United Finance Company SAOG

FINANCIAL STATEMENTS

31 DECEMBER 2008

UNITED FINANCE COMPANY SAOG

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED FINANCE COMPANY SAOG

Report on financial statements

We have audited the accompanying financial statements of United Finance Company SAOG which comprise the balance sheet as at 31 December 2008 and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Director's Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority. 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' judgement, 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 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 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 2008 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 Requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.

Date
Muscat

UNITED FINANCE COMPANY SAOG

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

2007 *US$*	***2008*** ***US$***		*Notes*	***2008*** ***RO***	*2007* *RO*
23,115,067	**38,509,164**	Installment finance income		**14,826,028**	8,899,301
(8,322,223)	**(14,105,029)**	Interest expense		**(5,430,436)**	(3,204,056)
14,792,844	**24,404,135**	**Net installment finance income**		**9,395,592**	5,695,245
2,178,138	**4,917,247**	Other income	3	**1,893,140**	838,583
(5,892,704)	**(7,019,052)**	Other expenses	4	**(2,702,335)**	(2,268,691)
(410,875)	**(589,678)**	Depreciation	7	**(227,026)**	(158,187)
616,740	**(8,447,686)**	Impairment on installment finance debtors	8	**(3,252,359)**	237,445
11,284,143	**13,264,966**	**Profit before tax**		**5,107,012**	4,344,395
(1,288,249)	**(1,633,706)**	Income tax expense	5	**(628,977)**	(495,976)
9,995,894	**11,631,260**	**Profit for the year**	6	**4,478,035**	3,848,419
0.062	**0.049**	**Basic earnings per share for the year**	21	**0.019**	**0.024**

The accounting policies on pages 7 to 12 and notes on pages 13 to 31 form an integral part of these financial statements.

UNITED FINANCE COMPANY SAOG

BALANCE SHEET AT 31 DECEMBER 2008

2007 US$	***2008 US$***		***Notes***	***2008 RO***	*2007 RO*
		ASSETS			
5,457,299	**8,116,571**	Property and equipment	7	**3,124,880**	2,101,060
1,439,348	**1,519,491**	Investment securities	10	**585,004**	554,149
276,008,891	**402,218,527**	Installment finance debtors	8	**154,854,133**	106,263,423
1,814,569	**2,777,031**	Deferred tax asset	5	**1,069,157**	698,609
619,200	**1,233,800**	Other receivable and prepaid expenses	9	**475,013**	238,392
129,870	**129,870**	Deposit with the Central Bank of Oman	11	**50,000**	50,000
4,321,984	**1,946,748**	Cash and cash equivalents	12	**749,498**	1,663,964
289,791,161	**417,942,038**	**Total assets**		**160,907,685**	111,569,597
		EQUITY AND LIABILITIES			
		Equity			
41,308,740	**60,740,987**	Share capital	13	**23,385,280**	15,903,865
-	**5,569,675**	Share premium reserve	14	**2,144,325**	-
3,813,460	**4,976,587**	Legal reserve	15(a)	**1,915,986**	1,468,182
1,437,501	**3,531,127**	Special reserve	15(b)	**1,359,484**	553,438
764,972	**764,972**	Foreign currency reserve	15(c)	**294,514**	294,514
-	**(838,488)**	Cumulative changes in fair values	16	**(322,818)**	-
8,468,436	**-**	Proposed stock dividend	17	**-**	3,260,348
-	**6,074,099**	Proposed cash dividend	17	**2,338,528**	-
121,587	**2,421,995**	Retained earnings		**932,468**	46,811
55,914,696	**83,240,953**	**Total shareholders' equity**		**32,047,767**	21,527,158
		Liabilities			
2,020,353	**-**	Optional convertible bonds	18(a)	**-**	777,836
1,463,210	**-**	Non convertible bonds	18(b)	**-**	563,336
	838,488	Negative fair value of derivatives	16	**322,818**	-
147,814,265	**242,181,200**	Bank borrowings	19	**93,239,762**	56,908,492
42,662,338	**53,831,169**	Deposits		**20,725,000**	16,425,000
38,001,522	**34,726,200**	Creditors and other payables	20	**13,369,587**	14,630,586
1,914,777	**3,124,028**	Taxation	5	**1,202,751**	737,189
233,876,465	**334,701,085**	**Total liabilities**		**128,859,918**	90,042,439
289,791,161	**417,942,038**	**Total equity and liabilities**		**160,907,685**	111,569,597
0.36	**0.36**	**Net asset per share**		**0.137**	0.135

The financial statements were approved by the Board of Directors on 28 January 2009 and were signed on their behalf by:

CHAIRMAN **DIRECTOR**

The accounting policies on pages 7 to 12 and notes on pages 13 to 31 form an integral part of these financial statements.

