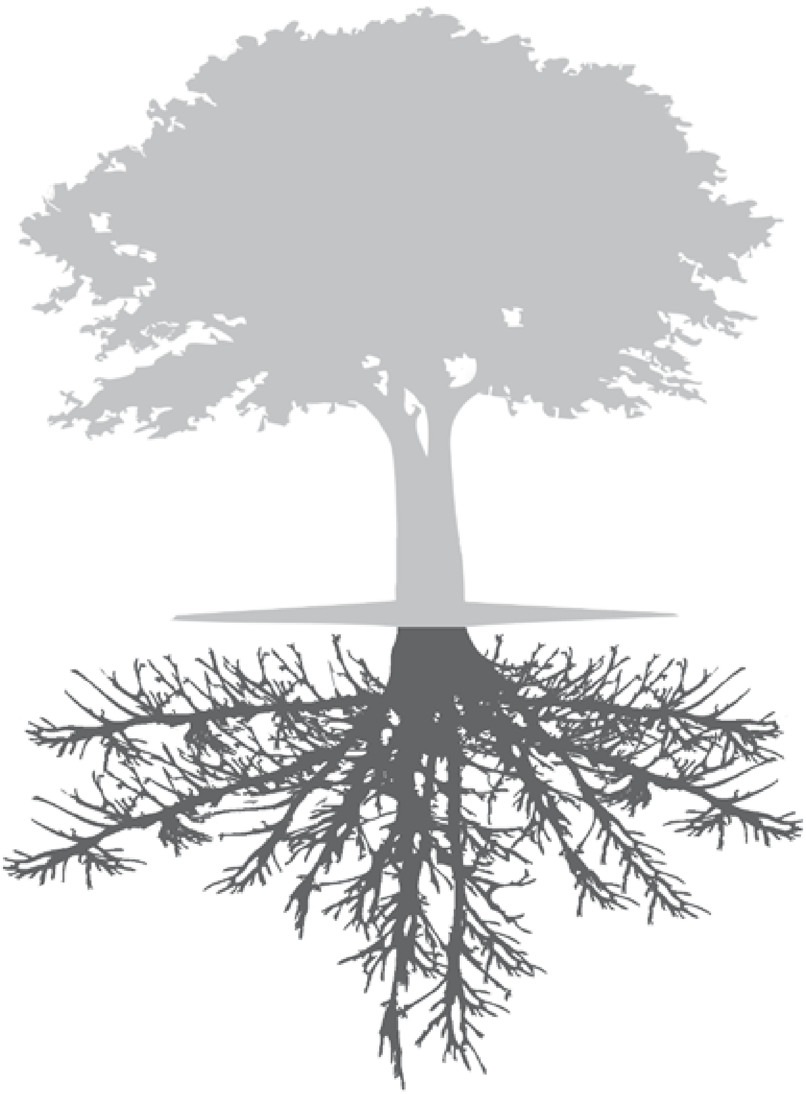
Annual Report 2008



Kuwait Financial Centre

المركز
MARKAZ

H.H. SHEIKH SABAH AL-AHMAD AL-JABER AL-SABAH

The Amir of The State of Kuwait

H.H. SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH

The Crown Prince

H.H. SHEIKH NASSER AL-MOHAMMED AL-AHMAD AL-SABAH

The Prime Minister

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BOARD OF DIRECTORS

Diraar Yusuf Alghanim	Chairman & Managing Director
Sheikh Humoud Sabah Al-Sabah	Vice Chairman
Faisal AbdulAziz Al-Jallal	Director
Ayman Abdulatif Alshaya	Director
Fahad Yaqoub Al-Jouan	Director
Fouzi Ebrahim Al-Mukaimi	Director
Muad Saud AlOsaimi	Director

BOARD STEERING COMMITTEE

Diraar Yusuf Alghanim	Chairman
Ayman Abdulatif Al-Shaya	Director
Fahad Yaqoub Al-Jouan	Director
Manaf AbdulAziz Alhajeri	General Manager

AUDIT COMMITTEE

Fahad Yaqoub Al-Jouan	Chairman
Faisal AbdulAziz Al-Jallal	Director
Fouzi Ebrahim Al-Mukaimi	Director
Manaf AbdulAziz Alhajeri	General Manager

MANAGEMENT TEAM

Manaf A. Alhajeri	General Manager
Ali H. Khalil	Executive Vice President
Gopal Menon	Executive Vice President – International Investments
Khaled A. Chowdhury	Senior Vice President – Financial Management
Bassam N. Al-Othman	Senior Vice President – Real Estate (MENA)
M.R. Raghu	Senior Vice President – Research
Rasha A. Al-Hamad	Senior Vice President – Human Resources & Administration
Amani Al-Omani	Senior Vice President – Local & GCC Investments
Maha A. Imad	Vice President – Private Equity & Fund Administration
Carole Six	Vice President – Institutional Sales
Leila Badine	Vice President – Markaz Qatar Branch
Nawaf H. Marafi	Vice President – Oil & Gas
Fahad G. Al-Abdul Jaleel	Vice President – Private Banking
Krishna I. Mohan	Head of Treasury - Treasury
Pradeep Rajagopalan	Assistant Vice President – Risk Management & Compliance
Farah S. Al-Essa	Assistant Vice President – Media & Communications
Johnny Al-Khoury	Assistant Vice President – Information Technology

DIRECTORS' REPORT 2008

Dear Stakeholders,

Thanks to the globalization of the financial system, year 2008 will forever be remembered as the year of the first true global financial crisis. Not only was this crisis the mother of all crises, it was not confined just to US but engulfed the whole world sparing none. What started as a small sub-prime mortgage crisis, slowly snowballed into a credit crisis and then finally into a full blown financial crisis where major financial institutions were brought down to their knees causing further shockwaves. Investors' and consumers' confidence plummeted and economies in both developed and emerging markets slowed down significantly.

For the year 2008, Kuwait Financial Centre "Markaz" reported a net loss of KD 18.77 million, or 41 fils per share, primarily due to unrealized losses from decline in Gulf and international equity investments, and applying a conservative accounting approach which included taking impairment provisions on assets, deemed necessary by the Board to help overcome the global financial crisis.

Markaz has the financial prowess to pay off all its debt, mainly due to its portfolio of high quality liquid assets, low debt-to-equity ratio and high operational income. As of end of 2008, Markaz short-term debt totalled KD 23.59 million and total debt reached KD 51.18 million which represents 30.8% and 66.8% of shareholders' equity, respectively. Fee income remains healthy at KD 10.85 million and formed more than 50% of total income.

The causes of the crisis are numerous. The unprecedented economic growth rates during the past three decades propelled the emergence of new economic power horses, as notably led by China and other BRIC countries. Additionally, innovation in both technology and finance enabled the instantaneous flow of information and money through different markets and the development of new innovative financial instruments. Not to mention the financial liberalization towards currencies, certain business sectors such as telecommunications and investments triggered the hedge funds industry boom.

The GCC Region was not spared from the crisis. Oil prices witnessed sharp declines. Capital markets were adversely impacted by sharp corrections in all sectors and particularly in the real estate and financial sector. However, the prospects remain strong for the region owing to large financial surpluses, massive oil reserves, and liquidity. The Middle East is forecasted to become the second fastest growing economy after Emerging Asia.

