of The International Investor Company K.S.C. (Closed) (the Parent Company) and its subsidiaries, which are as detailed below:

Name	Place of incorporation	Ownership %		Principal activities
		2008	2007	
<b>Directly held subsidiaries</b>				
Fleetcorp	Turkey	75	75	Automotive leasing
Al Watheb Consultancy Co. W.L.L.	Kuwait	-	100	Consultancy and management services
Corinthian Super Market K.S.C.C.	Kuwait	100	100	Retail trade
TII Global USD Lease 1 Limited	British Virgin Islands	100	100	Leasing activities
International Car and Rigid Company K.S.C. (Closed)	Kuwait	100	100	Car leasing and trading of heavy equipment and steel
TII Financial, Economical and Administration Consultancy W.L.L.	Kuwait	100	100	Consultancy and management services
PLS Holding K.S.C. Holding	Kuwait	100	100	Holding investments
Fleet Corp Holding K.S.C. (Holding)	Kuwait	-	100	Holding investments
Global Loyalty K.S.C. (Holding)	Kuwait	100	100	Holding investments
Global Processing and Marketing Pvt. Ltd. (Formerly "RFM Loyalty Private Limited")	Pakistan	100	100	Smart card solution provider
Fleet Corp EURL	Algeria	-	100	Automotive leasing
Fleet Corp	Jordan	-	60	Automotive leasing
FleetCorp India Private Limited	India	100	100	Automotive leasing
Topaz Investment Worldwide Inc.	BVI	100	100	Holding investments
Gulf Credit Limited	Pakistan	100	100	Consumer finance
Bayt Al Mal Holding Company K.S.C. (Holding )	Kuwait	55	55	Holding investments
<b>Indirectly held through subsidiaries</b>				
Procco Financial Services W.L.L.	Bahrain	100	100	Financial services
Menalco W.L.L.	Bahrain	100	100	Loyalty services
Selektpoints Marketing Limited	Isle of Man	100	100	Loyalty services
Menalco FZE	Ras Al Khaimah	100	100	Loyalty services
Selektpoints Marketing Lebanon SARL	Lebanon	100	100	Loyalty services
Flair Sales and Trading of Banking Equipments L.L.C.	Dubai	100	100	Consumer finance
Flair Financing Company W.L.L.	Kuwait	100	100	Consumer finance
Saalt Management and Economic Consultancy K.S.C. (Closed)	Kuwait	100	100	Management and economic consultancy
Gulf Turk Holding Company K.S.C. (Holding)	Kuwait	100	100	Real estate and marketing consultancy
Bayt Al Mal Investment Company K.S.C. (Closed)	Kuwait	100	100	Investment activity
Bayt Al Mal International Real Estate Development Company K.S.C. (Closed)	Kuwait	100	100	Real estate investment and consultancy
RFM Loyalty Co. (LLC)	UAE	60	60	Customer loyalty solutions
Gulf Global Oil Technologies Company (Sheikh Malik Homoud Al Sabah & Partners) W.L.L.	Kuwait	53.33	33.33	Removal and treatment of oil sludge
GTHC Luxembourg S.à r.l. Société à responsabilité limitée	Luxembourg	100	-	Real estate and investment
GTHC Gayrimenkul Insaat Sanayi Ve Ticaret Joint Stock Company	Turkey	100	-	Real estate and investment
The Investor For Securities Company S.S.C	Saudi Arabia	71.98	-	Investments
Al-Najat Real Estate Company W.L.L	Jordan	76.92	-	Real Estate Business

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company except in the case of Fleetcorp, Desas Ticari Araclar Kiralama Servis Ve Ticaret A.S., where the Group has considered the results for the year ended 30 September 2008. In the cases where subsidiaries do not prepare financial statements drawn up to the same date as that of the Group, adjustments are made for the effects of any significant events or transactions which have occurred in the months following the quarter end of these subsidiaries.

The consolidated financial statements are prepared using uniform accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Group has control.

Minority interests represent the portion of profit and loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet separately from equity attributable to the equity holders of the Parent Company. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement.

The financial statements of the subsidiary companies are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

All inter-company balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, balances with banks, short term deposits, mutual fund and murabaha investments redeemable within three months of the date of acquisition.

Cash and bank balances are carried at cost. Mutual fund investments are carried at net assets value (which in effect represents principal plus accrued income) and murabaha investments at amortised cost.

#### **Financial assets at fair value through income statement**

Financial assets at fair value through income statement are measured initially at fair value (transaction price). Transaction costs on financial assets at fair value through income statement are expensed immediately.

Financial assets at fair value through income statement includes financial assets held for trading and financial assets designated upon initial recognition as 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 the 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.

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.

#### **Murabaha and ijara**

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

## Notes to the Consolidated Financial Statements

### Year Ended 31 December 2008

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

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

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

#### Leases

##### *Leases where the Group is lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rents are recognised as an expenditure in the period in which they are incurred.

##### *Leases where the Group is lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received under operating leases are recognised as revenue in the consolidated income statement on a straight line basis over the lease term.

Assets used in operating leases are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on cost less residual value over the estimated useful lives of 3 to 4 years.

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

#### Financial assets available for sale

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

Financial assets available for sale are measured initially at fair value (transaction price) plus, directly attributable transaction costs. 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 asset is derecognised or until the financial assets is 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.

#### Investment in associates

Associated company is a company over which the Group exerts significant influence, normally where it holds 20% to 50% of the voting power of the investee company. The consolidated financial statements include the Group's share of the associated company's results using the equity method of accounting.

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

The Group's investment in associates includes goodwill identified on acquisition, which is treated in accordance with the accounting policy for goodwill.

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

The financial statements of the associates are prepared for the same reporting year as the Parent Company, using consistent accounting policies. In case where the year end of an associate is different from that of the Parent Company, adjustments are made for the effect of significant transaction or events that occur between that date and the date of Parent Company's year end. In any case, the difference between the reporting date of the associate and that of Parent Company is not more than three months.

Unrealised gains on transactions with an associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

#### **Investment properties**

Investment properties are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the property. After initial recognition, investment properties are remeasured at fair value, with the resultant unrealised gains or losses being taken to the consolidated income statement.

#### **Furniture and equipment**

Furniture and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated income statement.

Depreciation is computed on a straight-line basis over the estimated useful lives of furniture and equipment and is estimated to be 3 to 5 years. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of furniture and equipment.

The carrying values of furniture and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of furniture and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of furniture and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

### Business combinations and goodwill

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

Goodwill is initially measured at cost being the excess of cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date allocated to each Group's cash generated units that are expected to benefit from the synergies of the combinations, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of the 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 the disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operations disposed of and the proportion 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.

#### *Negative goodwill*

Any excess, at the date of acquisition, of the Group's share in the acquiree's fair value of the net identifiable assets over the cost of the acquisition is recognised as negative goodwill. Negative goodwill arising on an acquisition is recognised directly in the consolidated income statement.

