

**Credit One Kuwait Holding Company  
K.S.C. (Closed) and its Subsidiary  
CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CREDIT ONE KUWAIT HOLDING COMPANY K.S.C. (CLOSED)**

We have audited the accompanying consolidated financial statements of Credit One Kuwait Holding Company K.S.C. (Closed) ("the Parent Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of cash flow and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### **Auditors' Responsibility**

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
CREDIT ONE KUWAIT HOLDING COMPANY K.S.C. (CLOSED) (continued)**

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Matters**

Furthermore, in our opinion proper books of account have been kept by the Parent Company's and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association of the Parent Company have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Group or on its financial position.

A handwritten signature in black ink, appearing to read 'Waleed A. Al Osaime', written over a horizontal line.

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

14 March 2010

Kuwait

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Notes	2009 KD	2008 KD
Revenues	3	7,751,424	8,262,730
Finance cost		(1,878,683)	(2,388,468)
Net income		5,872,741	5,874,262
Murabaha income		-	1,215
Administrative expenses		(1,008,440)	(1,529,232)
Provision for doubtful debts	7	(1,926,929)	(1,055,537)
<b>PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), ZAKAT AND DIRECTORS' FEES</b>		<b>2,937,372</b>	<b>3,290,708</b>
Contribution to KFAS		(26,436)	(29,616)
Zakat		(29,374)	(32,907)
Directors' fees	13	(50,000)	(41,000)
<b>PROFIT FOR THE YEAR</b>		<b>2,831,562</b>	<b>3,187,185</b>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	4	<b>2,831,562</b>	<b>3,187,185</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	5	<b>14 fils</b>	<b>13 fils</b>

The attached notes 1 to 16 form part of these consolidated financial statements.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 KD	2008 KD
<b>ASSETS</b>			
Cash and cash equivalents	6	3,236,307	2,298,309
Other receivables		131,994	92,755
Amounts due under instalment credit agreements	7	57,921,184	61,640,260
Furniture and equipment		8,855	100
Goodwill	8	5,875,738	5,875,738
<b>TOTAL ASSETS</b>		<b>67,174,078</b>	<b>69,907,162</b>
<b>LIABILITIES AND EQUITY</b>			
Account payables and accruals	9	5,450,782	8,104,840
Bank borrowings	10	31,200,000	34,150,000
Employees' end of service benefits		109,140	69,728
<b>Total liabilities</b>		<b>36,759,922</b>	<b>42,324,568</b>
<b>Equity</b>			
Share capital	11	20,000,000	20,000,000
Statutory reserve	12	1,076,009	782,272
Retained earnings		9,338,147	6,800,322
<b>Total equity</b>		<b>30,414,156</b>	<b>27,582,594</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>67,174,078</b>	<b>69,907,162</b>



Mr. Mubarak Al Sayer  
Chairman



Mr. Hazim A. Al Mutairi  
Chief Executive Officer

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiary

CONSOLIDATED STATEMENT OF CASH FLOW

Year ended 31 December 2009

	Notes	2009 KD	2008 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year		2,831,562	3,187,185
Adjustments for:			
Depreciation		1,037	37,687
Impairment of furniture and equipment		-	150,870
Provision for employee's end of service benefits		61,979	12,851
Provision for doubtful debts		1,926,929	1,055,537
Finance cost		1,878,683	2,388,468
		<u>6,700,190</u>	<u>6,832,598</u>
Working capital changes:			
Amounts due under instalment credit agreements		1,792,147	(8,406,929)
Other receivables		(39,239)	87,607
Murabaha receivables		-	417,170
Account payables and accruals		2,345,942	(1,284,096)
Employees' end of service benefits paid		(22,567)	(105)
Finance cost paid		(1,878,683)	(2,388,468)
		<u>8,897,790</u>	<u>(4,742,223)</u>
Net cash from (used in) operating activities			
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture and fixtures		(9,792)	(133,166)
		<u>(9,792)</u>	<u>(133,166)</u>
Net cash used in investing activities			
<b>FINANCING ACTIVITIES</b>			
Amounts paid to Shareholders	11	(5,000,000)	-
Receipt of bank borrowings		6,000,000	12,100,000
Repayment of bank borrowings		(8,950,000)	(5,500,000)
		<u>(7,950,000)</u>	<u>6,600,000</u>
Net cash (used in) from financing activities			
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>937,998</b>	<b>1,724,611</b>
Cash and cash equivalents at the beginning of the year		2,298,309	573,698
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>6</b>	<b><u>3,236,307</u></b>	<b><u>2,298,309</u></b>