This crisis, like all preceding ones, is an integral part of the development of free economies through which all players revisit and refine their processes in the pursuit of efficiency and sustainable growth while reducing risk. Towards that, 2008 will be a year of learning for world economies in general and for the finance industry in specific.

The lessons are numerous; in summary, the fine line between calculated risk taking and speculation is too easy to cross, that innovation should not go on without paying attention to risk, that corporate governance (both external and self-imposed) should be at the back of all investment decisions, and that the financial system should never be divorced from the economy, but mirror it.

Markaz' biggest test was following its 35-year-old legacy, which entails carefully studying investment opportunities, and the proper management of risk. Following these tenets may not necessarily avert the full extent of a major crisis, yet still acts as a front line buffer, extending the company's longevity and fulfilling both the objectives of its shareholders and clients.

It is not a coincidence that Markaz fared reasonably well in the current crisis; it is a result of sound investment policies, proper corporate governance, and a commitment to transparent reporting.

Our Activities

Asset Management

Local & GCC Investments

As with all equity indices in the Region, our mutual funds declined in value resulting in negative returns. However, our funds ended the year favorably in comparison with their respective benchmarks.

"Mumtaz", "Midaf" and "Forsa Fund" declined in 2008 by 37.8%, 42.2, and 45.1% respectively, compared with a decline of 43.4% for the KIC Kuwaiti Equity Index, "Markaz Islamic Fund" was down by 44.8%, compared to a decline of 51.6% for Al Madar Kuwaiti Islamic Composite Index.

"Markaz Gulf Fund"; which invests predominantly in GCC equities, was down 40%, outperforming the MSCI-GCC by 15.8%.

We are planning to launch a Sharia'h compliant mutual fund encompassing MENA equities, which are trading at attractive valuation.

International Investments/Investment Advisory Services

Our international investments products have declined in line with their respective benchmarks; "Atlas Diversified Class" was down by 43.28%, "Atlas Fund of Hedge Funds" by 26.52%, "Atlas ETFs Program" by 39.07%, "Markaz IPO and Pre-IPO Program" by 12.78%.

In July 2008, Markaz forayed with the "Atlas Emerging Markets Thematic Class", which declined 34.80% by year-end.

Private Equity

Our Private Equity returns declined by 8.5% for the year. Our proprietary investments consist of over 60 of the best managed funds, diversified across vintage years, geographic region, and strategies. During the course of the year, our efforts have been focused on monitoring our existing investments, while making limited investments in secondary's, distressed opportunities, and mid-market companies, which are likely to benefit from the current market conditions.

Treasury

The responsibilities of treasury department include financing, foreign currency exchange and management of Markaz money market funds. In line with Markaz conservative investment approach, the department maintained high liquidity levels and avoided short-term obligations. This approach has earned Markaz a trustworthy name amongst local and regional banks. Even throughout the crisis, Markaz is one of the few institutions that didn't need to resort to tapping into emergency credit reserves.

While money market funds are traditionally prone to fewer risks than mutual funds, the current crisis has impacted this asset class specifically. Corporate and sovereign bonds and sukuks issued in the last years witnessed sharp declines even though the underlying factors were not that repressive. Markaz money market funds were affected in two ways, through investing in other money markets funds which suspended their redemptions, and through investing in fixed income instruments which defaulted on their obligations.

Markaz, acting in the best interests of all its investors - irrespective of the size of their investments - approached the regulatory authorities and proceeded to withhold redemptions for both "Idikhar Fund" and "Markaz Islamic Income Fund". Our decision to suspend the redemptions was not taken lightly, and we are committed to beginning the process of redemptions as cash accumulates either through the maturing of portfolio holdings or their sale.

A plan has been laid out which involves taking legal action to protect our unit holders' rights. In the end, we would like to state that preserving the value of the Fund's assets and restoring cash to the unit holders in Q1 2009 are our top priorities.

Our Activities (Cont'd)

Investment Banking

Corporate Finance

Our advisory team carried out several financing and restructuring mandates focusing on middle market companies. However, our capital market activities were substantially curtailed as the credit market tightened starting in the second quarter of 2008.

The credit crunch started to impact the market early during the year, and companies gradually shied away from seeking debt, to capital increase, and later on, to the sale of assets as liquidity became scarce.

We re-focused our efforts on trading and proprietary investments during the fourth quarter of 2008; and the foundations for the "Distressed Investment Program in Fixed Income and Equities" were laid out which will in the next year selectively invest in deeply discounted secondary issues triggered by distressed regional investors.

Structured Finance

Our structured finance team is active in the issuance of capital protected notes. Additionally, it completed the structuring of equity put options, and a Shariah compliant call option - Purchase through Arboun Contract - however, the launch of these instruments on the Kuwait Stock Exchange was postponed due to the financial crisis.

Markaz remains the sole options market maker in the Middle East since 2005. The number stocks covered in the Options Market at the Kuwait Stock Exchange was increased from 55 (2007) to 60 (2008). A total of 14,389 contracts were traded in 2008 with an underlying value of KD 334,465,412 as compared to 20,985 contracts with an underlying value of 550,025,761, in 2007.

MENA Real Estate

Despite the weakness in the real estate markets regionally, our MENA real estate funds and proprietary investments posted positive gains. First, our flagship real estate fund, "Markaz Real Estate Fund", posted a gain of 10.4% for 2008, and we continued to make monthly distribution stemming from a strong operating cash flow. Towards the end of the year, and building on the success of the local income-generating fund, development of a GCC variant was underway.

Our regional development fund, "Markaz Real Estate Opportunities Fund", has invested in several opportunities in Saudi Arabia, Qatar, Lebanon, Syria, and Jordan, of which, three are under development with construction and pre-sale of properties are well on schedule.

We also, launched focused real estate investment product targeting the acquisition, sale and development of land in Saudi Arabia and Qatar. The quality of acquisitions as well as the timing substantially mitigated the impact of the recent decline in regional real estate values.

Going forward, we will opportunistically acquire quality assets sold by distressed investors at deep discounts, the fruits of which will be reaped in the many years to come.

International Real Estate

In the first quarter of 2008, Markaz successfully marketed and closed the "Markaz U.S. Multifamily Realty Investment Unit IV" in order to benefit from the fallout in the subprime mortgage market. However, since the second quarter of 2008, fundamentals for commercial real estate in the U.S. have continued to worsen and the team at Margulf, the wholly owned real estate arm of Markaz in the US, has been focusing on proactively managing our portfolios through the crisis.

Notwithstanding the deterioration in capital market conditions, Markaz continues to see opportunities on the distressed debt side for commercial and residential properties and is working on several products in the pipeline.

Oil and Gas

Our Oil and Gas department has been cautiously managing "Markaz Energy Fund"; which declined by 17% for 2008. An early recognition of adverse changes in market conditions, combined with the timely action by the managing team to reduce the fund's exposure to international and regional public markets, mitigated potential losses.

In 2008, the Fund invested in Kosan Crisplant, a global leading provider of systems and solutions for filling of liquefied petroleum gas cylinders, a US based directional drilling company, and several pre-IPO and IPO investments in the region. We were successful in exiting our Pre-IPO and IPO investments in June 2008.