### Intangible assets

Intangible assets acquired separately are measured on initial acquisition at cost. The cost of an intangible asset acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement. Intangible assets with indefinite useful lives are tested for impairment annually. Such intangible assets are not amortised.

Amortisation is calculated on a straight-line basis over the estimated useful lives of the intangible assets which are as follows:

Computer software programs	5 years
Customer relationships	5 years
Non-compete agreements	2 years

### Fair values

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

For unquoted investments, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, cash flow analysis or other valuation models.

All derivatives are carried at their fair value in assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

### Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, an impairment loss, is recognised in the consolidated income statement.

Impairment is determined as follows:

- for assets carried at amortised 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 carrying amounts 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

For non equity financial assets the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

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. In November 2008 Central Bank Kuwait instructed all investment companies that the general provision in excess of 1% for cash facilities and 0.5% on non cash facilities should be recognised as income in the consolidated income statement and the corresponding amount to be transferred to voluntary reserve and is not available for distribution.

#### *Financial assets available for sale*

For financial assets available-for-sale the Group assesses at each balance sheet date whether there is objective evidence that a financial assets available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets available for sale previously recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

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 classified as available for sale equity investments, for which such reversals are recognised in the cumulative changes in fair values.

### Murabaha payables and interest-bearing loans and borrowings

#### *Murabaha payables*

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

#### *Interest-bearing loans and borrowings*

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

### Derecognition of financial assets and liabilities

A financial asset (in whole or in part) is derecognised either when:

- the contractual rights to receive the cash flows from the asset have expired;
- the Group retains the right to receive the cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the 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 ownership 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 transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

### Treasury shares

The Parent Company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

### Foreign currency translation

The functional currency of the Parent Company and presentation currency for the consolidated financial statements of the Group is the Kuwaiti Dinars. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amount of assets and liabilities arising on acquisitions are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The assets and liabilities of foreign operations are translated into Kuwait Dinar at the rate of exchange ruling at the consolidated balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

#### Trade date accounting

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

#### Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 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.

#### 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:

##### *Murabaha and ijara income*

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

##### *Murabaha income*

Murabaha income is recognised on a time proportion basis.

##### *Management fees*

Management fees relating to portfolio and fund management, custody and on going advisory services are recognised on a time proportion basis. Placement fees are recognised when securities are sold or when deals are concluded or when specific advisory services are rendered.

##### *Dividend income*

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

##### *Finance income*

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

#### Taxation

##### *National Labour Support Tax (NLST)*

The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

## Notes to the Consolidated Financial Statements

### Year Ended 31 December 2008

#### *Kuwait Foundation for the Advancement of Sciences (KFAS)*

The Parent Company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

#### *Zakat*

Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

The subsidiaries located in Turkey are assessed for taxation in accordance with the Turkish fiscal regulations. In accordance with Turkish Tax Law, agreed taxable losses may be carried forward. This may result in a deferred tax asset; however, because of the uncertainty over the recognition of this deferred tax asset the Group believes it would not be appropriate to recognise it as an asset in the consolidated financial statements.

#### **Fiduciary assets**

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

#### **Profit sharing scheme**

IFRS 2 "Share-Based Payment" requires an expense to be recognised where the Group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Group is disclosed in Note 32.

The dilutive effective of the outstanding options is reflected as additional share dilution in the computation of the earnings per share (Note 21).

#### **Hedge Accounting**

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

The Group designates its foreign currency borrowings as hedging instrument in fair value hedge of the exposures to changes in foreign exchange rates of their unrecognised firm commitments. The unrecognised firm commitment to lease the fleet in return for a rental is designated as hedged item in this fair value hedge.

The fair value hedge is structured in such a way that the amount of future rental receivables equals that of the borrowings, and all cash flow dates coincide between the borrowing and the future rental receivables, therefore the hedge design is effective.

The Group discontinues fair value hedge accounting prospectively if the hedging instrument expires or is sold, terminated or exercised or if the hedge no longer meets the criteria for hedge accounting or if the entity revokes the designation.

In the fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value for the foreign currency component of its carrying amount measured in accordance with IAS 21 is recognised in the consolidated income statement as net finance expenses and the change in the fair value of the hedged item is accounted under "fair value of unrecognised firm commitment" in the consolidated balance sheet under other assets if positive and accounts payable and accrual if negative and net financial expenses in the consolidated income statement.

## 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 judgment and estimates

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

### *Classification of investments*

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

### *Impairment of available for sale equity financial assets*

The Group treats available for sale equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment (Note 10).

### *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;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

### *Impairment provision of receivables*

An estimate of the collectible amount of receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied based on historical recovery rates.

### *Impairment of goodwill*

The Group determines whether the 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 a value in use amount requires management to make an estimate of the expected future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

### *Fair values of assets and liabilities acquired*

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

Notes to the Consolidated Financial Statements  
Year Ended 31 December 2008

3- CASH AND BANK BALANCES

	<b>2008</b> <b>KD</b>	<i>(Restated)</i> 2007 KD
Cash and bank balances	<b>3,667,971</b>	7,475,096
Short term deposit	-	13,268,272
	<b>3,667,971</b>	20,743,368

Short term deposits carry profit rate of Nil (2007:16.55%) and are denominated in New Turkish Lira (NTL).

4- MURABAHA INVESTMENTS

Murabaha investments earn average profit of 7.5 % per annum (2007: 5.9% to 6.75% per annum).

5- FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	<b>2008</b> <b>KD</b>	<i>(Restated)</i> 2007 KD
Designated on initial recognition:		
Quoted securities	<b>105,001</b>	199,583
Unquoted securities	<b>7,161,777</b>	2,426,752
	<b>7,266,778</b>	2,626,335

Quoted equity securities represent investments in local shares quoted on the Kuwait Stock Exchange.

The fair value of certain unquoted equity securities had been determined using valuation techniques other than quoted market prices which involve uncertainties and determinations based on independent external valuers and the Group management's judgment. Unrealised gain recorded based on such valuation techniques amounted to KD 1,773,348 (2007: KD 1,180,465).

Investments amounting to KD Nil (2007: KD 1,552,856) have been provided as collateral towards Islamic financing facility (Note 14).

6- MURABAHA AND IJARA RECEIVABLES

	<i>Murabaha</i>		<i>Ijara</i>		<i>Total</i>	
	<b>2008</b> <b>KD</b>	<i>(Restated)</i> 2007 KD	<b>2008</b> <b>KD</b>	<i>(Restated)</i> 2007 KD	<b>2008</b> <b>KD</b>	<i>(Restated)</i> 2007 KD
Gross amount	<b>5,074,268</b>	2,257,511	-	2,485,029	<b>5,074,268</b>	4,742,540
Less: deferred income	<b>(4,723)</b>	(35,241)	-	(390,124)	<b>(4,723)</b>	(425,365)
	<b>5,069,545</b>	2,222,270	-	2,094,905	<b>5,069,545</b>	4,317,175
Less: provision for impairment	<b>(1,483,612)</b>	(743,967)	-	(33,777)	<b>(1,483,612)</b>	(777,744)
	<b>3,585,933</b>	1,478,303	-	2,061,128	<b>3,585,933</b>	3,539,431

Movement in the provision for credit losses relating to murabaha and ijara receivables are as follows:-

	<b>2008</b> <b>KD</b>	<i>(Restated)</i> <b>2007</b> <b>KD</b>
At 1 January	<b>777,744</b>	525,353
Charge for the year	<b>773,020</b>	252,391
Unused amounts reversed	<b>(67,152)</b>	-
At 31 December	<b><u>1,483,612</u></b>	<b><u>777,744</u></b>

The average profit rate attributable to murabaha and ijara receivables during the year was 10% per annum (2007: 9% per annum) and Nil (2007: 15% per annum) respectively.