The attached notes 1 to 16 form part of these consolidated financial statements.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	<i>Share capital KD</i>	<i>Statutory reserve KD</i>	<i>Retained earnings KD</i>	<i>Total KD</i>
Balance at 1 January 2009	20,000,000	782,272	6,800,322	27,582,594
Total profit and total comprehensive income for the year	-	-	2,831,562	2,831,562
Transfer to statutory reserve	-	293,737	(293,737)	-
<b>Balance at 31 December 2009</b>	<b>20,000,000</b>	<b>1,076,009</b>	<b>9,338,147</b>	<b>30,414,156</b>
Balance at 1 January 2008	25,000,000	453,201	3,942,208	29,395,409
Total profit and total comprehensive income for the year	-	-	3,187,185	3,187,185
Reduction of share capital	(5,000,000)	-	-	(5,000,000)
Transfer to statutory reserve	-	329,071	(329,071)	-
<b>Balance at 31 December 2008</b>	<b>20,000,000</b>	<b>782,272</b>	<b>6,800,322</b>	<b>27,582,594</b>

The attached notes 1 to 16 form part of these consolidated financial statements.

# Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

### 1 ACTIVITIES AND CORPORATE INFORMATION

The consolidated financial statements of Credit One Kuwait Holding Company K.S.C. (Closed) (the "Parent Company") and its subsidiary (the "Group") for the year ended 31 December 2009 were authorised for issue by the directors on 14 March 2010.

The Parent Company is a Kuwaiti shareholding company registered on 25 July 2005 under the Commercial Companies Law No. 15 of 1960 and amendments thereto.

The Parent Company is principally engaged in investing activities through its subsidiary. The registered office of the Parent Company is located at Salhiya Complex, 3rd Floor, Gate 8, P.O. Box 97, Dasmah, 35151, Safat, Kuwait.

### 2.1 BASIS OF PREPARATION

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") and applicable requirements of Ministerial Order No. 18 of 1990.

#### Basis of preparation

The consolidated financial statements have been presented in Kuwaiti Dinars, which is the functional currency of the Parent Company and the Group.

The consolidated financial statements are prepared under the historical cost convention.

#### Basis of consolidation

These consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (together "the Group"). A Subsidiary is an enterprise which is controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies for like transactions and other events in similar circumstances. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues until the date that such control ceases.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances on a line by line basis.

Subsidiary details are as follows:

<i>Name</i>	<i>Principal activity</i>	<i>Beneficial ownership</i>	
		<i>2009</i>	<i>2008</i>
Al-Sayer Facilities Company For General Trading And Contracting (Hazim Al-Mutairi and Partners) W.L.L. (incorporated in Kuwait in 1999)	Motor vehicle financing	100%	100%

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

During the year, the Group has adopted the following new and amended IFRS and IAS as of 1 January 2009:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

*IFRS 7 Financial Instruments: Disclosures:*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 15. The Group does not carry any financial instrument at fair value and consequently the disclosure requirements for fair valuation of financial instruments does not have any impact on the financial statements.

*IAS 1 Presentation of Financial Statements (Revised):*

The revised standard separates owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present in one single statement.

