Annual Report 2006

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KUWAIT FINANCE & INVESTMENT COMPANY

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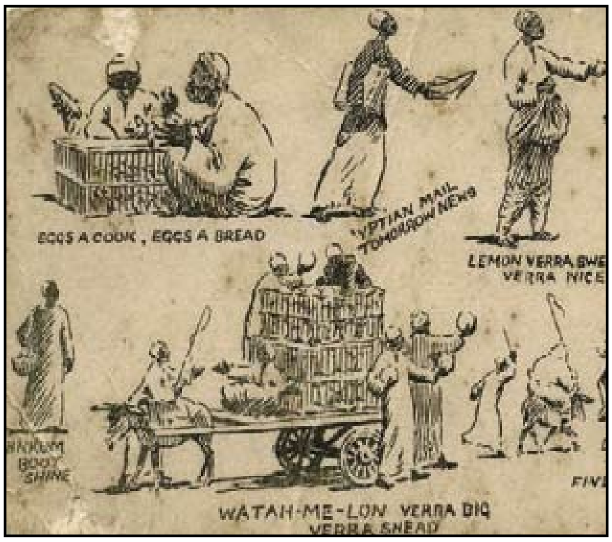
Annual Report 2006

His Highness
Sheikh Sabah Al Ahmed Al Jaber Al Sabah
Emir of the State of Kuwait

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

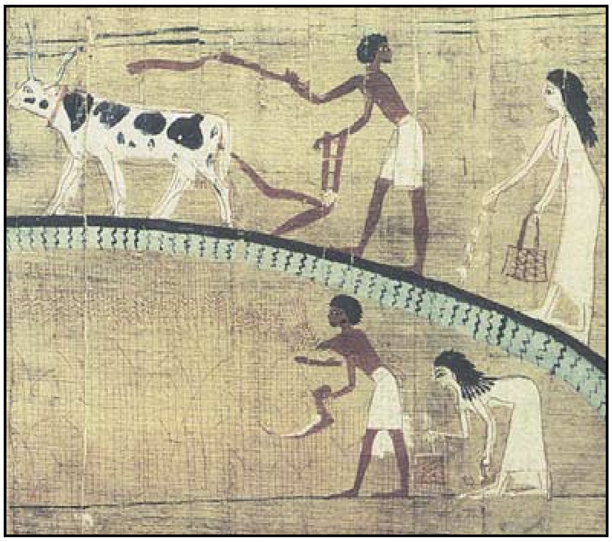
His Highness
Sheikh Nasser Al Mohammed Al Ahmad Al Sabah
The Prime Minister of the State of Kuwait

Investment



Investment is a term with several closely related meanings. In general terms, investment is the use of money to make more money.

Investing in agriculture



The practice of agriculture first began around 8000 BC in the fertile crescent of Mesopotamia with numerous investments over the years vastly improving efficiency.

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Cattle... the oldest form of money

Cattle were mankind's first working capital assets, and in 6000 BC the first and oldest form of money and investment.

Board of Directors

Saleh Yacoub Al Homaizi
Chairman

Abdul Rahman Ali Al Saeed
Vice Chairman and CEO

Wael Jassim Al Sager
Member

Fadwa Yacoub Al Homaizi
Member

Riham Fouad Al Ghanim
Member

Mahmoud Imam Yassin
Member

Sulaiman Abdulla Al Muraikhi
Member

Art investment

Art as an investment, whether it's Venetian glass, Egyptian pottery or Chinese porcelain dates back to as far as 300 BC.

Management

Abdul Rahman Ali Al Saeed
Vice Chairman and CEO

Majed Abdul Rahim
Chief Operating Officer

Hamzah Mahmoud Behbehani
Executive Vice President
Investment Division

Osama Nasr El Din Mohamed
Chief Financial Officer

Savio Gomes
Executive Vice President
Corporate Finance

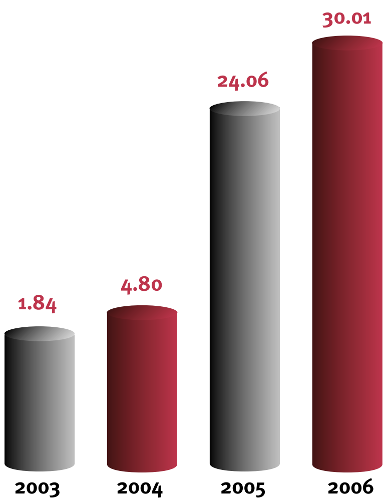
Wael Mahmoud Bahbahani
Senior Vice President
Information Technology Division

Faisal Ali Al Osaimi
Senior Vice President
Portfolio Management

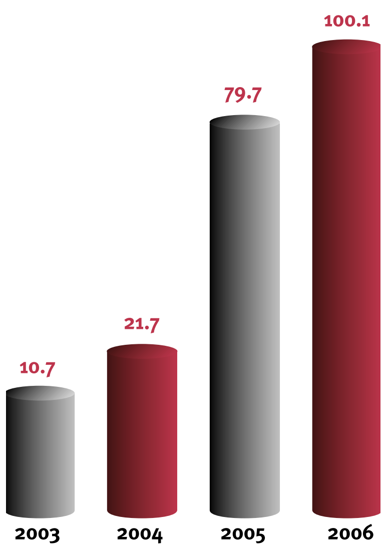
Abdul Aziz Mohamed Al Roomi
Assistant Vice President
Finance

Investing in real estate

The 13th century European feudal system of land ownership was the starting-point of property investment.