The Fund is qualified for the Kuwait Offset Program with a multiplier of 3.5; and in 2008, we were successful in structuring an efficient investment program for international offset obligor to satisfy their offset obligation.

In 2009, the Oil and Gas department intends to pursue an opportunistic approach. Focus will be on opportunities in the energy sector that will comprise: international partnerships with companies that possess technology and know-how, acquiring public and private equities of fundamentally strong companies from distressed sellers, and acquiring existing debt of energy related companies that provide opportunities at large discounts to face value.

Markaz's strategic outlook for 2009

In light of the current uncertainties in international financial markets, our strategy is to maintain maximum financial and operating efficiency, enabling us to weather the storm if it continues, and expand our business when the crisis recedes and visibility emerges. During the last quarter of 2008, we successfully improved our liquidity, and have embarked on a plan to enhance our operating efficiency, and refine our business model to better adapt to the prevailing environment.

We plan to boost our performance and achieve positive results for the year 2009 by increasing liquidity, investing selectively, and exercising cost-control. Liquidity will be increased through increasing credit facilities with banks and especially long-term financing. Cost-cutting efforts include consolidating support departments to increase efficiency without touching the management or services offered by Markaz. We regard this markedly changed competitive landscape to be extremely beneficial to Markaz

In Asset Management, we believe that the period ahead will offer unusual investment opportunities. Valuations are distorted, and assets in the region have indiscriminately lost value to a point where several equity and debt instruments are trading at substantial discount to liquidation value.

The liquidity crisis that led to such an environment is being gradually overcome and hence, asset values should recover in time. We are launching a series of funds that are investing opportunistically in public equities, private equities, distressed debt, and distressed real estate. These investment products will offer investors the opportunity to benefit from the eventual economic recovery, and support the growth of our assets under management, resulting in a growth in fee income which reduced Markaz losses in 2008.

As to Investment Banking, we expect a substantial increase in merger and acquisition activity in most sectors of the economy. Consolidation among real estate companies, investment companies and banks will be necessary.

Markaz's strategic outlook for 2009 (Cont'd)

We expect companies to deleverage, restructure their debt, or dispose of non-core activities to reduce debt and focus on their core businesses. Also, well capitalized companies now have the opportunity to make attractive acquisitions to gain market share and expand regionally. We are well poised to grow our investment banking activities, our advisory teams are sector focused, with strong expertise in real estate, oil and gas and the financial sector.

We would like to take this opportunity to thank our Shareholders and Clients alike for their highly appreciated support and to our staff for their dedication and relentless efforts to realize the Company's ambitions. We also extend our gratitude to the regulatory and legislative authorities for their continued support and guidance in light of current conditions. We wish them all the success in their endeavours, and would like to convey Markaz's support and commitment to do everything it can to serve the general interests of the public.

The Board of Directors

12 Apr 2009

Consolidated Financial Statements and
Independent Auditors' Report for the year
ended 31 December 2008

INDEPENDENT AUDITORS' REPORT

The Shareholders

Kuwait Financial Centre S.A.K. (Closed)

Kuwait

Report on these consolidated financial statements

We have audited the accompanying consolidated financial statements of Kuwait Financial Centre S.A.K. (Closed) ("the Parent Company") and subsidiaries (together referred to as "the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements.

Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the State of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error: selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether these consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of these consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors' consider internal control relevant to the Group's preparation and fair presentation of these consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of these 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the State of Kuwait.

Report on other legal and regulatory requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and these consolidated financial statements include the information required by the Kuwait Commercial Companies Law of 1960, as amended, and the Parent Company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Parent Company, and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2008, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Parent Company's articles and memorandum of association, or 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, that would materially affect the Group's activities or its financial position.

Jassim Ahmad Al-Fahad	Abdullatif M. Al-Aiban (CPA)
License No. 53-A	License No 94-A
Al-Fahad & Co. Deloitte & Touche	Grant Thornton – Al-Qatami, Al-Aiban & Partners

15 February 2009

CONSOLIDATED STATEMENT OF INCOME

31 December 2008

	Notes	2008 KD 000's	2007 KD 000's
Income			
Interest income	6	2,393	2,104
Dividend income	7	813	304
Management fees and commission	8	10,854	15,700
Realised (loss) / gain on sale of investments at fair value through statement of income		(1,687)	7,607
Unrealised (loss) / gain on investments at fair value through statement of income	9	(22,147)	4,561
Gain on sale of available for sale investments		4,098	7,904
Impairment in value of available for sale investments		(4,956)	(195)
Gain on sale of investment properties		609	-
Impairment of investment properties	20	(181)	-
Impairment of property under development	21	(144)	-
Provision for credit losses		(131)	(145)
Foreign exchange loss		(302)	(824)
Other income		205	-
		(10,576)	37,016
Expenses and other charges			
General and administrative expenses	10	(5,436)	(6,567)
Finance costs	11	(2,758)	(2,310)
		(8,194)	(8,877)
(Loss) / profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration		(18,770)	28,139
Provision for contribution to KFAS		-	(253)
Provision for NLST		-	(699)
Provision for Zakat		-	(18)
Directors' remuneration		-	(140)
(Loss) / profit for the year		(18,770)	27,029
Attributable to:			
Equity holders of the Parent Company		(18,784)	27,017
Minority interest		14	12
		(18,770)	27,029
Basic and diluted (loss) / earnings pershare attributable to equity holders of the Parent Company (fils)	13	(41)	56

The accompanying notes set out on pages 18 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 KD 000's	2007 KD 000's
Assets			
Cash and bank balances	14	1,415	1,474
Time deposits	14	10,001	956
Investments at fair value through statement of income	15	37,153	66,978
Accounts receivable and other assets	16	9,206	12,211
Short term financing	17	3,972	5,207
Loans to customers	18	17,472	20,388
Available for sale investments	19	50,954	76,829
Investment properties	20	747	36
Property under development	21	574	3,065
Property and equipment		738	574
Total assets		132,232	187,718
Liabilities and equity			
Liabilities			
Due to banks and other financial institutions	14	2,774	432
Accounts payable and other liabilities		3,900	5,336
Dividends payable		416	424
Short term borrowings	22	20,820	22,990
Bonds	23	27,595	27,300
Total liabilities		55,505	56,482
Capital and reserves			
Share capital	24	50,600	44,000
Share premium	25	7,902	7,902
Legal reserve	26	11,870	11,870
Voluntary reserve	27	11,816	11,647
Treasury shares	28	(16,342)	(11,479)
Treasury shares reserve		7,973	7,973
Fair value reserve	29	1,736	22,657
Retained earnings		1,092	36,600
Equity attributable to equity holders of the Parent Company		76,647	131,170
Minority interest		80	66
Total equity		76,727	131,236
Total liabilities and equity		132,232	187,718

Diraar Yusuf Alghanim
Chairman & Managing Director

Manaf AbdulAziz Alhajeri
General Manager

The accompanying notes set out on pages 18 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2008