**Improvements to IFRSs**

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- IAS 18 Revenue: The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The adoption of this improvement does not result in any change in revenue recognition accounting policy.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 10 *Events after the Reporting period*
- IAS 7 *Statement of Cash Flows*

**2.3 NEW AND REVISED INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) STANDARDS RELEVANT TO THE GROUP ISSUED AT 31 DECEMBER 2009 BUT NOT EARLY ADOPTED**

The following IASB Standards relevant to the Group have been issued but not yet mandatory, and has not been early adopted by the Group:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**2.3 NEW AND REVISED INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) STANDARDS RELEVANT TO THE GROUP ISSUED AT 31 DECEMBER 2009 BUT NOT EARLY ADOPTED (continued)**

*IFRS 3R Business Combination and IAS 27R Consolidated and Separate Financial Statements*

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combination occurring after this date that will impact the amount of goodwill recognised, and the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor it will give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early adopted. The Group has not early adopted this standard.

*IFRS 9 Financial Instruments*

The standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2013. The new standard enhances the ability of investors and other users of financial information to understand the accounting of financial assets and reduces complexity. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used.

*IAS 24 Related party disclosures (Revised)*

The revised standard was issued in November 2009. An entity shall apply this standard retrospectively for annual periods beginning on or after 1 January 2011. The revised standard simplifies the definition of a related party.

The application of these standards will be made in the consolidated financial statements when these standards and interpretations become effective and are not expected to have a material impact on the consolidated financial statement of the Group.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue recognition**

Revenue is recognised to the extent that future economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received excluding discounts and rebates. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Income from installment credit agreements is recognised using the effective interest rate method. The calculation includes all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the interest rate, except allowance for future credit losses.

Commissions earned and paid are recognised when the agreement becomes effective.

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

**Finance cost**

Finance costs on bank borrowing are recognised as an expense in the consolidated statement of comprehensive income using effective interest rate method.

**Operating leases**

Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight line basis over the lease term.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Zakat**

The Group has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge is calculated in accordance with these requirements and is charged to the consolidated statement of comprehensive income.

### **KFAS**

The Group calculated the contribution to KFAS in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that Directors' fees and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

### **Business combinations and goodwill**

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of an acquisition over the Group's share of the acquiree's fair value of the net identifiable assets as at the date of the acquisition. Following initial recognition, goodwill is measured at cost less impairment losses. Any excess, at the date of acquisition, of the Group's share in the acquiree's fair value of the net identifiable assets over the cost of the acquisition is recognised in the consolidated statement of comprehensive income.

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

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

### **Furniture and equipment**

Furniture and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of 5 to 10 years

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

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

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting period.

### **Impairment of non-financial assets**

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Financial instruments - classification, measurement, recognition, de-recognition and offsetting**

#### *Classification*

The Group classifies its financial instruments as "loans and receivables" and "financial liability other than at fair value through profit or loss". Management determined the appropriate classification of each instrument at the time of acquisition.

#### *Measurement*

All financial assets and liabilities are initially measured at fair value of the consideration given plus directly attributable transaction cost except for financial assets at fair value through profit and loss where such costs are expensed in the consolidated statement of comprehensive income.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortised cost using effective interest method less any provision for impairment.

#### *Recognition and de-recognition*

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

- (i) the rights to receive the cash flows from the asset have expired or
- (ii) the Group has retained its right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

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

#### *Offsetting*

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

### **Impairment and uncollectibility of financial assets**

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the carrying value of the asset is reduced through the use of an allowance account and the amount of impairment loss is recognised in the consolidated statement of comprehensive income. Impairment is determined as follows:

- (a) for assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (b) for assets at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Impairment and uncollectibility of financial assets (continued)**

The Group assess whether objective evidence of impairment exists on an individual basis for each individual significant amount of receivable from customers and collectively for others. The main criteria that the Group uses to determine that there is objective evidence of an impairment include whether repayment of interest, principal or both are past due by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc.

The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. Amount receivable from customers together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "provision for doubtful debts".

### **Amounts due under instalment credit agreements**

Amounts due under installment credit agreements are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortised cost using effective interest method less any provision for impairment.