Net Profit (KD Million)



Earning Per Share (Fils)

Chairman's Message

Dear Shareholders...

A year has passed and we meet again to review your company's sixth annual report for the fiscal year ended 31 December, 2006.

It is my greatest pleasure to announce on behalf of the board of directors and my self that since our great success in 2005, Year 2006 has been more than a successful follow-up indeed. Your company has achieved considerable profit in 2006 that has not only surpassed the preceding years but exceeded all expectations for the regional financial markets. Year 2006 has been a real challenging year for performance and strategies of all companies working in the same sector and our results confirm our competitive status both locally and regionally.

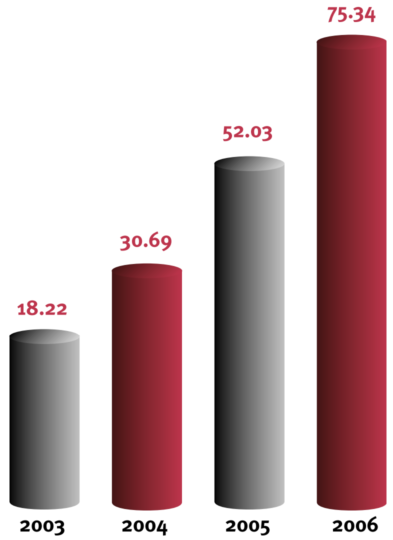
Your company has finalized year 2006 with confidence and prudent leadership through contemplated and well researched goals in addition to flexibility in coping with any trends in the region. The prior attributes have propelled your company's continuous growth despite the observed decline in regional markets.

Without hesitation, we acknowledge your highly appreciated and supportive confidence in the company's board of directors and executive management since it is the driving force behind the company's increased performance that went above and beyond all expectations.

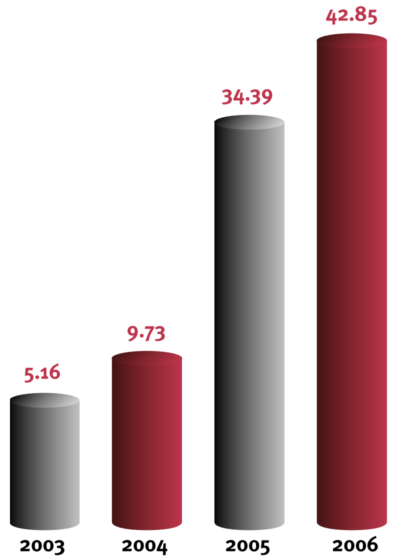
Your company's strategy, in diversifying income sources and concentration on management fees (portfolios and funds) and not dismissing the importance of consistent

Investment in stock exchanges

The first stock exchanges date back to ancient Greece and Rome. Belgium built the first modern stock exchange, the Antwerp in the 16th century.



Equity (KD Million)



Total Income (KD Million)

revenue from the financing sector, has succeeded in attaining the difficult aims of maintaining consistent income patterns and achieving higher growth rates.

Your company's results for the fiscal year ended 31/12/2006 of 100.1 fils per share is considered exceptional by all criteria's particularly when compared to prior year of 79.7 fils per share, representing an increase of approximately 25.5%. Total profits have reached KD 30 million compared to KD 24 million, representing a 25% increase.

Additionally, shareholder's equity increased from KD 52 million to KD 75.3 million, representing a 45% increase. Moreover, the company's total assets rose up to KD 177 million compared to KD 132 million, representing a 34% increase.

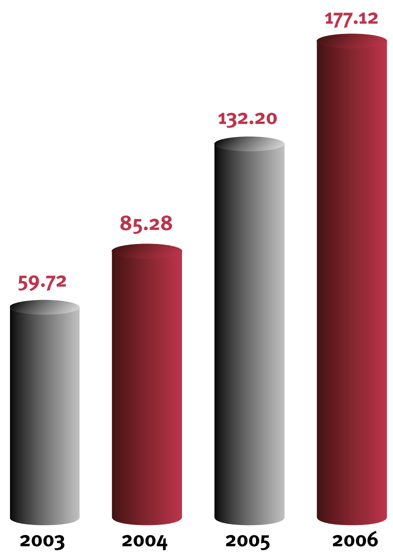
Most of the company's profits are realized profits with total management & advisory fees of KD 18.6 million in 2006 compared to KD 15.3 million in 2005, representing a 21.5% increase, this was mainly due to the increase of total assets under management.

Investment income reached KD 14.2 million in 2006 compared to KD 10.5 million in 2005, representing a 35.2% increase. This is mainly due to the company's selection of quality investments with the lowest possible risk.

Financing income reached KD 9.9 million in 2006 compared to KD 8.6 million in 2005, representing 15.1% increase. This is confirming the company's commitment to consistent growth in the consumer finance sector as a source of consistent revenue to the company.

Foreign investments

The history of foreign investments can be traced back to the Ottoman Empire when investments in factories and other enterprises were made by Western European capitalists.