UNITED FINANCE COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	*Share capital*	*Share premium reserve*	*Legal reserve*	*Special reserve*	*Foreign currency reserve*	*Cumulative changes in fair value*	*Proposed stock dividend*	*Proposed cash dividend*	*Retained earnings*	*Total*
		RO	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*
	Notes	*13*	*14*	*15(a)*	*15(b)*	*15(c)*	*16*	*17*	*17*		
At 1 January 2008		15,903,865	-	1,468,182	553,438	294,514	-	3,260,348	-	46,811	21,527,158
Net movement in fair value of cash flow hedges		-	-	-	-	-	(322,818)	-	-	-	(322,818)
Total expense for the year recognised directly in equity		-	-	-	-	-	(322,818)	-	-	-	(322,818)
Profit for the year		-	-	-	-	-	-	-	-	4,478,035	4,478,035
Total income and expense for the year		-	-	-	-	-	(322,818)	-	-	4,478,035	4,155,217
Issue of bonus shares		3,260,348	-	-	-	-	-	(3,260,348)	-	-	-
Proceeds from rights issue		3,823,191	1,885,706	-	-	-	-	-	--	-	5,708,897
Conversion of bonds to equity shares		397,876	258,619	-	-	-	-	-	-	-	656,495
Transfer to legal reserve		-	-	447,804	-	-	-	-	-	(447,804)	-
Transfer to special reserve		-	-	-	806,046	-	-	-	-	(806,046)	-
Proposed cash dividend		-	-	-	-	-	-	-	2,338,528	(2,338,528)	-
Balance at 31 December 2008		**23,385,280**	**2,144,325**	**1,915,986**	**1,359,484**	**294,514**	**(322,818)**	**-**	**2,338,528**	**932,468**	**32,047,767**

The accounting policies on pages 7 to 12 and notes on pages 13 to 31 form an integral part of these financial statements.

UNITED FINANCE COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital	*Share premium reserve*	*Legal reserve*	*Special reserve*	*Foreign currency reserve*	*Proposed cash dividend*	*Proposed stock dividend*	*Retained earnings*	*Total*
	RO	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*
	13	*14*	*15(a)*	*15(b)*	*15(c)*	*16*	*16*		
At 1 January 2007	15,903,865	98,469	1,083,340	553,438	-	1,272,309	-	39,627	18,951,048
Cash dividend paid	-	-	-	-	-	(1,272,309)	-	-	(1,272,309)
Profit for the year	-	-	-	-	-	-	-	3,848,419	3,848,419
Transfer to legal reserve	-	-	384,842	-	-	-	-	(384,842)	-
Transfer to foreign currency reserve	-	-	-	-	294,514	-	-	(294,514)	-
Proposed issue of bonus shares	-	(98,469)	-	-	-	-	3,260,348	(3,161,879)	-
Balance at 31 December 2007	**15,903,865**	**-**	**1,468,182**	**553,438**	**294,514**	**-**	**3,260,348**	**46,811**	**21,527,158**

The accounting policies on pages 7 to 12 and notes on pages 13 to 31 form an integral part of these financial statements.

UNITED FINANCE COMPANY SAOG

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	***2008*** ***RO***	*2007* *RO*
Profit before taxation		**5,107,012**	4,344,395
Adjustments for:			
Depreciation	7	**227,026**	158,187
Amortisation of bond issue expense		**-**	8,255
Unrealised loss on investments	10	**-**	181,692
Profit on property and equipment sold during the year		**(10,520)**	(2,070)
Impairment charge (release) charge for the year (net)		**3,252,359**	(237,445)
End of service benefits accrual	20	**113,506**	27,077
Operating profit before changes in operating assets and liabilities		**8,689,383**	4,480,091
Installment finance debtors:			
Disbursements during the year		**(114,431,839)**	(80,441,649)
Principal repayments during the year		**62,588,770**	37,695,665
Other receivable and prepayments		**(41,700)**	291,468
Creditors and other payables		**(1,574,582)**	6,937,818
End of service benefits paid	20	**(19,922)**	(7,761)
Income taxes paid (including advance tax)	5	**(728,884)**	(187,167)
Net cash used in operating activities		**(45,518,774)**	(31,231,535)
Investing activities			
Purchase of property and equipment		**(1,036,298)**	(1,240,064)
Acqusition of investment available for sale		**(30,855)**	-
Proceeds from sale of property and equipment	7	**15,972**	4,120
Net cash used in investing activities		**(1,051,181)**	(1,235,944)
Financing activities			
Long term loans received		**39,476,000**	34,354,000
Long term loans repaid		**(15,900,830)**	(19,388,576)
Net change in short term loans		**10,700,000**	10,050,000
Proceeds from right issue		**5,708,897**	-
Deposits		**4,300,000**	13,425,000
Redemption of convertible bonds		**(121,341)**	-
Repayment of non-convertible bonds		**(563,336)**	(4,000,000)
Bank overdrafts		**2,056,099**	109,921
Dividends paid		**-**	(1,272,309)
Net cash from financing activities		**45,655,489**	33,278,036
Net change in cash and cash equivalents		**(914,466)**	810,557
Cash and cash equivalents at beginning of year		**1,663,964**	853,407
Cash and cash equivalents at end of year	12	**749,498**	1,663,964