	Share capital	Share premium	Legal reserve	Voluntary reserve	Treasury shares	Treasury shares reserve	Fair value reserve	Retained earnings	Attributable to equity holders of the Parent Company	Minority interest	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at 1 January 2008	44,000	7,902	11,870	11,647	(11,479)	7,973	22,657	36,600	131,170	66	131,236
Net loss on available for sale investments	-	-	-	-	-	-	(20,553)	-	(20,553)	-	(20,553)
Net loss recognised directly in equity	-	-	-	-	-	-	(20,553)	-	(20,553)	-	(20,553)
Transfer to statement of income on sale of available for sale investments	-	-	-	-	-	-	(4,707)	-	(4,707)	-	(4,707)
Transfer to statement of income on impairment of available for sale investments	-	-	-	-	-	-	4,339	-	4,339	-	4,339
(Loss) / profit for the year	-	-	-	-	-	-	-	(18,784)	(18,784)	14	(18,770)
Total recognised expense for the year	-	-	-	-	-	-	(20,921)	(18,784)	(39,705)	14	(39,691)
Issue of bonus shares (Note 24)	6,600	-	-	-	-	-	-	(6,600)	-	-	-
Dividends paid (Note 24)	-	-	-	-	-	-	-	(9,955)	(9,955)	-	(9,955)
Transfer to voluntary reserve (Note 27)	-	-	-	169	-	-	-	(169)	-	-	-
Purchase of treasury shares	-	-	-	-	(4,863)	-	-	-	(4,863)	-	(4,863)
Balance at 31 December 2008	50,600	7,902	11,870	11,816	(16,342)	7,973	1,736	1,092	76,647	80	76,727

The accompanying notes set out on pages 18 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

31 December 2008

	Share capital	Share premium	Legal reserve	Voluntary reserve	Treasury shares	Treasury shares reserve	Fair value reserve	Retained earnings	Attributable to equity holders of the Parent Company	Minority interest	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at 1 January 2007	44,000	7,902	9,056	8,833	(9,067)	7,973	17,534	19,385	105,616	54	105,670
Net gain on available for sale investments	-	-	-	-	-	-	12,832	-	12,832	-	12,832
Net income recognised directly in equity	-	-	-	-	-	-	12,832	-	12,832	-	12,832
Transfer to statement of income on sale of available for sale investments	-	-	-	-	-	-	(7,904)	-	(7,904)	-	(7,904)
Transfer to statement of income on impairment of available for sale investments	-	-	-	-	-	-	195	-	195	-	195
Profit for the year	-	-	-	-	-	-	-	27,017	27,017	12	27,029
Total recognised income for the year	-	-	-	-	-	-	5,123	27,017	32,140	12	32,152
Dividends (Note 24)	-	-	-	-	-	-	-	(4,174)	(4,174)	-	(4,174)
Transfer to reserves	-	-	2,814	2,814	-	-	-	(5,628)	-	-	-
Purchase of treasury shares	-	-	-	-	(2,412)	-	-	-	(2,412)	-	(2,412)
Balance at 31 December 2007	44,000	7,902	11,870	11,647	(11,479)	7,973	22,657	36,600	131,170	66	131,236

The accompanying notes set out on pages 18 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2008

	Note	2008 KD 000's	2007 KD 000's
OPERATING ACTIVITIES			
(Loss) / profit for the year		(18,770)	27,029
Adjustments for:			
Depreciation		172	153
Finance costs		2,758	2,310
Profit on sale of available for sale investments		(4,098)	(7,904)
Impairment in value of available for sale investments		4,956	195
Impairment of investment properties		181	-
Impairment of property under development		144	-
Provision for credit losses		131	145
Foreign exchange loss on bonds		295	-
Dividend income		(813)	(304)
Interest income		(2,393)	(2,104)
		(17,437)	19,520
Decrease / (increase) in investments at fair value through statement of income		29,825	(15,136)
Decrease / (increase) in accounts receivable and other assets		3,435	(7,772)
Decrease / (increase) in loans to customers		2,785	(4,094)
Decrease / (increase) in short term financing		1,235	(5,207)
(Decrease) / increase in accounts payable and other liabilities		(1,348)	1,907
Net cash generated by / (used in) operating activities		18,495	(10,782)
INVESTING ACTIVITIES			
Purchase of property and equipment		(336)	(458)
Purchase of property under development		-	(3,065)
Purchase of available for sale investments		(10,147)	(17,196)
Proceeds from sale of available for sale investments		14,243	19,903
Reimbursement received on account of property under development		2,347	-
Murabaha financing		-	123
Purchase of investment properties		(907)	-
Proceeds from disposal of investment properties		15	-
Dividend received		813	304
Interest received		1,963	1,729
Net cash generated by investing activities		7,991	1,340

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

31 December 2008

	Note	2008 KD 000's	2007 KD 000's
FINANCING ACTIVITIES			
Purchase of treasury shares		(4,863)	(2,412)
Dividends paid		(9,963)	(4,312)
Decrease in short-term borrowings		(2,170)	(9,904)
Proceed from issue of bonds		-	27,300
Finance costs paid		(2,846)	(2,226)
Net cash (used in) / generated by financing activities		(19,842)	8,446
Net increase / (decrease) in cash and cash equivalents		6,644	(996)
Cash and cash equivalents at beginning of the year		1,998	2,994
Cash and cash equivalents at end of the year	14	8,642	1,998

The accompanying notes set on pages 18 to 41 form an integral part of these consolidated financial statements.

1. Incorporation and Activities

Kuwait Financial Centre – S.A.K. (Closed) ("the Parent Company") is a closed shareholding company incorporated in 1974 in accordance with the Commercial Companies Law in the State of Kuwait. The Parent Company was listed on the Kuwait Stock Exchange on 7 April 1997 and is governed under the directives of the Central Bank of Kuwait.

The Group comprises the Parent Company and its subsidiaries ("the Group"). Details of the subsidiaries are set out in Note 5.

The principal activities of the Group are investment management, corporate financing, investment and financial advisory services, private equity funds, mutual funds and real estate funds management, money market and foreign exchange.

The address of the Parent Company's registered office is P.O. Box 23444, Safat 13095, State of Kuwait.

These consolidated financial statements of the Group for the year ended 31 December 2008 were authorised for issue by the Parent Company's board of directors on 15 February 2009 and are subject to the approval of the General Assembly of the shareholders.