Totat Assets (KD Million)

Dearest shareholders,

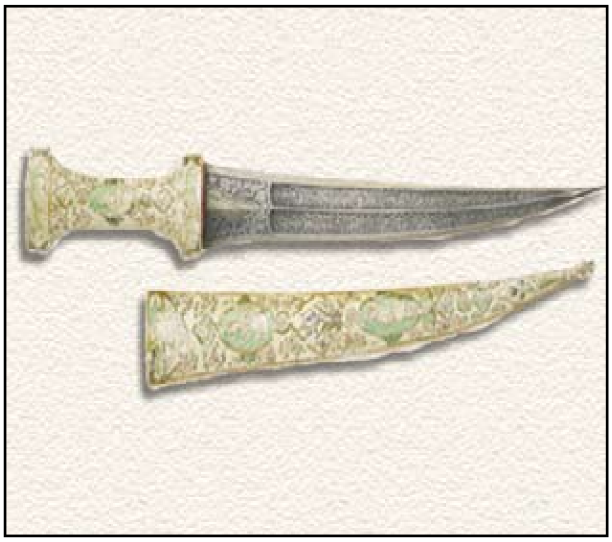
As a result of the exceptional profits achieved this year, the board of directors recommends the following dividends for the year ended 31 December, 2006:
- 50% cash dividends
- 15% stock dividends (bonus shares)

I would like to take this opportunity to express gratitude on behalf of the company's board of directors, employees and myself to thank the shareholders for their constant support. I would also like to extend my appreciation to the executive management for their dedication and commitment. We hope that our recommendations will be approved.

I would also like to thank the Central Bank of Kuwait (CBK), the Ministry of commerce and industry and all government agencies for their support.

Finally, I pray to our mighty Allah to Protect Kuwait and its people under the leadership of His Highness the Amir and His Highness the Crown Prince.

Investing in antiques



Investment in antiques goes back to the rise of capitalism, where people with more disposable income used it to buy in investment grade antiques.

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of Kuwait Finance and Investment Company K.S.C.C. which comprise the balance sheet as of 31 December 2006, and the 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 financial statements
The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted for use by the state of Kuwait for financial institutions regulated by the Central Bank of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the state of Kuwait.

Furthermore, in our opinion, proper books of accounts have been kept by the Company and the financial statements, together with the contents of the report of the Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of provision of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2006 that might have had a material effect on the business of the Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the year ended 31 December 2006.

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

Barrak Al-Ateeqi
Licence No. 69 A
An Independent Member of
B.K.R. International

Kuwait 19 February 2007

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

Balance Sheet as of 31 December 2006

(All amounts are in Kuwaiti Dinars)

	Note	2006	2005
ASSETS			
Bank balances	3	1,074,843	1,030,812
Investments at fair value through profit and loss	4	42,480,699	1,681,582
Finance receivables	5	91,337,766	91,504,998
Available for sale investments	6	38,078,313	25,956,499
Other assets	7	3,435,498	11,261,690
Properties and equipments	8	716,247	762,680
TOTAL ASSETS		177,123,366	132,198,261
LIABILITIES AND EQUITY			
LIABILITIES			
Bank overdraft	3	6,222,591	1,287,890
Term loans	9	67,955,500	42,000,000
Bonds	10	21,382,042	21,344,792
Other liabilities	11	6,228,719	15,537,468
		101,788,852	80,170,150
EQUITY			
Share capital	12	30,384,761	24,307,809
Share premium		2,210,849	2,210,849
Treasury shares	13	(5,556,022)	(2,505,050)
Statutory reserve	14	6,681,717	3,562,680
General reserve	15	5,752,124	3,063,019
Changes in fair value reserve		3,015,552	697,069
Treasury shares reserve		1,094,117	1,031,419
Retained earnings		31,751,416	19,660,316
		75,334,514	52,028,111
TOTAL LIABILITIES AND EQUITY		177,123,366	132,198,261

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

Saleh Yacoub Al Humaizi
Chairman

Abdulrahman Ali Al Saeed
Vice Chairman & CEO

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

Statement of Income - Year ended 31 December, 2006

(All amounts are in Kuwaiti Dinars)

	Note	2006	2005
INCOME			
Financing income		9,878,194	8,587,230
Investment income	18	14,215,057	10,471,370
Management and advisory fees		18,641,539	15,292,390
Other income		111,046	42,488
		42,845,836	34,393,478
EXPENSES			
Finance cost		5,917,153	4,656,809
Staff expenses		4,004,561	2,918,846
Depreciation		278,417	180,004
Marketing expenses		379,661	290,754
Other operating expenses		1,105,564	813,568
Provisions		(29,892)	576,305
Contribution to Kuwait Foundation for the Advancement of Science		280,713	224,615
Directors' remuneration		120,000	120,000
National labour support tax		779,575	552,921
		12,835,752	10,333,822
Net profit for the year		30,010,084	24,059,656
Earnings per share (fils)	19	100.1	79.7

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

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

Statement of Changes in Equity - Year ended 31 December, 2006

(All amounts are in Kuwaiti Dinars)