### **Renegotiated receivable from customers**

Where considered appropriate, the Group seeks to restructure past due receivables. This may involve extending the payment arrangements and the agreement of new receivable conditions including enhancing collateral position. Management continuously reviews renegotiated receivables to ensure that all criteria are met and that future payments are likely to occur. The receivable continue to be subject to an individual or collective impairment assessment, calculated using the original effective interest rate.

### **Murabaha receivables**

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

Murabaha receivables arising from the Group's financing of transactions on an Islamic basis are stated at amortised cost. Third party expenses such as legal fees, incurred in granting a murabaha are treated as part of the cost of the transaction. All murabaha receivables are recognised when the legal right to control the use of the underlying asset is transferred to the customer.

### **Other receivables**

Other receivables are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and cash in hand.

### **Accounts payable and accruals**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Bank borrowings**

All bank borrowings are initially recognised at fair value, less directly attributable transaction costs. After initial recognition, they are measured at amortised cost, using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through amortisation process.

**Employees' end of service benefits**

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to Kuwaiti employees, the Group makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**Significant accounting judgement, estimates and assumptions**

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

The Group has used judgement and estimates principally in, but not limited to, the determination of impairment allowance for amounts due under instalment credit agreements and impairment of goodwill.

Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

The basis used by management in determining the carrying value of amounts due under instalment credit agreements and goodwill are discussed below:

*Impairment provision of amount due under instalment credit agreements*

The Group reviews its problem amounts receivable from customers on a monthly basis to assess whether a provision for impairment should be recorded in the consolidated statement of comprehensive income. In particular, considerable judgement 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.

*Impairment of goodwill*

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

**3 REVENUE**

	<b>2009</b>	<b>2008</b>
	<b>KD</b>	<b>KD</b>
Income from installment credit agreements	7,392,696	7,681,463
Commission income	358,728	581,267
	<u>7,751,424</u>	<u>8,262,730</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**4 TOTAL PROFIT FOR THE YEAR**

The profit for the year is stated after charging:

	2009 KD	2008 KD
Staff costs	729,306	630,641
Depreciation	1,037	37,687
Impairment of furniture and equipment	-	150,870
Rentals – operating leases	79,030	69,930

**5 BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share are calculated by dividing profit for the year by the weighted average number of ordinary shares outstanding during the year.

There are no dilutive potential ordinary shares.

	2009	2008
Profit for the year (KD)	2,831,562	3,187,185
Weighted average number of ordinary shares outstanding (number)	200,000,000	244,794,521
Basic and diluted earnings per share	14 fils	13 fils

**6 CASH AND CASH EQUIVALENTS**

	2009 KD	2008 KD
Bank balances	3,234,509	2,292,257
Cash in hand	1,798	6,052
	3,236,307	2,298,309

**7 AMOUNTS DUE UNDER INSTALLMENT CREDIT AGREEMENTS**

	2009 KD	2008 KD
Gross amounts due under installment credit agreements	72,459,265	75,858,178
Less: Deferred installment credit income	(9,172,864)	(10,779,630)
	63,286,401	65,078,548
Less: Provision for doubtful debts	(5,365,217)	(3,438,288)
	57,921,184	61,640,260
<i>Amount due within a year:</i>		
Gross amounts due under installment credit agreements	36,426,337	33,877,336
Less: Deferred installment credit income	(5,626,488)	(5,769,903)
	30,799,849	28,107,433
Less: Provision for doubtful debts	(4,235,894)	(2,618,840)
	26,563,955	25,488,593

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**7 AMOUNT DUE UNDER INSTALLMENT CREDIT AGREEMENTS (continued)**

	<i>2009</i> <i>KD</i>	<i>2008</i> <i>KD</i>
<i>Amount due within 1 to 5 years:</i>		
Gross amounts due under installment credit agreements	36,032,928	41,980,842
Less: Deferred installment credit income	(3,546,376)	(5,009,727)
	<u>32,486,552</u>	<u>36,971,115</u>
Less: Provision for doubtful debts	(1,129,323)	(819,448)
	<u><u>31,357,229</u></u>	<u><u>36,151,667</u></u>

The amounts due under instalment credit agreements are at fixed rates of return.