2. Adoption of new and revised standards

Interpretations effective in the current period

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 "IFRS 2 – Group Treasury Shares", IFRIC 12 "Service Concession Arrangements" and IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Standards and Interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

• IAS 1(Revised) Presentation of Financial Statements	Effective for annual periods beginning on or after 1 January 2009
• IAS 16 (Revised) Property, Plant and Equipment	Effective for annual periods beginning on or after 1 January 2009
• IAS 19 (Revised) http://www.iasplus.com/standard/ias19.htmEmployee Benefits	Effective for annual periods beginning on or after 1 January 2009
• IAS 20 (Revised) Government Grants and Disclosure of Government Assistance	Effective for annual periods beginning on or after 1 January 2009
• IAS 23 (Revised) Borrowing Costs	Effective for annual periods beginning on or after 1 January 2009
• IAS 27 (Revised) Consolidated and Separate Financial Statements	Effective for annual periods beginning on or after 1 July 2009
• IAS 28 (Revised) Investment in Associates	Effective for annual periods beginning on or after 1 January 2009
• IAS 29 (Revised) Financial Reporting in Hyperinflationary Economies	Effective for annual periods beginning on or after 1 January 2009
• IAS 31 (Revised) Interests in Joint Ventures	Effective for annual periods beginning on or after 1 January 2009
• IAS 32 (Revised) Financial Instruments Presentation	Effective for annual periods beginning on or after 1 January 2009

• IAS 36 (Revised) Impairment of Assets	Effective for annual periods beginning on or after 1 January 2009
• IAS 38 (Revised) Intangible Assets	Effective for annual periods beginning on or after 1 January 2009
• IAS 39 (Revised) Financial Instruments: Recognition and Measurement	Effective for annual periods beginning on or after 1 January 2009
• IAS 40 (Revised) Investment Property	Effective for annual periods beginning on or after 1 January 2009
• IAS 41(Revised) http://www.iasplus.com/standard/ias41.htmAgriculture	Effective for annual periods beginning on or after 1 January 2009
• IFRS 1 (Revised) First-time Adoption of International Financial Reporting Standards	Effective for annual periods beginning on or after 1 January 2009
• IFRS 2 (Revised) Share-based Payments	Effective for annual periods beginning on or after 1 January 2009
• IFRS 3 (Revised) Business Combinations	Effective for annual periods beginning on or after 1 July 2009
• IFRS 5 (Revised) http://www.iasplus.com/standard/ifrs05.htmNon-current Assets Held for Sale and Discontinued Operations	Effective for annual periods beginning on or after 1 July 2009
• IFRS 8 Operating Segments	Effective for annual periods beginning on or after 1 January 2009
• IFRIC 13 Customer Loyalty Programme	Effective for annual periods beginning on or after 1 July 2008
• IFRIC 15 Agreements for the Construction of Real Estate	Effective for annual periods beginning on or after 1 January 2009
• IFRIC 16 Hedges of a Net Investment in a Foreign Operation	Effective for annual periods beginning on or after 1 October 2008
• IFRIC 17 Distribution of non cash assets to owners	Effective for annual periods beginning on or after 1 July 2009

Management anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group in the period of initial application. Further, management does not intend to apply these pronouncements early.

3. Significant Accounting Policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended 31 December 2007.

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

Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as modified for use by the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRS except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirement for a minimum general provision as described below.

In March 2007, the Central Bank of Kuwait ("CBK") issued a circular amending the basis of making general provisions on facilities 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.

3. Significant Accounting Policies (Cont'd)

Basis of preparation (cont'd)

During the year, CBK allowed the Group to reverse the excess general provision of 1% to the consolidated statement of income provided that amount is transferred to voluntary reserve.

These consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Parent Company rounded off to the nearest thousand and are prepared under the historical cost convention, except for investments held at fair value through statement of income and available for sale investments that are stated at fair value.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company (its subsidiaries). Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of these consolidated financial statements, the results and financial position of each Group entity are translated into KD which is the functional currency of the Parent Company and the presentation currency for these consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into KD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in the consolidated statement of income in the period in which the foreign operation is disposed of.

Revenue recognition

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount. Murabaha income is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the net balance outstanding.

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

Management fees and commission income relating to fiduciary client portfolio and fund management is recognised when these services are rendered.

Finance costs

Interest on borrowings is calculated on the accrual basis and is recognised in the consolidated statement of income in the period in which it is incurred.

Kuwait Foundation for the Advancement of Sciences

The Group is required to contribute to the Kuwait Foundation for the Advancement of Sciences ("KFAS"). The Group's contributions to KFAS is recognised as an expense and is calculated at the rate of 1 % of profit before transfer to legal reserve, Directors' remuneration, National Labour Support Tax and Zakat.

National Labour Support Tax

The Group is required to contribute to the National Labour Support Tax ("NLST"). The Group's contribution to NLST is recognised as an expense and is calculated in accordance with Ministry of Finance resolution No. 24/2008, law number 19/2000.

Zakat

The Group is required to contribute to the Zakat. The Group's contribution to Zakat is recognised as an expense and is calculated in accordance with Ministry of Finance resolution No. 58/2007 and 46/2006.

Share based payments

The Group provides certain employees with the ability to purchase the Parent Company's shares from its treasury shares. The exercise price is between the book value at the end of the each year and average cost of treasury shares. The resulting difference between the exercise price and the market value of the shares at that date is treated as a discount.

The fair value determined at the grant date of the share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of income over the remaining vesting period, with a corresponding adjustment to the accounts payable and other liabilities.

Financial assets

Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through statement of income, which are initially measured at fair value.

Financial assets are classified into the following specified categories: 'cash and cash equivalents',

3. Significant Accounting Policies (Cont'd)

Financial assets (Cont'd)

financial assets 'at fair value through statement of income' ("FVTSI"), 'held-to-maturity investments', 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents as stated in the consolidated statement of cash flows comprise bank and cash balances, time deposits less due to banks and other financial institutions. Time deposits held with banks at short notice are redeemable into cash within 90 days.

Financial assets at fair value through statement of income ("FVTSI")

Financial assets at FVTSI are initially recognised at fair value excluding transaction costs. Financial assets are classified as at FVTSI where the financial asset is either held for trading or it is designated as at FVTSI.

A financial asset is classified as held for trading if:

i) it has been acquired principally for the purpose of selling in the near future; or

ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTSI upon initial recognition if:

i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTSI.

After initial recognition, financial assets at FVTSI are remeasured at fair value. The fair value of FVTSI with standard terms and conditions and traded on active liquid markets is determined with reference to active market prices. Gain or loss arising either from sale or changes in fair value on remeasurement is recognised in the consolidated statement of income.

Available for sale financial assets ("AFS")

AFS investments are initially recorded at fair value plus transaction costs that are directly attributable to the acquisition. After initial recognition, AFS investments are remeasured at fair value except for investment in equity securities that do not have active market and whose fair value cannot be reliably measured, which are carried at cost.

The fair value of AFS with standard terms and conditions and traded on active liquid markets is determined with reference to active market prices. The fair value of AFS not traded on active liquid markets is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. Gains and losses arising from changes in fair value are recognised directly in equity in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated statement of income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in the consolidated statement of income for the period.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the consolidated balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated statement of income, and other changes are recognised in equity.

Loans to customers

Loans to customers originated by the Group by providing money directly to the borrower and that have fixed or determinable payments that are not quoted in an active market are classified as "loans to customers". Loans are measured at amortised cost using the effective interest method, less any impairment. Provision for credit risk is established to meet any decline in value.

Effective interest method

The effective interest method calculates the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTSI.

Derecognition of financial asset

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Impairment of financial assets

Financial assets, other than those at FVTSI, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as accounts receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

3. Significant Accounting Policies (Cont'd)

Impairment of financial assets (Cont'd)

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Individual impairment is identified at counterparty specific level following objective evidence the financial asset is impaired. This may be after an interest or principal payment is defaulted or when a contract covenant is breached. The present value of estimated cash flow recoverable is determined after taking into account any security held.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables and loans to customers, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable or loan to customer is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of income.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through consolidated statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through consolidated statement of income are not reversed through consolidated statement of income. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities net of certain categories of collateral, to which Central Bank of Kuwait instructions are applicable and not subject to specific provisions, is made.