The accounting policies on pages 7 to 12 and notes on pages 13 to 31 form an integral part of these financial statements.

UNITED FINANCE COMPANY SAOG

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1 Legal status and principal activities

United Finance Company SAOG is an Omani General Joint Stock Company, licensed by the Central Bank of Oman and registered under the Commercial Companies Law of the Sultanate of Oman. The company is principally involved in providing vehicle and equipment financing and is also licensed to provide composite loans, bridge loans, hire purchase, debt factoring and financing of receivables and leasing in Oman. The company has its Head Office at Muscat with branches at Ibra, Ibri, Firq, Falaj Al Qabail, Salalah, Barka and Mawelah all in the Sultanate of Oman. The registered address of the company is PO Box 3652, Postal Code 112, Ruwi, Sultanate of Oman. The company has a primary listing on the Muscat and Bahrain stock exchanges**.**

2 Significant accounting policies

The significant accounting policies adopted are as follows:

Basis of preparation

The financial statements are prepared under the historical cost convention. The accounting records are maintained in Rial Omani which is the functional and reporting currency for these financial statements. The United States Dollar amounts shown in the income statement and balance sheet have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

Statement of compliance

The financial statements of United Finance Company SAOG have been prepared in accordance with International Financial Reporting Standards (IFRS), applicable regulations of the Central Bank of Oman, applicable requirements of the Commercial Companies Law and the Capital Market Authority of the Sultanate of Oman.

Significant accounting judgments and estimates

In the process of applying the company's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Impairment losses on instalment finance debtors

The company reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. The estimates and associated assumptions are based on historical experience and various other factors that are believed by the company to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are readily apparent from other sources. Actual results may differ from these estimates.

In addition to specific allowances against individually significant loans and advances, the company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a probable risk of default than when originally granted. This takes into consideration factors such as any deterioration in industry, collateral value and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Change in accounting policies

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

Standards and amendments that are not yet effective

- The following International Accounting Standards Board (IASB) Standards and Interpretations have been amended / issued but are not yet mandatory, and have not yet been adopted by the company: IAS 1 “Presentation of Financial Statements” which will be effective for the year ending 31 December 2009. The application of this standard will result in amendments to the presentation of the financial statements. "
- IIFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the company discloses information about its operating segments.

Recognition of income and expenses

Interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. Interest, which is doubtful of recovery, is reserved and excluded from income until it is received in cash. Penal charges and other fees are recognised when due.

Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation. Cost represents purchase cost together with any incidental costs of acquisition. Land is not depreciated. The cost of property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets. The estimated useful lives are:

Motor vehicles	3 years
Furniture and office equipment	3 - 6 years
Buildings	2 - 20 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts and are recognised in the income statement.

Instalment finance debtors

Installment finance debtors are stated at amortised cost using the effective interest rate method less any amounts written off, provision for impairment and reserved interest.

Trading investments

These are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised gains or losses are included in other income. Interest earned or dividends received are also included in other income.

Available for sale
After initial recognition, investments which are classified "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes, are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the income statement for the period.

Taxation

Taxation is provided for in accordance with Omani fiscal regulations.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

Cash and cash equivalents

All bank balances with maturity of three months or less from the date of placement are considered to be cash equivalents.

Bonds

Bonds are initially recognised at cost which is the fair value of the consideration received net of transaction costs. Bonds are subsequently stated at amortised cost.

Bank borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Deposits

Customer deposits are carried at cost less amounts repaid.