As at 31 December 2009, amounts due under instalment credit agreements at nominal value of KD 7,332,737 (2008: KD 3,736,501) were considered impaired (being over three instalments due) and provided for.

Movement in the provision for impairment of amounts due under instalment credit agreements are as follows:

	<i>2009</i> <i>KD</i>	<i>2008</i> <i>KD</i>
At the beginning of the year	3,438,288	2,382,751
Charge for the year	1,926,929	1,055,537
At the end of the year	<u><u>5,365,217</u></u>	<u><u>3,438,288</u></u>

The analysis of amounts due under instalment credit agreements that were not impaired are as follows:

	<i>Neither past due nor impaired KD</i>	<i>Past due but not impaired (within three instalments due) KD</i>	<i>Total KD</i>
<b>2009</b>	<b>32,643,337</b>	<b>23,310,327</b>	<b>55,953,664</b>
<b>2008</b>	<b>40,982,932</b>	<b>20,359,115</b>	<b>61,342,047</b>

**8 GOODWILL**

There is no movement in goodwill during the year. The carrying value of goodwill amounting to KD 5,875,738 (2008: KD 5,875,738) includes variable consideration amounting to KD 1,305,823 (2008: KD 1,305,823) out of which KD 670,622 has been paid up to 31 December 2009. The balance unpaid amount is included in amount due to related parties in note 9 to the consolidated financial statements.

The variable consideration pertains to "Transition sales commission" and Transition Earning Bonus". These variable considerations were payable up to 3 years from the date of agreement of acquisition of the subsidiary. This period of 3 years expired in the prior year and accordingly no adjustment to the carrying value of goodwill has been made during the year or is expected in coming years.

The management is of the opinion that there has been no impairment in value of goodwill during the year.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**9 ACCOUNTS PAYABLES AND ACCRUALS**

	<i>2009</i> <i>KD</i>	<i>2008</i> <i>KD</i>
Trade accounts payable	1,062,261	545,226
Accrued expenses and other payables	524,005	577,589
Due to related parties (Note 8 and 13)	3,864,516	1,982,025
Amount due to shareholders (Note 11)	-	5,000,000
	<u>5,450,782</u>	<u>8,104,840</u>

**10 BANK BORROWINGS**

Bank borrowings represent revolving loans which are denominated in Kuwaiti Dinars and carry interest at commercial rates and are repayable within one year from the reporting date.

	<i>2009</i> <i>KD</i>	<i>2008</i> <i>KD</i>
KD 30,000,000 facility, which is secured against 125% of the amounts due under instalment credit agreement.	26,850,000	29,200,000
KD 10,000,000 facility, which is secured against 120% of the amounts due under instalment credit agreement.	2,500,000	3,100,000
KD 2,500,000 facility, which is unsecured.	1,850,000	1,850,000
	<u>31,200,000</u>	<u>34,150,000</u>

The undrawn bank overdraft facilities as on the reporting date is KD 1,025,000 (2008: KD 2,025,000).

**11 SHARE CAPITAL**

	<i>Authorised, issued and fully paid-up</i>	
	<i>2009</i> <i>KD</i>	<i>2008</i> <i>KD</i>
Shares of 100 fils each	<u>20,000,000</u>	<u>20,000,000</u>

On 23 November 2008, a general assembly meeting was held by shareholders of the Parent Company, which approved the reduction of paid up share capital by KD 5 million. Subsequent to this approval, the amount was paid to the shareholders (Note 9).

**12 STATUTORY RESERVE**

In accordance with the Commercial Companies Law and the Parent Company's articles of association, 10% of the profit for the year before contribution to KFAS, Zakat and Directors' fees has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of the 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## 13 RELATED PARTY TRANSACTIONS

Related parties represent shareholders of the Parent Company and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. The Parent Company provides administration and other support services to the subsidiary for which no charge has been made to the subsidiary during the year.