Property, equipment and depreciation

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

Property and equipment are depreciated on straight line basis as follows:

Office equipment and soft ware	3 years
Motor vehicles	4 years
Furniture and fixtures	10 years
Decorations	7 years
Licence fee	3 years

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. The carrying amounts are reviewed at each balance sheet date to assess whether they are stated in excess of their recoverable amounts, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as “Due to banks and other financial institutions”, “Accounts payables and other liabilities”, “Bonds” and “Short term borrowings”

Financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with finance costs recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating finance costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

Treasury shares

Treasury shares consist of the Parent Company’s own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders’ equity (treasury shares reserve), which

3. Significant Accounting Policies (Cont'd)

Treasury shares (Cont'd)

is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to 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 gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Related party transactions

Related parties consist of directors, executive officers, their close family members and companies of which they are principal owners. All related party transactions are conducted on an arm's length basis and are approved by management.

End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law, employee contracts and applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date.

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.

Contingencies

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

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

Fiduciary assets

Assets held in trust or fiduciary capacity are not treated as assets of the Group and accordingly they are not included in these consolidated financial statements.

4. Critical accounting judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting polices, which are described in note 3, management is required to make judgements, estimates and assumption about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Valuation of unquoted equity investments

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

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

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

Critical judgements in applying accounting polices

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of real estate property

Management decides on acquisition of a real estate property whether it should be classified as trading, property held for development or investment property.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as property under development if it is acquired with the intention of development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

Classification of investments

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

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

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

Impairment of investments

The Group treats the investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

5. Subsidiaries

Name of subsidiary	Country of incorporation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Margulf Management Inc	USA	100%	100%	Asset management
KFC Lone Star, Inc	USA	100%	100%	Asset management
KFC Lone Star 1, Inc.	USA	100%	100%	Asset management
First Management and Economic Consultancy Company–K.S.C. (Closed)	Kuwait	100%	100%	Economic Consultancy
Marsoft for Computer Programming, Operations and Consultancy Services Company–W.L.L.	Kuwait	67%	67%	Computer Consultancy

6. Interest Income

	2008 KD 000's	2007 KD 000's
Time deposits	142	236
Investments at fair value through statement of income	304	207
Short term financing	330	138
Murabaha receivables	-	5
Loans to customers	1,617	1,518
	2,393	2,104

7. Dividend Income

Dividend income during the year represents dividends received from:

	2008 KD 000's	2007 KD 000's
Investments at fair value through statement of income	439	236
Available for sale investments	374	68
	813	304

8. Management Fees and Commission

Management fees relates to income arising from the Group's management of portfolios, funds, custody and similar trust and fiduciary activities.

9. Unrealised (Loss) / Gain on Investments at Fair value through statement of income

	2008 KD 000's	2007 KD 000's
Change in fair value of trading securities	(242)	361
Change in fair value of investments designated as investments at fair value through statement of income	(21,905)	4,200
	(22,147)	4,561

10. General and administrative expenses

General and administration expenses include the following:

	2008 KD 000's	2007 KD 000's
Staff costs	2,744	4,372
Depreciation	172	153

11. Finance costs

	2008 KD 000's	2007 KD 000's
Bonds	1,297	895
Short term borrowings	1,423	1,406
Due to banks	38	9
	2,758	2,310

All the finance cost during the year relates to financial liabilities at amortised cost.

12. Net (loss) / gain on financial assets

	2008 KD 000's	2007 KD 000's
Time deposits	142	236
Investments at fair value through statement of income	(23,091)	12,611
Available for sale investments	(484)	7,777
Murabaha receivables	-	5
Loans to customers	1,654	1,373
Short term financing	330	138
	(21,449)	22,140

13. Basic and diluted (loss) / earnings per share attributable to equity holders of the parent company

Basic and diluted (loss) / earnings per share attributable to equity holders of the Parent Company is calculated as follows:

	2008	2007
(Loss) / profit for the year attributable to equity holders of the Parent Company (KD 000's)	(18,784)	27,017
Weighted average number of shares outstanding excluding treasury shares (thousands)	459,730	479,194
Basic and diluted (loss) / earnings per share attributable to equity holders of the Parent Company (Fils)	(41)	56

Basic and diluted (loss) / earnings per share reported were 65 fils for the year ended 31 December 2007, before retroactive adjustments to the number of shares following the bonus issue (note 24).

14. Cash and cash equivalents

	2008 KD 000's	2007 KD 000's
Cash and bank balances	1,415	1,474
Time deposits	10,001	956
Less: Due to banks and other financial institutions	(2,774)	(432)
	8,642	1,998

The Group's time deposits yield interest at an average rate of 5.06% per annum (2007: 4.875% per annum) and mature within one month from the date of deposit.

15. Investments at fair value through statement of income

	2008 KD 000's	2007 KD 000's
Trading:		
Local quoted securities and managed funds	703	9,266
Foreign quoted securities and managed funds	1,098	752
Designated on initial recognition:		
Local quoted securities and managed funds	26,912	48,417
Foreign quoted securities and managed funds	2,441	2,129
Fixed income securities	5,999	6,414
	37,153	66,978

The interest on fixed income securities range from 3.87% to 6% per annum (2007: 6% to 7.125% per annum).

16. Accounts receivable and other assets

	2008 KD 000's	2007 KD 000's
Management fees and commission receivable	2,134	4,315
Interest receivable	452	736
Receivable from sale of available for sale investments	79	4,421
Prepayments	371	492
Others	6,170	2,247
	9,206	12,211

All accounts receivable and other assets are due within one year.

17. Short term financing

Short term financing represents short term advances at an interest rate of 8.25% per annum (2007: 9% per annum) (See note 30). The advance is due within two months of the balance sheet date.

18. Loans to customers

	2008 KD 000's	2007 KD 000's
Commercial loans	7,300	10,077
Margin loans	7,202	8,268
Personal loans	4,858	3,956
	19,360	22,301
Provision for credit losses	(1,888)	(1,913)
	17,472	20,388
The maturity profile of loans to customers is as follows:		
Up to one month	986	410
Between one month and six months	6,416	2,739
Between six months and one year	10,372	16,873
Over one year	49	742
Non-performing loans	1,537	1,537
	19,360	22,301

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements including general provision (See note 3) on the balance of regular facilities for which no specific provisions are made.

The total non-performing loans on which specific provision has been made amounted to KD 1,537 thousand (2007: KD1,537 thousand).

The interest rate on loans to customers ranges from 5.25% to 6.75% per annum (2007: 7.75% to 9.25% per annum) for commercial loans, 5.75% to 6.75% per annum (2007: 7.75% to 8.75%) for margin loans and 6.05% to 6.75% per annum (2007: 5.5% to 9.25% per annum) for personal loans.

All loans are denominated in KD or US Dollars. Commercial loans are fully secured by charges over property and investments in the funds and securities held in fiduciary portfolios on behalf of the borrowers.