	Share capital	Share premium	Treasury shares	Statutory reserve	General reserve	Changes in fair value reserve	Treasury shares reserve	Retained earnings	Total
Balance at 31 December 2004	22,098,008	2,210,849	(869,321)	1,066,961	906,625	1,620,150	85,017	3,567,474	30,685,763
Change in fair value of investments	-	-	-	-	-	4,251,517	-	-	4,251,517
Transferred to the statement of income on sale of investments	-	-	-	-	-	(5,174,598)	-	-	(5,174,598)
Profit from sale of treasury shares	-	-	-	-	-	-	946,402	-	946,402
Profits recognized directly in equity	-	-	-	-	-	(923,081)	946,402	-	23,321
Net profit for the year	-	-	-	-	-	-	-	24,059,656	24,059,656
Total recognized profit	-	-	-	-	-	(923,081)	946,402	24,059,656	24,082,977
Issue of bonus shares	2,209,801	-	-	-	-	-	-	(2,209,801)	-
Cash dividends for 2004	-	-	-	-	-	-	-	(1,104,900)	(1,104,900)
Purchase of treasury shares	-	-	(12,953,092)	-	-	-	-	-	(12,953,092)
Sale of treasury shares	-	-	11,317,363	-	-	-	-	-	11,317,363
Transfers to reserves	-	-	-	2,495,719	2,156,394	-	-	(4,652,113)	-
Balance at 31 December 2005	24,307,809	2,210,849	(2,505,050)	3,562,680	3,063,019	697,069	1,031,419	19,660,316	52,028,111
Balance at 31 December 2005	24,307,809	2,210,849	(2,505,050)	3,562,680	3,063,019	697,069	1,031,419	19,660,316	52,028,111
Change in fair value of investments	-	-	-	-	-	1,984,215	-	-	1,984,215
Transferred to the statement of income on sale of investments	-	-	-	-	-	334,268	-	-	334,268
Profit from sale of treasury shares	-	-	-	-	-	-	62,698	-	62,698
Profit directly recognized in equity	-	-	-	-	-	2,318,483	62,698	-	2,381,181
Net profit for the year	-	-	-	-	-	-	-	30,010,084	30,010,084
Total recognized profit	-	-	-	-	-	2,318,483	62,698	30,010,084	32,391,265
Issue of bonus shares (Note 16)	6,076,952	-	-	-	-	-	-	(6,076,952)	-
Cash dividends for 2005 (Note 16)	-	-	-	-	-	-	-	(6,033,890)	(6,033,890)
Purchase of treasury shares	-	-	(24,880,234)	-	-	-	-	-	(24,880,234)
Sale of treasury share	-	-	21,829,262	-	-	-	-	-	21,829,262
Transfers to reserves	-	-	-	3,119,037	2,689,105	-	-	(5,808,142)	-
Balance at 31 December 2006	30,384,761	2,210,849	(5,556,022)	6,681,717	5,752,124	3,015,552	1,094,117	31,751,416	75,334,514

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

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

Statement of Cash Flows - Year ended 31 December, 2006

(All amounts are in Kuwaiti Dinars)

	Note	2006	2005
Operating Activities			
Net profit for the year		30,010,084	24,059,656
Adjustments for:			
Available for sale investments		(846,139)	(5,943,609)
Finance costs		5,917,153	4,656,809
Depreciation		278,417	180,004
Provisions		(29,892)	576,305
Amortisation of bond issue fees		37,250	31,042
Losses from sale of properties and equipment		6,904	-
Interest income		-	(29,438)
Operating profit before changes in operating assets and liabilities:		35,373,777	23,530,769
Finance receivables		197,124	(23,219,110)
Investments at fair value through profit and loss		(40,799,117)	5,922,038
Other assets		7,826,192	(10,285,760)
Other liabilities		(9,439,120)	12,864,732
Net cash (used in) /generated from operating activities		(6,841,144)	8,812,669
Investing Activities			
Purchase of properties and equipment		(249,889)	(703,561)
Proceeds from sale of properties and equipment		11,000	-
Dividends received		1,781,162	187,665
Interest received		-	29,438
Purchase of available for sale investments		(16,637,882)	(37,026,516)
Proceeds from sale of available for sale investments		5,899,529	21,223,214
Loans & receivables		-	1,500,000
Net cash used in investing activities		(9,196,080)	(14,789,760)
Financing Activities			
Term loans		25,955,500	(9,000,000)
Proceeds from bonds		-	21,313,750
Finance cost paid		(5,786,782)	(4,301,573)
Purchase of treasury shares		(24,880,234)	(12,953,092)
Sale of treasury shares		21,891,960	12,263,765
Dividends paid		(6,033,890)	(1,104,900)
Net cash generated from financing activities		11,146,554	6,217,950
(Decrease)/ increase in cash and cash equivalents		(4,890,670)	240,859
Cash and cash equivalents at beginning of year		(257,078)	(497,937)
Cash and cash equivalents at end of year	3	(5,147,748)	(257,078)

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

1. Constitution of activities

Kuwait Finance and Investment Company K.S.C.C. (the Company) is a Kuwaiti closed shareholding Company incorporated on 29 March 2000 in accordance with Commercial Companies Law No. 15 of 1960. The Company is regulated by the Central Bank of Kuwait as an investment company.

The Company is principally engaged in consumer and commercial financing activities and managing funds and portfolios on behalf of third parties, investing in securities and providing consulting services. Its registered office is at Building No. 2, Rashid Salim Ali Al-Rashid Building, Murqab, Kuwait City.

These financial statements were authorized for issue by the Board of Directors on 19 February 2007 and are subject to the approval of the shareholders.

2. Significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted for use in the state of Kuwait for financial institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRS except for the IAS 39 requirements for collective provisions, which have been replaced by the Central Bank of Kuwait's requirements for a minimum general provision as described in note (2.3).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available for sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note (25).