Trade creditors and accruals

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the company.

End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the company’s expatriate employees at the balance sheet date, having regard to the requirements of the Oman Labour Law 2003. Payment is made to the Omani Government Social Security Scheme under the Royal Decree 71/91 for Omani employees. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Impairment of financial assets

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

Impairment of installment finance debtors
For installment finance debtors carried at amortised cost, the company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Loans 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 company. 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 impairment loss provision.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the company's risk exposures that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in, property prices, payment status, repeated requests for reschedulement or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated installement finance debtors
Where possible, the compay seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due subject to regulatory guidance. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Trade and settlement date accounting

Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the company commits to purchase or sell the asset.

Provisions

Provisions are recognised when the company has an 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.

Financial guarantees

In the ordinary course of business, the company's bankers issue financial guarantees to the company's customers on behalf of the company and they are stated as contingent liabilities in the financial statements till it is cancelled or expires. In the event the bank invokes the guarantee, the company pays the guarantee amount and debits the customers account, which would for part of the main balance sheet .

Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's shareholders. Interim dividends are deducted from equity when they are paid.

Derivative financial instruments

The company enters into derivative instruments mainly interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The fair values of derivative instruments are included in other receivables in case of favourable contracts and other payables in case of unfavourable contracts.

At the inception of a hedge relationship, the company formally designates and documents the hedge relationship to which the company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting years for which they were designated.

Cash flow hedges are those which hedge exposure to variability in cash flows of a recognised asset or liability or a forecast transaction.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Fair values

For investments traded in an active market, fair value is determined by reference to quoted market bid prices. The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Unquoted equity investments are held at cost.

The fair value of interest rate swap contracts is calculated based on discounted cash flows using current forward interest rate for items with the same maturity.

Derecognition of financial assets

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

(a) the right to receive cash flows from the asset have expired; or
(b) the company has transferred it rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass through’ arrangement; and
(c) either (i) the company has transferred substantially all the risks and rewards of ownership, or (ii) the company has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control over the asset or a proportion of the asset.

3 Other income

	2008 RO	2007 RO
Penal charges	**86,831**	111,857
Documentation fees	**588,855**	356,483
Foreclosure charges	**479,783**	277,446
Unrealised losses on investments	**-**	(181,692)
Insurance commission income	**354,524**	152,059
Dividend income	**91,898**	-
Profit on sale of property and equipment	**10,520**	2,070
Other income	**280,729**	120,360
	1,893,140	838,583

4 Other expenses

	2008 RO	2007 RO
Staff costs	**1,848,008**	1,350,584
Communication and traveling	**160,477**	135,624
Advertising and business promotion expenses	**95,832**	118,285
Rent	**52,642**	52,091
Proposed directors' remuneration	**-**	67,000
Repairs and maintenance	**99,684**	104,999
Statutory expenses	**41,028**	43,693
Directors' sitting fees	**52,800**	65,800
Others	**351,864**	330,615
	2,702,335	2,268,691

5 Taxation

	2008 RO	2007 RO
Income statement:		
Current year	**999,525**	344,610
Deferred tax relating to temporary differences	**(370,548)**	151,366
	628,977	495,976
Current liability:		
Current year	**999,525**	344,610
Prior years	**203,226**	392,579
	1,202,751	737,189
Deferred tax asset:		
At 1 January	**698,609**	849,975
Movement for the year	**370,548**	(151,366)
At 31 December	**1,069,157**	698,609
The deferred asset comprises the following temporary differences:		
Loan loss provisions	**1,069,157**	698,609

5 Taxation (continued)

The relationship between the tax expense and the accounting profit can be explained as follows:

	2008	2007
	RO	RO
Accounting profit	**5,107,012**	4,344,395
Expenses that are not deductible in determining taxable profit:		
Loan loss provision movement	**3,087,897**	(1,422,643)
Taxable profit	**8,194,909**	2,921,752
Effective rate of income tax	**19.19%**	7.99%

The tax rate applicable to the company is 12% (2007 -12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and taxes. After giving effect to these adjustments, the average effective tax rate is estimated to 19.19% (2007-7.99%).

The difference between the applicable tax rate of 12% (2007 - 12%) and the effective tax rate of 19.19% (2007 – 7.99%) arises due to the tax effect of income not considered to be taxable and expenses that are not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The company's tax assessments have been completed up to tax year 2005. However, the company has filed an appeal contesting certain adjustments made by the tax department in the assessment issued for tax years 2000 to 2005. The company has also filed an appeal in the commercial court for the years 1998 and 1999 and 2000 to 2005 against the decisions issued by the tax committee. The commercial court has turned down the appeal and now an appeal is being filed with Supreme court.