19. Available for sale investments

	2008 KD 000's	2007 KD 000's
Quoted securities and managed funds	24,452	51,716
Equity participations	26,502	25,113
	50,954	76,829

Equity participations are acquired with the intention of capital appreciation over a medium to long-term time frame. Equity participations amounting to KD 1,704 thousand (2007: KD 909 thousand) are carried at cost since their fair values could not be measured reliably.

Equity participation include investments amounting to KD 24,798 thousand (2007: KD 24,204 thousand) whose fair values are determined using valuation techniques normally used by fund managers that are not necessarily based on observable market prices or rates.

Based on management estimates the Group has recognised impairment loss for available for sale investments carried at fair value and cost by KD 4,956 and KD 617 (2007: KD 195 and nil) respectively.

20. Investment properties

	2008 KD 000's	2007 KD 000's
Carrying value at 1 January	36	36
Additions	907	-
Disposals	(15)	-
Impairment loss	(181)	-
Carrying amount at 31 December	747	36

Investment properties are located outside Kuwait.

21. Property under development

	2008 KD 000's	2007 KD 000's
Carrying value at 1 January	3,065	-
Additions	-	3,065
Reimbursement	(2,347)	-
Impairment loss	(144)	-
Carrying amount at 31 December	574	3,065

The commitment for development of land has been disclosed in note 34 .

22. Short term borrowings

Short term borrowings represent money market borrowings from local and foreign banks. The loans are denominated in KD and US Dollar and bear an average interest rate ranging from 1.25% to 7.5 % per annum (2007: 5% to 6.5% per annum) and are unsecured.

23. Bonds

On 5 July 2007, the Parent Company issued unsecured bonds in the principal amount of US Dollars 100,000 thousand with an interest rate of LIBOR plus 1.1 % payable quarterly in arrears. The bonds are listed on the Dubai International Financial Exchange and mature on 5 July 2012.

24. Share capital

The authorised, issued and fully paid up share capital consists of 506,000 thousand shares of 100 fils each (31 December 2007: 440,000 thousand shares of 100 fils each).

The shareholders' Annual General Assembly held on 31 March 2008 approved a cash dividend of 25 fils per share amounting to KD 9,955 thousand and bonus shares of 15% (31 December 2006: cash dividend of 10 fils per share).

25. Share premium

Share premium is not available for distribution.

26. Legal reserve

As required by the Kuwait Commercial Companies Law and the Parent Company's Articles of Association, 10% of profit for the year before KFAS, NLST, Zakat and Directors' remuneration is to be transferred to the legal reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends. No transfer is required in the year of loss or where cumulative losses exist.

27. Voluntary reserve

In accordance with the Parent Company's Articles of Association, 10% of profit for the year before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer. No transfer is required in the year of loss or where cumulative losses exist. As per the directives of the CBK, the Group has transferred the excess general provision of 1% amounting to KD 169 thousand (2007:Nil) to the voluntary reserve.

28. Treasury shares

	2008	2007
Number of shares (000's)	48,094	29,351
Percentage of issued shares	9.5%	6.67%
Market value (KD 000's)	4,425	10,566

Reserves of the Parent Company equivalent to the cost of treasury shares have been earmarked as non-distributable.

29. Fair value reserve

	2008 KD 000's	2007 KD 000's
Balance at 1 January	22,657	17,534
Net unrealised (loss) / gains during the year	(20,553)	12,832
Impairment in value transferred to consolidated statement of income	4,339	195
Released on disposal of available for sale investments	(4,707)	(7,904)
Balance at 31 December	1,736	22,657

30. Related Party Transactions

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

30. Related Party Transactions (Cont'd)

Transactions between the Parent Company and its subsidiaries which are related parties with the Parent Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, Group entities entered into the following transactions with related parties that are not members of the Group:

	2008 KD 000's	2007 KD 000's
Transactions included in the consolidated statement of income		
a) Interest income	1,240	492
b) Management fees and commissions	8,329	10,207
c) Compensation of key management personnel:		
Salaries and other short term benefits	478	356
Terminal benefits	37	59
	515	415
Balances included in the consolidated balance sheet		
Loans to related parties		
Short term financing (See note 17)	4,012	5,207
Loans to directors and senior management	12,871	9,422
	16,883	14,629

31. Segmental Information

The Group primarily operates in one area of business activity which is investment and accordingly its primary basis for segmental reporting is by geographical segment. Information about the Group's geographical segments is summarised as follows:

	Year ended 31 December			
	2008		2007	
	Income KD 000's	Loss KD 000's	Income KD 000's	Profit KD 000's
Kuwait	(3,656)	(10,685)	26,640	17,437
Gulf and Middle East	(1,047)	(1,706)	2,005	1,682
North America	(2,196)	(2,588)	5,987	5,550
Europe	(2,996)	(3,084)	2,276	2,269
Others	(681)	(707)	108	91
	(10,576)	(18,770)	37,016	27,029

	As at 31 December					
	2008			2007		
	Total assets KD 000's	Total liabilities KD 000's	Net assets employed KD 000's	Total assets KD 000's	Total liabilities KD 000's	Net assets employed KD 000's
Kuwait	75,071	53,344	21,727	109,149	31,429	77,720
Gulf and Middle East	21,902	1,666	20,236	21,504	24,966	(3,462)
North America	27,359	487	26,872	41,341	78	41,263
Europe	5,075	5	5,070	11,214	4	11,210
Others	2,825	3	2,822	4,510	5	4,505
	132,232	55,505	76,727	187,718	56,482	131,236

32. Fiduciary assets

The Group manages portfolios on behalf of others, mutual funds, and maintains cash balances and securities in fiduciary accounts, which are not reflected in the consolidated balance sheet. Assets under management at 31 December 2008 amounted to KD 820,541 thousand (2007: KD 1,240,673 thousand). The Group earned management fee of KD 9,545 thousand (2007: KD 8,093 thousand) from these activities which is included in note 8.

33. Employee share option plan

In 2005, the Group established an employee share option plan ("ESOP") to reward the performance of its employees. Under the plan, certain employees are eligible to purchase the Parent Company's shares from its treasury shares and no new shares will be issued. The exercise price is between the book value at the end of each year and average cost of treasury shares. This plan will be in effect for a nine year period for a maximum of 10% of the paid up share capital of the Parent Company at the date of inception of the program.

Pursuant to the plan, the directors approved to make 1,680 thousand shares available for this purpose for the year ended 31 December 2005 which was approved by the relevant regulatory authorities and the shareholders general assembly on 2 April 2006. The fair value of the share at that date was 700 fils and exercise price was 500 fils. The Group recognised a total expense and corresponding liability of KD 336 thousand in the consolidated financial statements for the year ended 31 December 2005. No shares were granted, exercised, expired or forfeited under the ESOP during the year ended 31 December 2008.

34. Commitments

	2008 KD 000's	2007 KD 000's
Capital commitments		
For purchase of investments	15,500	17,724
For development of land	725	717
	16,225	18,441

35. Financial Instruments

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3 to the consolidated financial statements.