Certain murabaha receivables amounting to KD 332,500 (2007: KD 332,500) are secured against the equity securities of the Parent Company. Whenever necessary, murabaha receivables are secured by acceptable forms of collateral to mitigate the related credit risks.

The Ijara is receivable from associate, Gulf Global Oil Technology Company W.L.L. ("GGOTC") in which the Group owns 33.33% capital. At the extra ordinary general meeting held on 13 December 2007, the partners of GGOTC increased the total shareholding of the Group from 33.33% to 53.33% (see note 22). The Group waived Ijara receivable of KD 2,305,546 which was due from GGOTC.

The provision for impairment 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% on all receivables net of certain restricted categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

## 7 - AMOUNT PAID TO DBHC

The amount carried on the balance sheet represents the original amount paid by TII to DBHC to acquire the controlling or significant interest in nine financial institutions less amounts repaid by DBHC and the amounts recovered to date through liquidation of collateral, analysed as follows:

	<b>KD</b>
Amount receivable as of 1 January 2007	23,296,180
Liquidation of collateral shares	(5,043,900)
Cash dividend received	(1,076,619)
Amount receivable as of 31 December 2007	<u>17,175,661</u>
Liquidation of collateral shares	(15,889,500)
Cash dividend received	(662,619)
Provision for impairment	(372,099)
<b>Amount receivable as of 31 December 2008</b>	<b><u>251,443</u></b>

The above amount is secured through 3.592 million shares of TII (31 December 2007: 71.775 million shares), which had a market value at 31 December 2008 of KD 0.251 million (2007: KD 15.79 million). The agreement stipulates that in the event that the sale price of these shares exceeds the book value of the receivables (total receivables divided by the number of shares pledged) DBHC does not have the right to claim the difference, which will be considered as fees to TII. During the year the management has recognised an impairment loss of KD 0.372 million (2007: KD Nil) due to diminution in the value of the collaterals.

Under the settlement agreements reached between TII and DBHC, TII is entitled to a portfolio management fees for the collateral offered by DBHC, which equals any past and present income/dividend arising from the collateral; such fee amounted to KD 662,619 for the year ended 31 December 2008 (2007: KD 1,076,619). In addition, TII has also recognised income of KD 2,326,808 (2007: KD 234,150) as it is also entitled to a brokerage fee on liquidation of collateral.

Notes to the Consolidated Financial Statements  
Year Ended 31 December 2008

8- ASSETS USED IN OPERATING LEASES

	2008 KD	2007 KD
Balance as at 1 January, net of depreciation	61,374,051	52,962,111
Arising on acquisition of subsidiaries	-	937,170
Additions	14,511,625	12,830,243
Disposals	(14,017,478)	(5,713,554)
Depreciation	(8,002,257)	(4,284,542)
Foreign currency translation differences	(4,325,603)	4,642,623
	<u>49,540,338</u>	<u>61,374,051</u>

Assets used in operating leases are pledged as security in connection with bank borrowings (Note 14).

9- OTHER ASSETS

	2008 KD	(Restated) 2007 KD
Lease receivables [Net of provision of KD 38,100 (2007: KD Nil)]	3,771,859	4,946,753
Trade receivables	12,490	44,266
Accrued income	21,796	240,270
Prepaid expenses and other receivables	7,889,748	6,489,358
VAT receivables	4,870,766	5,763,562
Amounts due from related parties (Note 24)	237,487	1,265,702
Advance for acquisition of a subsidiary	-	12,378,025
Intangible assets	1,476,770	2,169,647
	<u>18,280,916</u>	<u>33,297,583</u>

10- FINANCIAL ASSETS AVAILABLE FOR SALE

	2008 KD	(Restated) 2007 KD
Quoted securities	3,741,165	751,740
Unquoted securities	3,251,967	4,986,911
	<u>6,993,132</u>	<u>5,738,651</u>

Quoted equity securities represent investment in shares quoted on the Kuwait Stock Exchange.

Included under unquoted equities are financial assets amounting to KD 2,214,341 (2007: KD 3,796,163) that are carried at cost, less impairment if any, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these financial assets. There is no market for these financial assets and the Group intends to hold them for the long term.

Certain investments amounting to KD 971,880 (2007: KD 2,016,034) are registered in the name of a nominee on behalf of the Parent Company.

Investments amounting to KD 498,227 (2007: KD 31,654) have been provided as collateral towards Islamic financing facility (Note 14).

An impairment of KD 4,983,422 (2007: Nil) has been recognised against financial assets available for sale on which there has been a significant or prolonged decline in value.

## 11- INVESTMENT IN ASSOCIATES

Movement during the year:

	<b>2008</b> <b>KD</b>	<i>(Restated)</i> <b>2007</b> <b>KD</b>
At 1 January	<b>32,946,872</b>	2,984,944
Addition	<b>2,179,908</b>	17,540,281
Share of results of associates	<b>(2,607,797)</b>	13,429,873
Foreign exchange gain (loss)	<b>901,498</b>	(1,008,226)
Disposal	<b>(7,464,760)</b>	-
	<b>25,955,721</b>	32,946,872

The details of the associates are as follows:

<b>Name</b>	<b>Purpose</b>	<b>Country of incorporation</b>	<b>Voting capital held %</b>		<b>2008</b> <b>KD</b>	<i>(Restated)</i> <b>2007</b> <b>KD</b>
			<b>2008</b>	<b>2007</b>		
Credit One Kuwait for Trading and Programming Company K.S.C. (Closed)	Consultancy, feasibility studies, patents in relation with production of magnetic cards and other investment activities	Kuwait	<b>25</b>	25	<b>7,060,048</b>	6,241,339
Arabian Capital Holding K.S.C (Holding)	Holding investments	Kuwait	-	27	-	4,502,096
Asia Retail Group Limited	Holding investments	Isle of Man	<b>38.28</b>	43.75	<b>18,706,041</b>	22,036,108
Gulf Global Oil Technology Company W.L.L.	Removal and treatment of oil sludge	Kuwait	-	33.33	-	4,829
Global Education K.S.C. (Closed)	Educational activities	Kuwait	<b>25</b>	25	<b>162,500</b>	162,500
Awan Real Estate Development W.L.L.	Real Estate	Saudi Arabia	<b>38</b>	-	<b>27,132</b>	-
					<b>25,955,721</b>	32,946,872

During the year the Group disposed off its investment in Arabian Capital Holding K.S.C (Holding) at a loss of KD 2,096 (2007: KD Nil)

Due to the restructuring of Asia Retail Group Limited's murabaha facility, the Group disposed off 5.47% voting right in this associate and has recognised as restructuring cost of KD 2,701,013 (2007: KD Nil) in the consolidated income statement.