Transactions with related parties included in the consolidated statement of comprehensive income are as follows:

	2009 KD	2008 KD
<b>Administration expenses</b>		
Commission expenses	28,413	129,168

The remuneration of key management personnel during the year was as follows:

	2009 KD	2008 KD
Director's fees	50,000	41,000
Salaries and short-term benefits	246,507	384,307
Employees' end of service benefits	16,212	7,346

Amount payable to shareholders and other related parties are disclosed in note 9. These amounts are repayable on demand and are free of any interest charge.

## 14 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of the Group's assets and liabilities according to their expected recoverability or settlement from the reporting date:

	Up to 3 months KD	4 to 12 months KD	One year and above KD	Total KD
<b>2009</b>				
<b>ASSETS</b>				
Cash and cash equivalents	3,236,307	-	-	3,236,307
Other receivables	12,337	119,657	-	131,994
Amounts due under installment credit agreements	6,467,411	20,096,544	31,357,229	57,921,184
Furniture and equipment	-	-	8,855	8,855
	<u>9,716,055</u>	<u>20,216,201</u>	<u>31,366,084</u>	<u>61,298,340</u>
<b>LIABILITIES</b>				
Bank borrowings	-	31,200,000	-	31,200,000
Accounts payable and accruals	4,224,787	1,225,995	-	5,450,782
Employees' end of service benefits	-	-	109,140	109,140
	<u>4,224,787</u>	<u>32,425,995</u>	<u>109,140</u>	<u>36,759,922</u>
<b>Net liquidity gap</b>	<u>5,491,268</u>	<u>(12,209,794)</u>	<u>31,256,944</u>	<u>24,538,418</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**14 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

	<i>Up to 3 Months KD</i>	<i>4 to 12 months KD</i>	<i>One year and above KD</i>	<i>Total KD</i>
2008				
<b>ASSETS</b>				
Furniture and equipment	-	-	100	100
Amounts due under installment credit agreements	8,622,185	16,866,408	36,151,667	61,640,260
Other receivables	38,450	54,305	-	92,755
Cash and cash equivalents	2,298,309	-	-	2,298,309
	<u>10,958,944</u>	<u>16,920,713</u>	<u>36,151,767</u>	<u>64,031,424</u>
<b>LIABILITIES</b>				
Employees' end of service benefits	-	-	69,728	69,728
Accounts payable and accruals	7,057,026	1,047,814	-	8,104,840
Bank borrowings	-	34,150,000	-	34,150,000
	<u>7,057,026</u>	<u>35,197,814</u>	<u>69,728</u>	<u>42,324,568</u>
Net liquidity gap	<u>3,901,918</u>	<u>(18,277,101)</u>	<u>36,082,039</u>	<u>21,706,856</u>

**15 RISK MANAGEMENT****Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. No changes were made in the risk management objectives and policies during the years ended 31 December 2008 and 31 December 2009.

The Group is exposed to credit risk, liquidity risk and interest risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment technology and industry.

**15.1 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group exposed to credit risk on its bank balances, amount due under instalment credit agreements and other receivables as reflected in the consolidated statement of financial position.

The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers and monitoring outstanding amounts due under instalment credit agreements. It also obtains security when appropriate. The 20 largest customers outstanding as a percentage of gross amount due under credit agreements as at 31 December 2009 is 26% (2008: 18%). The maximum exposure is the carrying amount disclosed in Note 7.

Management monitors the realisable value of collateral, requests additional collateral in accordance with the underlying agreement, and periodically monitors the realisable value of collateral obtained.