35. Financial Instruments (Cont'd)

Categories of financial instruments

	2008 KD 000's	2007 KD 000's
Financial assets		
Cash and bank balances	1,415	1,474
Time deposits	10,001	956
Investments at fair value through statement of income	37,153	66,978
Accounts receivable and other assets	8,833	11,717
Short term financing	3,972	5,207
Loans to customers	17,472	20,388
Available for sale investments	50,954	76,829
	129,800	183,549
Financial Liabilities		
Due to banks and other financial institutions	2,774	432
Accounts payable and other liabilities	2,331	4,386
Short term borrowings	20,820	22,990
Bonds	27,595	27,300
	53,520	55,108

Financial risk management objectives

The board of directors of the Parent Company is ultimately responsible for setting out risk management objectives. The Group's risk management function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, fair value interest rate risk and equity price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

Equity price risk

The Group is exposed to the equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through statement of income or available for sale investments.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio in accordance with the limits set by the Group.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

If equity price had been 10% higher / lower, the effect on the profit and equity for the year ended 31 December would have been as follows:

A positive number below indicates an increase in profit and equity where the equity price increases by 10%. A 10% decrease in the equity price would have the opposite effect.

		2008		2007	
Market indices	% change in price	Effect on profit	Effect on equity	Effect on profit	Effect on equity
		KD 000's	KD 000's	KD 000's	KD 000's
Kuwait stock exchange	10%	304	68	1,540	428

The Group is not significantly exposed to any single stock exchange other than the Kuwait Stock Exchange.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Group's significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008	2007	2008	2007
	KD 000's	KD 000's	KD 000's	KD 000's
US Dollars	29,815	28,960	47,322	66,472
Euro	5	3	3,528	6,637
Sterling Pounds	1	2	583	817
Bahraini Dinars	-	-	172	156
UAE Dirhams	-	-	1,652	651
Others	7	397	179	448

Foreign currency sensitivity analysis

The Group is maintaining exposure mainly to the US Dollars.

The following table details the Group's sensitivity to a 5% increase and decrease in the KD against US Dollars. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the KD weakens 5% against the relevant currency. For a 5% strengthening of the KD against the US Dollar, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

	+5 % Impact				-5 % Impact			
	2008		2007		2008		2007	
	KD 000's		KD 000's		KD 000's		KD 000's	
Consolidated statement of income	782		(980)		(782)		980	
Equity	(2,533)	(i)	(2,772)	(i)	2,533	(i)	2,772	(i)

(i)This is as a result of the changes in fair value of available for sale investments.

35. Financial Instruments (Cont'd)

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate sensitivity analysis

The Group's exposures to interest rates on assets and liabilities are detailed in the liquidity risk management section of this note.

The following table illustrates the sensitivity of the (loss) / profit for the year to a reasonably possible change in interest rates of + 1% and - 1 % (2007: + 1% and - 1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

A positive number below indicates an increase in profit and negative number indicates decrease in profit.

	2008		2007	
	+ 1 %	- 1 %	+ 1 %	- 1 %
	KD 000's	KD 000's	KD 000's	KD 000's
(Loss) / profit for the year	(300)	300	(119)	119

Credit risk management

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Accounts receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5 % of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Exposure to credit risk

The carrying amount of financial assets which is net of impairment losses, recorded in the consolidated balance sheet represents the Group's maximum credit exposure without taking account of the value of any collateral obtained. The maximum exposure to credit risk at the reporting date was:

	Carrying amount 2008 KD 000's	2007 KD 000's
Bank balances	1,414	1,473
Time deposits	10,001	956
Investments at fair value through statement of income	37,153	66,978
Accounts receivable and other assets	8,833	11,717
Short term financing	3,972	5,207
Loans to customers	17,472	20,388
Available for sale investments	50,954	76,829
	129,799	183,548

The maximum exposure to credit risk at the reporting date by geographic region was:

	Carrying amount 2008 KD 000's	2007 KD 000's
Kuwait	74,016	109,130
Gulf and Middle East	20,524	22,813
North America	27,359	35,881
Europe	5,075	11,214
Far East	-	2,520
Others	2,825	1,990
	129,799	183,548

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. None of the financial assets of the Group have been rated by external credit rating agencies. The Group assesses the credit quality of financial assets using internal ratings.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

35. Financial Instruments (Cont'd)

Liquidity risk management (Cont'd)

Liquidity and interest risk tables

The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 December 2008	Up to 1 month	1-3 Months	3-12 Months	1 to 5 years	Total	Weighted average effective interest rate
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Financial liabilities						
Due to banks and other financial institutions	2,774	-	-	-	2,774	7.5
Accounts payable and other liabilities	2,137	-	194	-	2,331	-
Dividends payable	416	-	-	-	416	-
Short term borrowings	20,820	-	-	-	20,820	4.375
Bonds	-	322	1,316	30,820	32,458	4.725
	26,147	322	1,510	30,820	58,799	
Commitments	-	-	725	15,500	16,225	-

At 31 December 2007	Up to 1 month	1-3 Months	3-12 Months	1 to 5 years	Total	Weighted average effective interest rate
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Liabilities						
Due to banks and other financial institutions	432	-	-	-	432	7.5
Accounts payable and other liabilities	-	4,386	-	-	4,386	-
Dividends payable	-	424	-	-	424	-
Short term borrowings	18,190	-	4,800	-	22,990	5.75
Bonds	-	410	1,228	33,033	34,671	6
	18,622	5,220	6,028	33,033	62,903	
Commitments	-	-	717	17,724	18,441	-

Fair value of financial instruments

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to active market prices.

The fair value of financial assets and financial liabilities (excluding derivative instruments) not traded on active liquid markets is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

As at the balance sheet date, the fair value of all of the Group's financial assets and financial liabilities approximate their carrying value in the consolidated balance sheet.

Financial assets	2008 KD 000's Fair value	2008 KD 000's At amortised cost	2007 KD 000's Fair value	2007 KD 000's At amortised cost
Cash and bank balances	1,415	-	1,474	-
Time deposits	10,001	-	956	-
Investments at fair value through statement of income	37,153	-	66,978	-
Accounts receivable and other assets	-	8,833	-	11,717
Short term financing	-	3,972	-	5,207
Loans to customers	-	17,472	-	20,388
Available for sale investments	50,954	-	76,829	-
	99,523	30,277	146,237	37,312

Financial liabilities				
Due to banks and other financial institutions	-	2,774	-	432
Accounts payable and other liabilities	-	3,900	-	5,336
Short term borrowings	-	20,820	-	22,990
Bonds	-	27,595	-	27,300
	-	55,089	-	56,058

36. Capital management objectives

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of equity attributable to equity holders of the Parent Company, comprising issued capital, share premium and reserves as disclosed in notes 24, 25, 26, 27 and 29 respectively, treasury shares as disclosed in note 28 and retained earnings. Debt consists of short term borrowings disclosed in note 22 and bonds disclosed in note 23.

Gearing ratio

The gearing ratio at year end was as follows:

	2008 KD 000's	2007 KD 000's
Debt	48,415	50,290
Less: Cash and cash equivalents (note 14)	(8,642)	(1,998)
Net debt	39,773	48,292
Equity	76,647	131,170
Net debt to equity ratio	51.89%	36.82%

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