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Company:

IFRS 7 *Financial Instruments: Disclosures*
IAS 1 Presentation of Financial Statements: capital Disclosure
IFRIC Interpretation 8 *Scope of IFRS 2*
IFRIC Interpretation 10 *Interim Financial Reporting and Impairment*
IFRIC Interpretation 11 *IFRS 2 – Group and Treasury Share Transactions*

The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks. The application of other amendments and interpretations, which will be effective for the year ending 31 December 2007, is not expected to have a material impact on the financial statements of the Company.

2.2 Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents comprise balances less than three months maturity from the date of acquisition including cash and bank balances and short term deposits, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value, net of outstanding bank overdrafts.

Basis of preparations and significant accounting policies (Continued)

2.3 Financial Instruments – Classification, recognition and measurement

Classification

The management classifies its financial assets upon acquisitions. The company had classified its financial assets as “at fair value through profit and loss”, “loans and receivables” and “available for sale”.

Financial assets at fair value through profit and loss

Financial assets “carried at fair value through profit and loss” are divided into two sub categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. Financial assets held for trading are those assets acquired principally for the purpose of selling in the short term. The financial assets designated at fair value through profit and loss at inception are classified in this category, if they are managed and their performance is evaluated and internally reported on a fair value basis in accordance with a documented investment strategy.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides financing directly to a customer with no intention of trading the receivables.

Available for sale financial assets

These are non-derivative financial assets that are either designated in this category or not included in any of the above categories and are principally, those acquired to be held for indefinite period of time which could be sold when liquidity is needed or upon changes in rates of profit.

Recognition and De-recognition

Financial assets are recognized when the company enters into contractual agreement on these assets. Purchases and sales of financial assets are recognised on the settlement date, on which the company delivers or receives the asset. Financial assets are derecognised when the right to receive cash flows from the assets has expired or has been transferred and the company has substantially transferred all risks and rewards of ownership.

Measurement

Financial assets are initially recognised at fair value plus transaction costs for all assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Subsequently, available for sale financial assets and financial assets at fair value through profit and loss are remeasured at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss are included in the income statement for the year in which they arise. Changes in fair value of financial assets classified as available for sale are recognised in equity. When available-for sale financial assets are sold or impaired, the accumulated changes in fair value recognised in equity are included in the income statement.

Basis of preparations and significant accounting policies (Continued)

Fair values

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unquoted securities) the Company establishes the fair values by, reference to other instruments that are substantially the same, expected discounted cash flows analysis after adjustment to reflect the same circumstances of the issuing company, and option pricing models. Available for sale investments, which its fair value have not been determined, are carried at cost less impairment losses.

Impairment in value

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative losses-measured as the difference between the acquisition cost and the current faire value less any impairment losses on that financial asset previously recognized in the profit or loss- is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

A specific provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of specific provision is the difference between the asset's carrying amount and present value of the estimated cash flows, including the amounts recoverable from guarantees and collateral, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

In addition, in accordance with the Central Bank of Kuwait instructions, a minimum general provision of 2% of all receivables net of certain restricted categories of collateral, and not subject to specific provision, is made.

2.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the acquisition cost and any direct cost necessary to prepare the asset for its financial intended use. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income.

Depreciation is computed on a straight-line basis over the estimated useful lives of 1-5 years. The useful life is reviewed and adjusted if appropriate, at each balance sheet date.

2.5 Provisions

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

2.6 Borrowings

These are financial liabilities created by the borrowing contract. They are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently re-measured and carried at amortised cost using the effective interest method. Borrowings cost is expensed on a time proportion basis.

Basis of preparations and significant accounting policies (Continued)

2.7 End of service benefits

The Company is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at cessation of employment.

The defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of all employees on the balance sheet date. This basis is considered to be a reliable approximation of the present value of the Company's liability.

2.8 Treasury shares

The treasury shares consists of the Company's own shares that have been purchased. The consideration paid is deducted from equity. When treasury shares are reissued or cancelled, gains are credited to a separate account in the equity (Gain on sale of treasury shares), which is not distributable. Any realized losses are charged to the same account to extent of the credit balance in that account. Any excess are charged to retained earnings and then to reserves.

2.9 Revenue recognition

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

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

Management and advisory services fees are recognized as the service is provided and the revenue is earned based on the applicable service contracts.

2.10 Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinars at the rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the exchange rate ruling at the balance sheet date. The resultant gains or losses are taken to the statement of income. Foreign exchange differences resulting from translating non monetary financial assets which are carried at its fair value are considered part from the change in the fair value of those assets.

2.11 Fiduciary Assets

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

3. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2006	2005
Bank balances	1,074,843	1,030,812
Bank overdraft	(6,222,591)	(1,287,890)
	(5,147,748)	(257,078)

4. Investment at fair value through profit and loss

	2006	2005
Held for trading investments - quoted	14,739,382	1,681,582
Designated at fair value at inception	27,741,317	-
	42,480,699	1,681,582

Investments designated at fair value at inception include unquoted investments amounted to KD 17,385,578 which its fair value have been determined by reference to the latest deals on those investments.

5. Finance receivables

	2006	2005
Gross receivables	104,495,743	106,109,161
Less: deferred income	(10,527,482)	(11,943,776)
	93,968,261	94,165,385
Less: provision for credit losses	(2,630,495)	(2,660,387)
	91,337,766	91,504,998

The fair value of the financing receivables as at the balance sheet date is KD 94,964,461 (2005: KD 98,047,943).

6. Available for sale investments

Available for sale investments include investments in unquoted securities amounted to KD 4,738,587 carried at cost as they are recently purchased. Currently there are no indicators of impairment of these investments.