## Notes to the Consolidated Financial Statements

### Year Ended 31 December 2008

During the year, Asia Retail group Limited (SPV) increased its holding in two of its existing subsidiaries, as a result of these acquisitions it has recognised a total negative goodwill of KD 3,030,039 (31 December 2007: KD 34,165,002) based on the audited consolidated financial statements for the period ended 30 September 2008 audited by another firm. The Group's share in the results of the SPV includes an amount of KD 1,325,642 (31 December 2007: KD 14,947,188) which is related to the negative goodwill.

The following provides summarised financial information of Group's investments in its associates:

	<b>2008</b>	<i>(Restated)</i> 2007
	<b>KD</b>	<b>KD</b>
<b>Share of associates' balance sheet:</b>		
Assets	<b>65,986,747</b>	83,720,856
Liabilities	<b>(40,031,026)</b>	(50,773,984)
Net assets	<b>25,955,721</b>	32,946,872
<b>Share of associates' revenue and profit:</b>		
Revenue	<b>57,850,141</b>	18,273,137
(Loss) profit for the year	<b>(2,607,797)</b>	13,429,873

#### 12- GOODWILL

	<b>2008</b>	<i>(Restated)</i> 2007
	<b>KD</b>	<b>KD</b>
At 1 January	<b>11,292,290</b>	13,846,786
Addition on acquisition of subsidiaries (Note 22)	<b>419,504</b>	83,166
Adjustments	<b>-</b>	(2,925,831)
Disposal	<b>(1,208,798)</b>	-
Exchange adjustments	<b>(132,024)</b>	288,169
	<b>10,370,972</b>	11,292,290

#### 13- ACCOUNTS PAYABLE AND ACCRUALS

	<b>2008</b>	<i>(Restated)</i> 2007
	<b>KD</b>	<b>KD</b>
Trade payables	<b>4,788,035</b>	2,325,259
Amount due to related parties (Note 24)	<b>-</b>	40,109
Dividends payable	<b>1,003,119</b>	1,424,033
Accrued expenses	<b>2,811,107</b>	3,123,795
End of service benefits	<b>646,559</b>	527,292
Other miscellaneous payables	<b>1,454,973</b>	2,363,955
Zakat	<b>305,517</b>	295,643
Deferred tax liability	<b>1,506,544</b>	402,833
Fair value hedges (Note 35)	<b>554,097</b>	996,619
	<b>13,069,951</b>	11,499,538

#### 14- DUE TO BANKS

	<b>2008</b>	<i>(Restated)</i> 2007
	<b>KD</b>	<b>KD</b>
Wakala payables	<b>-</b>	4,000,000
Murabaha payables	<b>33,100,573</b>	33,325,543
Other bank borrowings	<b>53,104,962</b>	54,317,700
	<b>86,205,535</b>	91,643,243

The average profit rate attributable to wakala payables during the year was Nil (2007: 9 %) per annum.

The murabaha payables carries an effective profit in the range of 9.3% to 9.8% (2007: 8.3% to 9.5% per annum) for those denominated in Kuwaiti Dinars and carries 7.1% (2007: 4.4%) for those denominated in US Dollars. These are repayable in semi-annual instalments over a period of 3 to 4 years. One of these murabaha deals is secured against collaterals held for amount paid to DBHC (Note 7).

The other bank borrowings represent funds borrowed by the subsidiary companies which bear average interest rates of 8.2%, 7.5%, 19.2% and 5.9% per annum for borrowings in US Dollar, Euro, Turkish Lira and Swiss Frank respectively (2007: 8.5%, 6.9%, 19% and Nil respectively). These are maturing over a period of 1 to 4 years (2007: 1 to 4 years) from the balance sheet date. These borrowings are secured by assets used in operating leases (Note 8).

## 15- LEASE OBLIGATIONS

The total lease payments at the balance sheet date are due as follows:

	2008		2007	
	Minimum payments KD	Present value of payments KD	Minimum payments KD	Present value of payments KD
Not later than one year	1,187,408	1,026,780	2,426,022	2,001,857
One to five years	872,378	846,793	2,162,742	1,887,569
Total minimum lease payments	2,059,786	1,873,573	4,588,764	3,889,426
Less: finance charges	(186,213)	-	(699,338)	-
Present value of minimum lease payments	1,873,573	1,873,573	3,889,426	3,889,426

The contingent rents recognised as an expense in connection with leases during the year amounted to KD 251,610 (2007: KD 428,889).

## 16- SHARE CAPITAL AND SHARE PREMIUM

	Authorised		Issued and fully paid	
	2008 KD	2007 KD	2008 KD	2007 KD
Shares of 100 fils each	49,222,195	44,747,450	49,222,195	44,747,450

The annual general meeting of the shareholders held on 11 May 2008 approved an increase in the authorised capital from KD 44.747 million to KD 49.222 million by issue of 44,747,450 bonus shares.

The share premium is not available for distribution.

## 17- TREASURY SHARES

	2008 KD	2007 KD
Number of treasury shares	49,105,313	474,810
Percentage of treasury shares	9.98	0.11
Cost of treasury shares (KD)	11,817,466	126,508
Market value of treasury shares (KD)	3,437,372	104,458

Out of the above treasury shares, 49,100,000 (31 December: Nil) shares are pledged as security for one of the murabaha borrowings.

Notes to the Consolidated Financial Statements  
Year Ended 31 December 2008

18- STATUTORY RESERVE

In accordance with the Law of Commercial Companies and the Parent Company's Articles of Association, 10% of the profit for the year before KFAS, NLST, Zakat and director's fees has to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. No transfer has been made to statutory reserve, since losses have been incurred for the year ended 31 December 2008.

Distribution of this reserve is limited to the amount required to enable payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

19- GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff costs of KD 4,930,379 (31 December 2007: KD 4,434,526).

20- LOSS ON DISPOSAL OF A SUBSIDIARY

During the year the Group has disposed off its 60% stake in Fleet Corp Jordan at a loss of KD 1,045,137.

The results of discontinued operation for the year are presented below:

	2008 KD	2007 KD
Revenue	65,054	283,189
Expenses	(79,622)	(415,646)
Loss on disposal of net assets	(1,045,137)	-
Loss for the year	<u>(1,059,705)</u>	<u>(132,457)</u>

21- (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share is calculated by dividing the (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 after adjusting for treasury share

Diluted (loss) earnings per share is calculated by dividing the (loss) profit attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year (adjusted for the effect of dilutive options).