At the time of granting a facility the Group seeks to take into account all aspects of perceived risk and puts in place suitable measures to mitigate these risks. The credit assessment process is extensive and it includes assessment of the capacity to repay as reflected by the financial and other statements and willingness to meet commitments as assessed from past track record and trade references. The Group uses credit enhancement techniques to upgrade the quality of the facility being granted. Post disbursal, the receivables are monitored on a continuous basis both at macro and micro levels.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Group normally holds the underlying assets like motor vehicles as collaterals by way of hypothecation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**15 RISK MANAGEMENT (continued)****15.1 Credit risk (continued)**

With respect to credit risk arising from the other financial assets of the Group, including bank balances and cash the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amounts of these instruments included in the statement of financial position.

**15.2 Liquidity risk**

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

The Group limits its liquidity risk by ensuring bank facilities are available. The Group's terms of business generally require amounts to be paid in instalments as per the contractual agreements. It is the Group's policy to obtain short term bank borrowings that matures within the next 12 month period with a renewal option at both parties' discretion.

The table below summarises the maturity profile of the Group's liabilities based on contractual undiscounted repayment obligation and management expectations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments and management realisation expectations over the life of these financial liabilities.

The maturity profile of the liabilities at the year end based on contractual repayment arrangements and management expectation is as follows:

	<i>1 to 3 months KD</i>	<i>4 to 12 months KD</i>	<i>Total KD</i>
<b>2009</b>			
Accounts payable and accruals	4,224,787	1,225,995	<b>5,450,782</b>
Bank borrowings	383,594	32,350,781	<b>32,734,375</b>
<b>TOTAL UNDISCOUNTED LIABILITIES</b>	<b>4,608,381</b>	<b>33,576,776</b>	<b>38,185,157</b>
	<i>1 to 3 months KD</i>	<i>4 to 12 months KD</i>	<i>Total KD</i>
<b>2008</b>			
Accounts payable and accruals	7,057,026	1,047,814	8,104,840
Bank borrowings	4,393,758	33,563,013	37,956,771
<b>TOTAL UNDISCOUNTED LIABILITIES</b>	<b>11,450,784</b>	<b>34,610,827</b>	<b>46,061,611</b>

**15.3 Market risk**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates and foreign exchange rate.

**15.3.1 Interest rate risk**

Interest rate risk arises from the possibility that changes in floating interest rate will offset future profitability. The Group is exposed to interest rate risk on its interest bearing liabilities (bank overdraft and bank loans). The following table demonstrates the sensitivity of the consolidated statement of comprehensive income to reasonably possible changes in interest rates, with all other variables held constant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**15 RISK MANAGEMENT (continued)****15.3.1 Interest rate risk (continued)**

The sensitivity of the consolidated statement of comprehensive income is the effect of the assumed changes in interest rates on the Group's profit for one year from the statement of financial position date, based on the floating rate financial liabilities held at 31 December 2009. There is no impact on equity.

	<i>Increase/ decrease in basis points</i>	<i>Effect on profit  KD</i>
2009	+/- 50	+/- 156,000
2008	+/- 50	+/- 170,750

Interest rate risk sensitivity to profit rate movements will be on a symmetric basis as financial instruments which that give rise to non-symmetric movement is not significant.

**15.3.2 Foreign exchange risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not exposed to any currency risk as all its financial instruments are denominated in Kuwaiti Dinar.

**CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008. Capital comprises of share capital, statutory reserves and retained earnings and is measured at **KD 30,414,156** as at 31 December 2009 (2008: KD 27,582,594).

	<i>31 December 2009 KD</i>	<i>31 December 2008 KD</i>
Accounts payable and accruals	5,450,782	8,104,840
Bank borrowings	31,200,000	34,150,000
Less: Cash and cash equivalents	(3,236,307)	(2,298,309)
Net debt	33,414,475	39,956,531
Total capital	30,414,156	27,582,594
Gearing ratio	91%	69%

**16 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and liabilities.

Financial assets consist of Cash and cash equivalents, other receivables and amounts due under instalment credit agreements.

Financial liabilities consist of accounts payable and accruals and bank borrowing.

The fair value of financial instruments is not materially different from their carrying values.