7. Other assets

	2006	2005
Kuwait clearing company	896,901	1,334,021
Other debit balances	679,288	3,439,027
Accrued income	1,424,417	6,337,226
Prepayments	434,892	151,416
	3,435,498	11,261,690

8. Properties and equipments

	Office equipment	Furniture and fixtures	Vehicles	Total
Cost				
At 1 January 2006	783,657	379,339	41,292	1,204,288
Additions	157,928	35,561	56,400	249,889
Disposals	-	-	(34,544)	(34,544)
At 31 December 2006	941,585	414,900	63,148	1,419,633
Accumulated depreciation				
At 1 January 2006	205,750	219,223	16,635	441,608
Charge for the year	208,632	57,927	11,859	278,418
Disposals	-	-	(16,640)	(16,640)
At 31 December 2006	414,382	277,150	11,854	703,386
Net book value				
At 31 December 2006	527,203	137,750	51,294	716,247
At 31 December 2005	577,907	160,116	24,657	762,680

9. Term loans

The loans have been obtained from financial institutions and local mutual funds, with an average interest rates 7.42% as of 31 December 2006 (7.50% as of 31 December 2005). Term loans include loans of KD 10,000,000 secured by finance receivables of KD 12,000,000.

During the year, the Company has obtained a syndicated loan with US Dollars equivalent to KD 28,955,500 against a promise of a negative pledge on any of the Company's assets, other than what has been disclosed, during the duration period of the loan which is three years.

Term loans mature as follows:

	2006	2005
Within one year	41,651,833	33,000,000
Between one and two years	11,651,833	2,000,000
Between two and five years	14,651,834	6,000,000
Above 5 years	-	1,000,000
	67,955,500	42,000,000

10. Bonds

On 1 March 2005, the Company issued bonds at floating interest rate with a principal amount of KD 21,500,000 at an issue price of 100%. The bonds bear interest of 1.5% per annum above the Central Bank of Kuwait discount rate and are payable semi-annually. The bonds will mature on 1 March 2010.

11. Other liabilities

	2006	2005
Payable to suppliers and others	1,100,111	723,953
Amounts due to related parties	47,893	58,074
Employees' end of service benefits	126,989	104,533
Accrued expenses and other payables	4,953,726	14,650,908
	6,228,719	15,537,468

12. Share capital

The shareholders at the annual general meeting held on 10 April 2006 approved the issuance of 60,769,522 bonus shares for 2005 profit. Accordingly, the authorized, issued, and fully paid up capital is KD 30,384,761 comprising of 303,847,611 shares, 100 fils each (31 December 2005: KD 24,307,809 comprising of 243,078,089 shares, 100 fils each).

13. Treasury shares

	2006	2005
Number of shares (share)	7,300,000	2,335,000
% to the share capital	2.4%	0.96%
Market value (KD)	5,110,000	2,615,200

14. Statutory reserve

As required by the Commercial Companies Law and the Company's Articles of Association, 10 % of the net profit for the year before contribution to Kuwait Foundation for Advancement of sciences, directors' remuneration, and National Labor Support Tax has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50 % of the issued share capital.

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

15. General reserve

The board of directors of the Company has proposed a transfer of 10% of the net profit for the year after transfer to statutory reserve, contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and director's remuneration to the general reserve of KD 2,689,105 (2005: KD 2,156,394) subject to the approval of the shareholders' General Assembly. There are no restrictions on the distribution of the general reserve.

16. Dividends

On 10 April 2006, the shareholders approved the financial statements for the year ended 31 December 2005 and approved the following dividends for the year 2005:

- Cash dividends of 25 fils per share
- Bonus shares dividends of 25% for each share

17. Proposed dividends

On 19 February 2007, the Board of Directors proposed cash dividends of 50 fils per share after treasury shares deduction and bonus share dividends of 15 % of the paid up capital for the year 2006 profit.

This proposal is subject to the approval of the shareholders' General Assembly.

18. Investment income

	2006	**2005**
Available for sale Investments		
Cash dividends	478,164	187,665
Profit on sale	367,975	5,755,944
	846,139	5,943,609
At fair value through profit and loss		
Profit on sale	1,450,307	4,580,142
Changes in fair value	11,918,611	(81,819)
	13,368,918	4,498,323
Interest from debit instruments	-	29,438
	14,215,057	10,471,370

Profit from investment at fair value through profit and loss include an amount of KD 4,966,914 represents changes in fair value of unquoted investments which its fair value have been determined by reference to the latest deals on those investments.

19. Earnings per share

Earnings per share is computed by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year as follows:

	2006	2005 (Restated)
Net profit for the year	30,010,084	24,059,656
Weighted average number of outstanding shares during the year	299,849,301	301,752,685
Earnings per share (fils)	100.1	79.7

Earnings per share of the previous year have been restated to account for the effect of bonus shares issued during 2006.

20. Related parties transactions

These represent transactions with related parties i.e. shareholders represented by directors of the Company and their related concerns. Pricing policies and terms of these transactions are approved by the Company's management. Transactions with related parties are as follows:

	2006	2005
Management and advisory fees	237,187	285,413
Off balance sheet items	-	-
Investment portfolio managed for others	61,996,393	80,384,558

21. Risk management

21.1 Credit risk

The Company's credit policy and exposure to credit risk is monitored on an ongoing basis. The Company seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of lending activities. It also obtains security when appropriate.