	2008 KD	(Restated) 2007 KD
(Loss) profit for the year attributable to the equity holders of the parent company (KD)	<u>(28,934,805)</u>	11,648,991
Weighted average number of ordinary shares outstanding for basic earnings per share	492,221,950	492,221,950
Less: weighted average number of treasury shares	<u>(30,317,397)</u>	(6,890,305)
	461,904,553	485,331,645
Effect of dilution from weighted average number of share options outstanding	3,029,341	10,163,246
Adjusted weighted average number of ordinary shares for diluted earnings per share	<u>464,933,894</u>	495,494,891
<b>Basic (loss) earnings per share</b>	<u>(62.64) fils</u>	24 fils
<b>Diluted (loss) earnings per share</b>	<u>(62.23) fils</u>	23.51 fils

## 22- ACQUISITION OF SUBSIDIARIES

During the year, the Group had the following transactions:-

- Acquired additional equity interest of 20% in Gulf Global Oil Technologies Company (Sheikh Malik Homoud Al Sabah & Partners) ("GGOTC") W.L.L. (previously classified as an associate and equity accounted); accordingly, the effective equity interest increased from 33.33% to 53.33% on 3 March 2008. This investment has hence been accounted for as a subsidiary and has been consolidated from the date of exercise of control.
- Acquired equity interest of 76.92% in Najat Real Estate Company ("Najat") on incorporation.
- Acquired equity interest of 71.98 % in The Investor for Securities Company ("TIS") partly on incorporation and partly from other cofounders.

These acquisitions have been accounted for using the purchase method of accounting, as required by International Financial Reporting Standard (IFRS) 3: Business Combinations.

The carrying value of identifiable assets and liabilities of the acquired subsidiaries and the provisional goodwill arising from these acquisitions are disclosed below. These carrying values will be reviewed within one year of the acquisition date as the management is in the process of determining the fair values of identifiable assets, liabilities and contingent liabilities acquired.

	<i>GGOTC KD</i>	<i>Najat KD</i>	<i>TIS KD</i>	<i>Total KD</i>
<b>Assets</b>				
Cash and cash equivalent	4,792	507,000	15,047,553	15,559,345
Accounts receivables and prepayments	143,768	-	-	143,768
Members current account	198,067	-	-	198,067
Property and equipment	2,326,066	-	-	2,326,066
Other assets	17,917	-	-	17,917
	<u>2,690,610</u>	<u>507,000</u>	<u>15,047,553</u>	<u>18,245,163</u>
<b>Liabilities</b>				
Accounts payable and accruals	353,564	-	-	353,564
Islamic financing	2,777,677	-	-	2,777,677
Employees' end of service benefits	7,148	-	-	7,148
	<u>3,138,389</u>	<u>-</u>	<u>-</u>	<u>3,138,389</u>
<b>Net liabilities (assets) acquired</b>	<b>447,779</b>	<b>(507,000)</b>	<b>(15,047,553)</b>	<b>(15,106,774)</b>
Share attributable to minority interests	(208,978)	117,000	4,217,077	4,125,099
Goodwill arising on acquisition (Note 12)	(118,380)	-	(301,124)	(419,504)
	<u>120,421</u>	<u>(390,000)</u>	<u>(11,131,600)</u>	<u>(11,401,179)</u>
<b>Cost of acquisition</b>				
Less: Carrying value included earlier under investment in associates (net of goodwill)	(90,421)	-	-	(90,421)
Less: Carrying value included earlier under other assets	-	390,000	11,131,600	1,521,600
Add: Cash and cash equivalents acquired	4,792	507,000	15,047,553	15,559,345
Less: Balance of purchase consideration payable	(30,000)	-	-	(30,000)
	<u>4,792</u>	<u>507,000</u>	<u>15,047,553</u>	<u>15,559,345</u>
<b>Cash inflow on acquisition</b>	<b>4,792</b>	<b>507,000</b>	<b>15,047,553</b>	<b>15,559,345</b>

As a result of Gulf Global Oil Technologies Company (Sheikh Malik Homoud Al Sabah & Partners) W.L.L. becoming a subsidiary of the Group, the consolidated income statement of the Group includes net loss of the subsidiary amounting to KD 216,797 for the period from 3 March 2008 to 31 December 2008. If the business combination would have taken place at the beginning of the period, the loss of the Group would have been higher by KD 35,392.

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23- CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise of the following amounts:

	<b>2008</b> <b>KD</b>	<i>(Restated)</i> 2007 KD
Cash and bank balances (Note 3)	<b>3,667,971</b>	20,743,368
Mutual fund investments	-	5,492,092
Murabaha investments (Note 4)	<b>10,944,524</b>	-
	<b>14,612,495</b>	26,235,460

24- RELATED PARTY TRANSACTIONS

Related parties represents shareholders, associates, directors and senior management 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. Related party balances and transactions consist of the following:

	<b>2008</b>			<i>(Restated)</i> 2007		
	<i>Associates</i>	<i>Other related parties</i>	<i>Total</i>	<i>Associates</i>	<i>Other related parties</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<b>Consolidated income statement</b>						
Gain on mutual fund investment	-	-	-	-	64,201	64,201
Finance income	<b>1,379,769</b>	-	<b>1,379,769</b>	705,159	-	705,159
Murabaha and ijara income	-	-	-	342,770	-	342,770
<b>Consolidated Balance sheet</b>						
Murabaha and ijara receivables	-	-	-	2,336,403	-	2,336,403
Amounts due from related parties	<b>237,487</b>	-	<b>237,487</b>	1,156,422	109,280	1,265,702
Amounts due to related parties	-	-	-	-	40,109	40,109
					<b>2008</b>	2007
<b>Key management compensation</b>					<b>KD</b>	<b>KD</b>
Salaries and other short term benefits					<b>1,806,423</b>	1,209,591
Employees end of service benefits					<b>511,822</b>	103,015
					<b>2,318,245</b>	1,312,606

Other related party transactions are disclosed in Notes 9 and 13.

25- BONUS SHARES ISSUED AND DIVIDEND DECLARED

During the year, the directors have proposed cash dividend of 15 fils per share amounting to KD 6,712,045 and bonus shares of 10% of paid up share capital amounting to KD 4,474,745 for the year ended 31 December 2007 which has subsequently been approved by the shareholders at the annual general meeting held on 11 May 2008.

26- FIDUCIARY ASSETS

The Parent Company manages funds and portfolios on behalf of others and maintains cash balances and securities in fiduciary accounts which are not reflected in the Group's consolidated balance sheet. Assets under management at 31 December 2008 amounted to KD 25,969,910 (2007: KD 167,393,811). Management fees from fiduciary activities during the year amounted to KD 465,303 (2007: KD 820,204).

27- Fair value of financial assets and liabilities

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

Fair values of all financial instruments, except for financial assets available for sale as stated in note 10, are not materially different from their carrying values.

## 28- SEGMENTAL ANALYSIS

### Primary segment information

The Group's activities are in three primary business segments;

- 1) Investment management and advisory services: comprising non-discretionary portfolio management, fund management, brokerage and structured finance advisory services, and proprietary investment management including investment in associates;
- 2) Leasing: comprising of operational fleet rental business of all types of motor vehicles.