During tax year 2007, the company wrote off/released certain amount from provision for doubtful debts. The tax department in the past completed assessments had disallowed the provision created for doubtful debts. Therefore, the write off/release during 2007 is expected to be allowed as deduction by the tax department. However, since the company is contesting the original disallowance made in the prior years, it has not claimed the write off/release as a deduction in tax year 2007. This has resulted in an excess tax payment of RO 194,921, which is included under other receivables.

Deferred tax has been computed at an effective rate of 12% (2007-12%).

6 Profit for the year

Profit for the year is stated after charging:

Staff costs	**2008**	2007
	RO	RO
Wages and salaries	**1,318,961**	827,930
Contributions towards the Public Authority for Social Insurance Scheme	**23,865**	11,419
End of service benefits (note 21)	**113,506**	27,077
Other benefits	**391,676**	484,158
	1,848,008	1,350,584
Number of persons employed by the company at the year end	**169**	164

7 Property and equipment

	Land *RO*	*Buildings* *RO*	*Motor vehicles* *RO*	*Furniture and office equipment* *RO*	*Total* *RO*
Cost					
1 January 2008	879,914	761,550	98,998	915,959	**2,656,421**
Additions	1,067,119	4,116	46,445	138,618	**1,256,298**
Disposal	-	-	(37,713)	(11,336)	**(49,049)**
31 Dec 2008	1,947,033	765,666	107,730	1,043,241	**3,863,670**
Depreciation					
1 January 2008	-	22,325	65,351	467,685	**555,361**
Charge for the year	-	38,306	29,160	159,560	**227,026**
Disposals	-	..........-	(32,448)	(11,149)	**(43,597)**
31 December 2008	-	60,631	62,063	616,096	**738,790**
Net book value					
31 December 2008	**1,947,033**	**705,035**	**45,667**	**427,145**	**3,124,880**
31 December 2007	879,914	739,225	33,647	448,274	2,101,060

As of 31 December 2008, the company has yet to pay RO 220,000 towards a final payment on land purchased during the year. The amount is included in other payables. (note 20)

8 Instalment finance debtors

All debts are due from individuals, partnership firms and corporate bodies operating within the Sultanate of Oman. The maturity profile of debts outstanding at the balance sheet date is disclosed in note 28.

(a) Instalment finance debtors arising from financing activities

	2008 ***RO***	*2007* *RO*
Gross installment finance debtors	**179,299,224**	117,995,507
Unearned finance income	**(26,162,733)**	(18,402,176)
Finance income accrued but reserved	**(452,622)**	(380,041)
Net installment finance debtors	**152,683,869**	99,213,290
Debt factoring activity debtors	**940,324**	1,028,850
	153,624,193	100,242,140
Impairment provision	**(8,909,639)**	(5,821,742)
	144,714,554	94,420,398

(i) Debt factoring activity debtors includes amounts advanced to clients in respect of debts factored, interest on the amounts advanced and related charges. In the event of default in settlement of debts factored by customers of the client, the company has recourse to the client.

8 Instalment finance debtors (continued)

(b) Debtors arising from sale and leaseback activities

The future minimum lease payments receivable by the company are as follows:

	2008	*2007*
	RO	*RO*
Gross debtors arising from sale and leaseback activities	**12,496**	39,979
Less: Unearned finance income	**(515)**	(2,794)
Net debtors arising from sale and leaseback activities	**11,981**	37,185

(c) Debtors arising from instalment sales

Profit arising from instalment sales during the year amounting to RO 1,218,352 (2007 - RO 662,506) is included in the instalment finance income.

	2008	*2007*
	RO	*RO*
Gross debtors arising from installment sales	**11,805,889**	13,971,905
Profit relating to future periods	**(1,667,710)**	(2,160,000)
Profit accrued but reserved	**(10,581)**	(6,065)
Net balance	**10,127,598**	11,805,840
Total installment finance debtors (a + b + c)	**154,854,133**	106,263,423

(d) Analysis of the company's instalment finance debtors

An analysis of the company's instalment finance debtors as at 31 December 2008 is set out below:

	Corporate	***Retail***	***Total***
	RO	***RO***	***RO***
Debtors arising from financing activities	**112,601,833**	**32,112,721**	**144,714,554**
Debtors arising from sale and lease back transactions	**11,981**	**-**	**11,981**
Debtors arising from Installment sales	**7,899,526**	**2,228,072**	**10,127,598**
	120,513,340	**34,340,793**	**154,854,133**