There are no significant concentrations of credit risk with respect to finance receivables.

21.2 Liquidity risk

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

The table below summarises the maturity profile of the company's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period from the balance sheet date to the contractual maturity date.

Maturity profile of assets and liabilities at 31 December 2006:

	Up to 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	Over 3 years	Total
ASSETS							
Bank balances	1,074,843	-	-	-	-	-	1,074,843
Investment at fair value through profit and loss	-	42,480,699	-	-	-	-	42,480,699
Finance receivables	6,606,171	16,652,611	11,965,478	30,167,482	20,837,349	5,108,675	91,337,766
Available for Sale Investments	-	-	-	-	38,078,313	-	38,078,313
Other assets	-	3,435,498	-	-	-	-	3,435,498
Properties and equipments	-	-	-	-	-	716,247	716,247
	7,681,014	62,568,808	11,965,478	30,167,482	58,915,662	5,824,922	177,123,366
LIABILITIES							
Bank overdraft	6,222,591	-	-	-	-	-	6,222,591
Term loans	30,000,000	1,000,000	-	10,651,833	23,303,667	3,000,000	67,955,500
Bonds	-	-	-	-	-	21,382,042	21,382,042
Other liabilities	-	6,228,719	-	-	-	-	6,288,719
	36,222,591	7,228,719	-	10,651,833	23,303,667	24,382,042	101,788,852
Net liquidity gap	(28,541,577)	55,340,089	11,965,478	19,515,649	35,611,995	(18,557,120)	75,334,514

Maturity profile of assets and liabilities at 31 December 2005:

	Up to 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	Over 3 years	Total
ASSETS							
Bank balances	1,030,812	-	-	-	-	-	1,030,812
Finance receivables	4,812,735	6,419,830	15,209, 855	31,894,721	26,185,409	6,982,448	91,504,998
Investment at fair value through profit and loss	-	1,681,582	-	-	-	-	1,681,582
Available for sale Investments	-	-	-	-	25,956,499	-	25,956,499
Other assets	-	11,261,690	-	-	-	-	11,261,690
Properties and equipments	-	-	-	-	-	762,680	762,680
	5,843,547	19,363,102	15,209,855	31,894,721	52,141,908	7,745,128	132,198,261
LIABILITIES							
Bank overdraft	1,287,890	-	-	-	-	-	1,287,890
Term loans	13,500,000	11,500,000	7,000,000	1,000,000	4,000,000	5,000,000	42,000,000
Bonds	-	-	-	-	-	21,344,792	21,344,792
Other liabilities		15,537,468	-	-	-	-	15,537,468
Net liquidity gap	14,787,890	27,037,468	7,000,000	1,000,000	4,000,000	26,344,792	80,170,150
	(8,944,343)	(7,674,366)	8,209,855	30,894,721	48,141,908	(18,599,664)	52,028,111

21.3 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

21.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The company is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

21. Risk management (continued)

The company's interest sensitivity position based on contractual re-pricing arrangements or the maturity dates which ever is closer at 31 December 2006 was as follows:

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing items	Total	Effective interest rate range From	To
Assets									
Bank balances	1,074,843	-	-	-	-	-	1,074,843	0.75%	5.13%
Investment at fair value through profit and loss	-	-	-	-	-	42,480,699	42,480,699		
Finance receivables	23,258,782	11,965,478	30,167,482	20,837,349	5,108,675	-	91,337,766	5.75%	10.25%
Available for sale investments	-	-	-	-	-	38,078,313	38,078,313		
Other assets	-	-	-	-	-	3,435,498	3,435,498		
Properties and equipments	-	-	-	-	-	716,247	716,247		
Total assets	24,333,625	11,965,478	30,167,482	20,837,349	5,108,675	84,710,757	177,123,366		
Liabilities and Equity									
Liabilities									
Bank overdraft	6,222,591	-	-	-	-	-	6,222,591	7.5%	8.75%
Term loans	31,000,000	-	10,651,833	23,303,667	3,000,000	-	67,955,500	6%	8.5%
Bonds	-	-	-	-	21,382,042	-	21,382,042	7.75%	7%
Other liabilities		-	-	-	-	6,228,719	6,228,719		
Total liabilities	37,222,591	-	10,651,833	23,303,667	24,382,042	6,228,719	101,788,852		
Equity									
Share capital	-	-	-	-	-	30,384,761	30,384,761		
Share premium	-	-	-	-	-	2,210,849	2,210,849		
Treasury shares	-	-	-	-	-	(5,556,022)	(5,556,022)		
Statutory reserve	-	-	-	-	-	6,681,717	6,681,717		
General reserve	-	-	-	-	-	5,752,124	5,752,124		
Fair Value reserve	-	-	-	-	-	3,015,552	3,015,552		
Treasury share reserve	-	-	-	-	-	1,094,117	1,094,117		
Retained earnings	-	-	-	-	-	31,751,416	31,751,416		
Total equity	-	-	-	-	-	75,334,514	75,334,514		
Total equity and liabilities	37,222,591	-	10,651,833	23,303,667	24,382,042	81,563,233	177,123,366		
On-balance sheet interest sensitivity gap	(12,888,966)	11,965,478	19,515,649	(2,466,318)	(19,273,367)	3,147,524	-		

(All amounts are in Kuwaiti Dinars unless otherwise stated)

21. Risk management (continued)

The company's interest sensitivity position based on contractual re-pricing arrangements or the maturity dates which ever is closer at 31 December 2005 was as follows:

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing items	Total	Effective interest rate range From	Effective interest rate range To
Assets									
Bank balances	1,030,812	-	-	-	-	-	1,030,812	0.75%	4.13%
Investment at fair value through profit & loss	-	-	-	-	-	1,681,582	1,681,582		
Finance receivables	11,232,565	15,209,855	31,894,721	26,185,409	6,982,448	-	91,504,998	4.75%	10%
Availble for sale investments	-	-	-	-	-	25,956,499	25,956,499		
Other assets	-	-	-	-	-	11,261,690	11,261,690		
Properties and equipments	-	-	-	-	-	762,680	762,680		
Total assets	12,263,377	15,209,855	31,894,721	26,185,409	6,982,448	39,662,451	132,198,261		
Liabilities and Equity									
Liabilities									
Bank overdraft	1,287,890	-	-	-	-	-	1,287,890	6.88%	8%
Term loans	25,000,000	7,000,000	1,000,000	4,000,000	5,000,000	-	42,000,000	4.5%	8.5%
Bonds	-	-	-	-	21,344,792	-	21,344,792	6.5%	7%
Other liabilities	-	-	-	-	-	15,537,468	15,537,468		
Total liabilities	26,287,890	7,000,000	1,000,000	4,000,000	26,344,792	15,537,468	80,170,150		
Equity									
Share capital	-	-	-	-	-	24,307,809	24,307,809		
Share premium	-	-	-	-	-	2,210,849	2,210,849		
Treasury shares	-	-	-	-	-	(2,505,050)	(2,505,050)		
Statutory reserve	-	-	-	-	-	3,562,680	3,562,680		
General reserve	-	-	-	-	-	3,063,019	3,063,019		
Fair Value reserve	-	-	-	-	-	697,069	697,069		
Treasury share reserve	-	-	-	-	-	1,031,419	1,031,419		
Retained earnings	-	-	-	-	-	19,660,316	19,660,316		
Total equity	-	-	-	-	-	52,028,111	52,028,111		
Total equity and liabilities	26,287,890	7,000,000	1,000,000	4,000,000	26,344,792	67,565,579	132,198,261		
On-balance sheet interest sensitivity gap	(14,024,513)	8,209,855	30,894,721	22,185,409	(19,362,344)	(27,903,128)	-		

21. Risk management (continued)

21.3.2 Foreign currency risk

Foreign exchange risk is represented in changes of exchange rates that affect cash flows and out flows in foreign currency and valuations of assets and liabilities in foreign currency. Most of company's transactions are in local currency. Accordingly the company is not opposed to this risk. Foreign currency risk is managed through dealing basically with local currency, also following up on periodic exchange rates.

21.3.3 Fair values

Fair value is the value of which the asset can be exchanged or a liability settled between knowing parties.

The fair values of financial instruments carried at amortised cost are approximately equal their carrying values at the balance sheet date.

22. Employee share ownership plan

The Company has established an Employee Share Ownership Plan (the "plan"). Under the plan, the Company operates two schemes to reward the performance of its employees, namely a Share Purchase Scheme (SPS) and a Share Option Scheme (SOS). Both schemes will be in operation for a period of 10 years and the total capital increase to meet the requirements of the schemes should not exceed 15% of the company's share capital at the end of 2012.

The subscription price for the shares allotted is the book value per share at the end of each year adjusted by any dividend distribution for that fiscal year.

No outstanding shares according to the plan as of 31 December 2006.

23. Segment Information

The Company is organized into two major business segments operating principally in the state of Kuwait.

	Finance		Investment		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Segment results	9,989,240	8,629,718	32,856,596	25,763,760	42,845,836	34,393,478
Allocated expenses	(4,784,436)	(5,358,694)	(6,791,028)	(4,077,592)	(11,575,464)	(9,436,286)
Unallocated expenses	-	-	-	-	(1,260,288)	(897,536)
Net profit	5,204,804	3,271,024	26,065,568	21,686,168	30,010,084	24,059,656
Segment assets	92,855,116	92,914,882	84,268,250	39,283,379	177,123,366	132,198,261
Segment liabilities	98,685,624	67,301,873	3,103,228	12,868,277	101,788,852	80,170,150

24. Capital Commitments

	2006	**2005**
Share of joint venture capital	-	7,939,000
Purchase of available for sale investments	275,000	-

25. Significant estimates and judgments

Judgements

According to the Company's accounting policies included in the International Financial Reporting Standards that required management to make the following judgements and estimations, which may have effect on the amounts of assets and liabilities.

Classification of financial instruments

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

Evidence of impairment

When there is a significant or prolonged decline in the fair value of available for sale investments, the management uses estimates and objective evidences to assess whether impairment exists.

At each balance sheet date, management determines whether there is an impairment of the available for sale investment values.

The determination of the impairment requires considerable judgement and involves evaluating factors including industry and market conditions.

Estimation uncertainty

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

Fair value of unquoted equity investments

Valuation techniques of unquoted equity investments is in which estimates are used representing the expected cash flows discount rates, return trades, adjusted local market prices, credit risks, related cost and other valuation techniques leased by the practices generally.

The company calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

Impairment losses on loans and receivables

The company reviews non performing loans on an ongoing basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

26. Fiduciary assets

As of 31 December 2006, portfolios under management amounted to KD 688,773,719 (2005 – KD 884,447,850).