### Secondary segment information

The Group operates in the following geographical regions Kuwait, Turkey, other Middle East countries and rest of Asia.

### Revenue and profit

	Kuwait revenue KD'000	Turkey revenue KD'000	Rest of Asia revenue KD'000	Total revenue KD'000	Loss KD'000
<b>31 December 2008</b>					
Investment management and advisory services	11,418	419	(3,398)	8,439	(18,265)
Leasing	-	6,886	-	6,886	(14,780)
<b>Total</b>	<b>11,418</b>	<b>7,305</b>	<b>(3,398)</b>	<b>15,325</b>	<b>(33,045)</b>

### Revenue and profit

	Kuwait revenue KD'000	Turkey revenue KD'000	Rest of Asia revenue KD'000	Total revenue KD'000	Profit KD'000
<b>31 December 2007 (Restated)</b>					
Investment management and advisory services	5,689	2,588	12,667	20,944	10,439
Leasing	-	12,992	-	12,992	2,421
<b>Total</b>	<b>5,689</b>	<b>15,580</b>	<b>12,667</b>	<b>33,936</b>	<b>12,860</b>

### Assets and liabilities

	Kuwait KD'000	Other Middle East KD'000	Turkey KD'000	Rest of Asia KD'000	Total KD'000
<b>31 December 2008</b>					
<b>Assets:</b>					
Investment management and advisory services	55,123	4,188	-	18,973	78,284
Leasing	2,285	-	63,953	-	66,238
<b>Total assets</b>	<b>57,408</b>	<b>4,188</b>	<b>63,953</b>	<b>18,973</b>	<b>144,522</b>
<b>Liabilities:</b>					
Investment management and advisory services	40,168	347	-	198	40,713
Leasing	-	-	60,436	-	60,436
<b>Total liabilities</b>	<b>40,168</b>	<b>347</b>	<b>60,436</b>	<b>198</b>	<b>101,149</b>
<b>Other segment information:- Goodwill</b>					
Investment management and advisory services	485	-	-	904	1,389
Leasing	155	703	8,124	-	8,982
	<b>640</b>	<b>703</b>	<b>8,124</b>	<b>904</b>	<b>10,371</b>

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<i>Assets and liabilities</i>	<i>Kuwait</i>	<i>Other</i>	<i>Turkey</i>	<i>Rest of Asia</i>	<i>Total</i>
<i>31 December 2007 (Restated)</i>	<i>KD'000</i>	<i>Middle East</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<b>Assets:</b>					
Investment management and advisory services	62,463	15,437	-	23,554	101,454
Leasing	3,214	3,735	90,350	-	97,299
<b>Total assets</b>	<b>65,677</b>	<b>19,172</b>	<b>90,350</b>	<b>23,554</b>	<b>198,753</b>
<b>Liabilities:</b>					
Investment management and advisory services	43,479	642	-	3,053	47,174
Leasing	-	-	59,858	-	59,858
<b>Total liabilities</b>	<b>43,479</b>	<b>642</b>	<b>59,858</b>	<b>3,053</b>	<b>107,032</b>
<b>Other segment information:- Goodwill</b>					
Investment management and advisory services	485	-	-	904	1,389
Leasing	155	1,492	8,256	-	9,903
	<b>640</b>	<b>1,492</b>	<b>8,256</b>	<b>904</b>	<b>11,292</b>

## 29- MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at fair value through income statement, financial assets available for sale is determined and investment in associates is based on management's estimate of liquidation of those investments.

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

<b>31 December 2008</b>	<b>Within</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over</b>	<b>Total</b>
	<b>3 months</b>	<b>months</b>	<b>years</b>	<b>five years</b>	<b>KD '000</b>
	<b>KD '000</b>	<b>KD '000</b>	<b>KD '000</b>	<b>KD '000</b>	
<b>Assets</b>					
Cash and bank balances	3,668	-	-	-	3,668
Murabaha investments	10,945	-	-	-	10,945
Financial assets at fair value	-	7,266	-	-	7,266
through income statement	-	3,257	329	-	3,586
Murabaha and Ijara receivables	-	251	-	-	251
Amount paid to DBHC	-	-	-	-	-
Assets used in operating leases	4,226	2,055	43,260	-	49,541
Other assets	5,308	7,639	5,334	-	18,281
Financial assets available for sale	-	-	6,993	-	6,993
Investment in associates	-	-	-	25,956	25,956
Investment in property	-	-	-	931	931
Furniture and equipment	-	-	-	6,733	6,733
Goodwill	-	-	-	10,371	10,371
<b>Total assets</b>	<b>24,147</b>	<b>20,468</b>	<b>55,916</b>	<b>43,991</b>	<b>144,522</b>
<b>Liabilities</b>					
<b>31 December 2008</b>	<b>Within</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over</b>	<b>Total</b>
	<b>3 months</b>	<b>months</b>	<b>Years</b>	<b>five years</b>	<b>KD '000</b>
	<b>KD '000</b>	<b>KD '000</b>	<b>KD '000</b>	<b>KD '000</b>	
Accounts payable and accruals	2,850	7,060	2,930	230	13,070
Due to banks	6,066	21,424	58,715	-	86,205
Lease obligations	344	813	717	-	1,874
<b>Total liabilities</b>	<b>9,260</b>	<b>29,297</b>	<b>62,362</b>	<b>230</b>	<b>101,149</b>
<b>Commitments</b>	<b>-</b>	<b>8,263</b>	<b>-</b>	<b>-</b>	<b>8,263</b>

31 December 2007 (Restated)	Within 3 months KD '000	3 to 12 months KD '000	1 to 5 years KD '000	Over five years KD '000	Total KD '000
<b>Assets</b>					
Cash and bank balances	20,743	-	-	-	20,743
Mutual fund investments	5,492	-	-	-	5,492
Murabaha investments	-	380	-	-	380
Financial assets at fair value through income statement	249	2,377	-	-	2,626
Murabaha and ijara receivables	601	-	2,938	-	3,539
Amount paid to DBHC	7,016	10,160	-	-	17,176
Assets used in operating leases	-	-	61,375	-	61,375
Other assets	11,150	19,978	2,170	-	33,298
Financial assets available for sale	-	-	5,738	-	5,738
Investment in associates	-	-	32,780	167	32,947
Furniture and equipment	-	-	-	4,147	4,147
Goodwill	-	-	-	11,292	11,292
<b>Total assets</b>	<b>45,251</b>	<b>32,895</b>	<b>105,001</b>	<b>15,606</b>	<b>198,753</b>

### Liabilities

31 December 2007 (Restated)	Within 3 months KD '000	3 to 12 months KD '000	1 to 5 years KD '000	Over five years KD '000	Total KD '000
Accounts payable and accruals	5,386	4,187	1,743	184	11,500
Due to banks	6,530	26,883	58,230	-	91,643
Lease obligations	499	1,501	1,889	-	3,889
<b>Total liabilities</b>	<b>12,415</b>	<b>32,571</b>	<b>61,862</b>	<b>184</b>	<b>107,032</b>
Commitments	-	1,175	5,000	-	6,175

## 30- Risk Management

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

### Risk management structure

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

Each subsidiary of the Group is responsible for managing its own risks and has its own Board Committees, other risk management committees with responsibilities generally analogous to the Group's committees.

#### A. 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 attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. It also obtains security when appropriate.

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

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**Maximum exposure to credit risk**

The Group's policy is to enter in to murabaha investment and leasing transactions only with recognised, creditworthy third parties. The maximum exposure is the carrying amount as disclosed in Notes 3, 4, 6, 7 and 9. In addition, other receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances and cash (which are placed with related parties), mutual fund investment, murabaha investment, receivables, amount paid to DBHC 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.

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

	<b>Gross Maximum exposure 2008 KD'000</b>	<i>(Restated)</i> Gross Maximum exposure 2007 KD'000
Cash and bank balances (excluding cash in hand)	<b>3,667</b>	20,736
Mutual fund investments	-	5,492
Murabaha investments	<b>10,944</b>	380
Murabaha and Ijara receivables	<b>3,585</b>	3,539
Amount paid to DBHC	<b>251</b>	17,176
Other assets	<b>16,805</b>	31,129
Total credit risk exposure	<b>35,252</b>	78,452

**Collateral and other credit enhancements**

The DBHC receivables are secured against the quoted securities. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit losses.

The Group can sell the collateral in case of default by the borrower in accordance with the agreements entered with the borrowers. The Group has taken control of the collateral on default of DBHC and has initiated to liquidate as described in note 7.

The fair value of collateral that the Group holds relating to DBHC receivable is disclosed in note 7.

**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 geographical and industry sector concentrations of assets without taking into account any collateral held or credit enhancements can be analysed as follows:

	<b>2008</b>	<i>(Restated)</i>
	<b>Assets</b>	<b>2007</b>
	<b>KD'000</b>	<b>Assets</b>
		<b>KD'000</b>
Geographic region:		
Kuwait	<b>8,820</b>	34,339
Other Middle East	<b>11,387</b>	17,978
Turkey	<b>14,238</b>	25,738
Rest of Asia	<b>807</b>	397
	<b>35,252</b>	78,452
<i>Industry Sector:</i>		
Investment management and advisory services	<b>19,761</b>	60,452
Leasing	<b>14,743</b>	17,828
Retail	<b>748</b>	172
	<b>35,252</b>	78,452

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

For assets subject to credit risk, neither internal credit grading system nor external credit grades are used by the Group as these are one off transactions and are granted only to credit worthy customers.

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

#### **Analysis of 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.

#### **B. Liquidity risk**

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

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The maturity profile based on the expected maturities of assets and liabilities at 31 December 2008 and 31 December 2007 is reflected in note 29.

The table in the following page summarises the maturity profile of the Group's liabilities based on contractual undiscounted repayment obligations:

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31 December 2008	Within 3 months KD'000	3 to 12 months KD'000	1 to 5 years KD'000	Total KD'000
Accounts payable and accruals	2,850	7,060	3,160	13,070
Due to banks	6,572	29,951	66,728	103,251
Lease obligations	417	819	781	2,017
<b>Total liabilities</b>	<b>9,839</b>	<b>37,830</b>	<b>70,669</b>	<b>118,338</b>
<b>Commitments</b>	<b>-</b>	<b>8,263</b>	<b>-</b>	<b>8,263</b>

31 December 2007 (Restated)	Within 3 months KD'000	3 to 12 months KD'000	1 to 5 years KD'000	Total KD'000
Accounts payable and accruals	5,337	4,187	1,925	11,449
Due to banks	9,593	26,930	71,295	107,818
Lease obligations	606	1,820	2,163	4,589
<b>Total liabilities</b>	<b>15,536</b>	<b>32,937</b>	<b>75,383</b>	<b>123,856</b>
<b>Commitments</b>	<b>-</b>	<b>1,175</b>	<b>5,000</b>	<b>6,175</b>

### C. 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.

#### C.1 Foreign exchange risk

Foreign exchange risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Group's open positions and current and expected exchange rate movements and natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The management closely monitors the foreign exchange exposure of the Group. The Group mitigates the risk of currency exposure by mostly hedging its borrowings against future lease receivable.

The effect on (loss) profit before KFAS, Zakat, NLST and director's remuneration (due to change in the fair value of monetary assets and liabilities) and on equity, as a result of 5% change in currency rate, with all other variables held constant is shown below:

Currency	2008		(Restated) 2007	
	Effect on loss before KFAS, Zakat, NLST and director's remuneration KD '000	Effect on equity KD '000	Effect on profit before KFAS, Zakat, NLST and director's remuneration KD '000	Effect on equity KD '000
US Dollar	368	258	740	309
New Turkish Lira	494	-	152	-
Euro	668	-	1,030	-
Jordanian Dinar	-	23	-	-
Saudi Riyal	89	711	-	-

#### C.2 Equity price risks

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

Market indices	2008			2007		
	Change in equity price %	Effect on equity KD '000	Effect on loss KD '000	Change in equity price %	Effect on equity KD '000	Effect on profit KD '000
Kuwait	+5	187	5	+5	37	3

### C.3 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk only on its due to banks as interest bearing assets are at fixed rate and not market driven.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the Group's (loss) profit before KFAS, Zakat, NLST and director's remuneration for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2008. There is no impact on equity.

	Increase/decrease in basis points	Effect on (loss) profit before KFAS, Zakat, NLST and director's remuneration for the year KD '000'
<b>2008</b>		
<b>KD</b>	<b>+25</b>	<b>(43)</b>
<b>KD</b>	<b>-25</b>	<b>43</b>
2007		
KD	+25	(31)
KD	-25	31

### D. 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.

## 31- 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 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio less than 100%. The Group includes within total debts murabaha payables, bank borrowings and accrued interest thereon. Capital includes equity attributable to the equity holders of the Parent Company less cumulative changes in fair values.

(Restated)

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	<b>2008</b> <b>KD'000</b>	<b>2007</b> <b>KD'000</b>
Due to banks	<b>86,206</b>	91,643
Accrued interest thereon	<b>2,298</b>	983
<b>Total debt</b>	<b>88,504</b>	92,626
Less: Bank balances and cash	<b>(3,668)</b>	(20,743)
<b>Net debt</b>	<b>84,836</b>	71,883
Equity attributable to the equity holders of the parent	<b>33,147</b>	80,865
Add: Cumulative changes in fair values	<b>169</b>	103
<b>Total capital</b>	<b>33,316</b>	80,968
<b>Capital and net debt</b>	<b>118,152</b>	152,851
<b>Gearing ratio</b>	<b>71.80%</b>	47.03%

### 32- PROFIT-SHARING SCHEME

The Parent Company operates an employees share option scheme (as explained in its Articles of Association). Under this scheme the Parent Company can increase its share capital up to 12% of the total shares outstanding within a period of 10 years from the date of incorporation.

In 2002, this period expired and Parent Company did not issue share options up to the 12% limit. Accordingly, under the terms of this scheme and as provided by the Articles of Association, this period was renewed for a further 10 years, as approved by the Board of Directors and will now expire in 2012.

	<b>2008</b>		<b>2007</b>	
	<b>Number of options</b>	<b>Weighted average exercise price in KD</b>	<b>Number of Options</b>	<b>Weighted average exercise price in KD</b>
Outstanding at the beginning of the year	<b>9,761,211</b>	<b>0.100</b>	33,466,401	0.100
Exercised during the year	-	-	(23,705,190)	0.100
Outstanding at the end of the year	-	-	9,761,211	0.100
Exercisable at the end of the year	<b>9,761,211</b>	<b>0.100</b>	9,761,211	0.100

The options outstanding at 31 December 2008 had a weighted average exercise price of KD 0.100 and a remaining contractual life of options of 3 years after the date of termination of employees.

There were no options granted or exercised during the year 2008. During the year 2007, the employees of the Parent Company have exercised 23,705,190 shares at an agreed price of KD 0.100. The Parent Company has met this commitment through its own treasury shares. The loss on these shares, being the carrying value of shares sold over the exercise price amounting to KD 3,945,436 was wholly met through the balance available in retained earnings. This loss includes KD 3,899,698 relating to options exercised by the key management personnel.

All outstanding options were either granted on or before 7 November 2002 or have vested before 31 December 2004 and, accordingly, have not been expensed in accordance with IFRS 2. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

### 33- RENTAL INCOME FROM OPERATING LEASE

The future minimum lease rent receivable on the operating lease is KD 41,511,789 (2007: KD 33,781,671) and is receivable as follows:

	<b>2008</b> <b>KD</b>	<b>2007</b> <b>KD</b>
Income receivable within one year	<b>14,065,240</b>	15,084,784
Income receivable within one year to five years	<b>27,446,549</b>	18,696,887
	<b>41,511,789</b>	33,781,671

### 34- CONTINGENCIES AND COMMITMENTS

Menalco, FZE a wholly owned subsidiary which specialises in loyalty solutions has filed a legal case in the US District Court for the District of Nevada against several parties including a vendor, SCTN and Phoenix Technology Holdings

Inc. for attempting to illegally conspire to infringe its proprietary rights. Damages of US\$ 100 million are being sought in this matter. The company is represented by counsel in the United States and expects to vigorously litigate this claim.

SCTN and Phoenix Technology Holdings Inc. have predictably filed a counter claim which is without merit in the same jurisdiction for US\$ 21.5 million alleging loss of future revenue (US\$ 20 million) and disputed liabilities (US\$ 1.5 million) and has not been provided for in the books. The Management is of the opinion that the likelihood of any loss being incurred as a result of this lawsuit is remote.

The Parent Company has commitments in respect of uncalled capital contributions in respect of investments and contingencies amounting to KD Nil (31 December 2007: KD 5,000,000).

There are commitments in respect of uncalled capital amounting to KD 8,262,600 (31 December 2007: KD 1,175,000) in connection to the investment in associates.

At 31 December 2008, the Group has contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 2,365,000 (31 December 2007: KD 2,365,000).

### 35- FAIR VALUE HEDGE

Fair value hedges are used by the Group to protect it against changes in the fair value of an unrecognised firm commitments due to movements in exchange rates. The unrecognised firm commitments being future lease rental receivables. The financial instruments used to hedge the exchange risk are bank borrowings. For the year ended 31 December 2008, the Group recognised a gain of KD 554,097 (2007: Loss KD 996,619) representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to KD 554,097 (2007: Gain KD 996,619).

### 36- COMPARATIVE INFORMATION

During 2006, the Group had sold approximately 30% equity shares amounting to KD 8,100,000 of Bayt Al Mal Holding Company K.S.C. (Holding) (a subsidiary) to an unrelated party resulting in a gain of KD 2,447,569. As per the arrangement, the shares sold were held as collateral and the title to the shares sold were due to be transferred on settlement of the amount due. During the year 2007, as a result of the default by the counter party, the Group entered into an agreement whereby the Group agreed with the counter party to take back the shares and related dividends, which were also held as collateral, in full and final settlement of the amount due. The underlying shares were owned by the Group and were classified as financial assets at fair value through income statement with a gain of KD 1,440,424 booked in the year ended 31 December 2007 using valuation technique.

As a result of the above transaction, the Group's holding in Bayt Al Mal Holding Company K.S.C. (Holding) increased from 25% to 55% of the voting capital of the company. Further during the year 2007 the Group did not have any representation on the board of directors of the company and management of the Group decided to continue the investment under financial assets at fair value through income statement with the view to sell the investment before the Annual General Meeting. However due to the inability of finding a viable buyer for the sale of the investment during the year 2008 the management of the Parent Company decided to restate the financial statements of 2007 as per IAS 8 & IAS 27 and accordingly investment has been transferred from financial assets at fair value through income statement to investment in subsidiaries in the Parent Company books. The result of this restatement is summarized as follows.

As of 1 January 2007:

	<i>KD</i>
Net increase in assets	2,249,384
Net decrease in liabilities	4,042,740
Net increase in total equity	6,292,124

As of 31 December 2007

	<i>KD</i>
Net increase in assets	9,604,306
Net increase in liabilities	4,647,356
Net decrease in profit	529,515
Net increase in total equity	4,956,950

The effect on earning per share and diluted earning per share related to the restatement in 2007 was less than 2.25 fils.



# Parent Company Balance Sheet

At 31 December 2008

	<i>(Restated)</i>	
	<i>2008</i>	<i>2007</i>
	<i>KD</i>	<i>KD</i>
<b>ASSETS</b>		
Cash and bank balances	2,446,883	16,389,203
Mutual fund investments	-	5,492,092
Murabaha investments	-	3,400,814
Financial assets at fair value through income statement	2,951,407	249,025
Receivables	13,757,650	10,398,070
Amount paid to DBHC	251,443	17,175,661
Other assets	7,014,943	11,686,805
Financial assets available for sale	2,625,527	178,248
Investment in associates	25,766,089	32,779,543
Investment in subsidiaries	15,416,797	23,332,234
Furniture and equipment	5	104,247
<b>TOTAL ASSETS</b>	<b>70,230,744</b>	<b>121,185,942</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accruals	5,530,034	5,439,530
Due to banks	29,040,949	33,325,540
<b>Total liabilities</b>	<b>34,570,983</b>	<b>38,765,070</b>
<b>Equity</b>		
Share capital	49,222,195	44,747,450
Share premium	26,972,353	26,972,353
Treasury shares	(11,817,466)	(126,508)
Treasury shares reserve	4,267	-
Statutory reserve	1,180,931	1,180,931
(Accumulated losses) retained earnings	(29,780,595)	10,371,990
Foreign currency translation reserve	47,284	(622,437)
Cumulative changes in fair values	(169,211)	(102,910)
<b>Total equity</b>	<b>35,659,761</b>	<b>82,420,872</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>70,230,744</b>	<b>121,185,942</b>