An analysis of the company's instalment finance debtors as at 31 December 2007 is set out below:

	Corporate	*Retail*	*Total*
	RO	*RO*	*RO*
Debtors arising from financing activities	63,981,075	30,439,323	94,420,398
Debtors arising from sale and lease back transactions	37,185	-	37,185
Debtors arising from Installment sales	10,975,755	830,085	11,805,840
	74,994,015	31,269,408	106,263,423

8 Instalment finance debtors (continued)

(d) Movement in provision for loan impairment

The movement in provision for loan impairment including reserved interest is analysed below:

	2008 RO Reserved interest	***2008 RO Principal provision***	*2007 RO Reserved interest*	*2007 RO Principal provision*
At 1 January	**1,305,940**	**4,515,802**	1,949,109	5,315,276
impairment provision	**-**	**4,133,685**		885,984
Written back / released during the year	**(124,178)**	**(881,326)**	(256,811)	(1,123,429)
Written off / released during the year	**(40,284)**	**-**	(386,358)	(562,029)
Balance at 31 December	**1,141,478**	**7,768,161**	1,305,940	4,515,802

Interest is reserved for all non-performing debtors where recovery is considered doubtful. At 31 December 2008, the total balance of debtors on which interest is not being accrued, or where interest is suspended, amounted to RO 8,052,713 (2007 - RO 8,381,187). Collateral that the company holds individually relating to impaired loans as on 31 December 2008 generally covers a substantial portion of the impaired installment finance debtors.

9 Other receivable and prepaid expenses

	2008 RO	*2007 RO*
Advances	**334,466**	124,984
Prepaid expenses	**136,299**	106,343
Other debtors	**4,248**	7,065
	475,013	238,392

10 Investment securities

(a) Held for trading investments

During 2005, the company acquired 4000 units of 1000 shares each in Al-Soor Financing & Leasing Company (ASFLC) a closely held company at a purchase price of 0.105 KD per share.

	2008 RO	*2007 RO*
Investment securities	**554,149**	735,841
Unrealised loss	**-**	(181,692)
	554,149	554,149

(b) Available for sale investments

During 2008, the company acquired 27,500 shares in National Bureau of Commercial Information SAOC, a closely held company at a price of RO 30,855.

11 Deposits with the Central Bank of Oman

The deposit represents a capital deposit with the Central Bank of Oman made in accordance with the Banking Law of 1974. The deposit is only repayable if the company terminates its instalment finance business within the Sultanate of Oman and settles all outstanding obligations and claims arising from that business.

12 Cash and cash equivalents

	2008	*2007*
	RO	*RO*
Bank and cash balances	**748,488**	841,411
Call deposits	**1,010**	822,553
	749,498	1,663,964

13 Share capital

Share capital comprises 233,852,792 (2007 – 159,038,649 of RO 0.100 each) fully paid shares of RO 0.100 each. The company's authorised share capital is RO 50,000,000 (2007 - RO 20,000,000).

In May 2008, the company issued 38,231,907 shares of RO 0.100 baisas each, through a rights issue to its existing shareholders at a price of RO 0.150 Baisas per share. The proceeds towards capital amounting to RO 3,823,191 was credited to the share capital account.

The details regarding conversion of optional convertible bonds are included in note 18 (a).

According to period end confirmations received from the Muscat Depository and Securities Registration Company SAOC (MDSRC) and from the Bahrain Stock Exchange, details of the major shareholders who own 10% or more of the company's shares are as follows:

	No. of shares		***% of holding***	
	2008	2007	**2008**	2007
Oman Tourism & Hotels Company	**47,799,446**	15,903,864	**20.440**	10.000
Global Financial Investment SAOG	**50,000**	22,495,776	**0.021**	14.145
Global Investment House, Kuwait	**12,895,014**	33,033,261	**5.514**	20.771
Maqbool Hameed Al Saleh	**-**	15,903,396	**-**	10.000

14 Share premium reserve

The share premium account represents premium collected by the company at the time of rights issue (note 13) and conversion of optional non convertible bonds (note 18 a) amounting to RO 1,885,706 and RO 258,619 respectively.

15 Reserves

15 (a) Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the profit for the year are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the company's paid-up share capital. This reserve is not available for distribution.

15 (b) Special reserve

The Board of Directors have recommended to increase the special reserve to RO 1,359,484 from RO 553,438 to cover any delinquencies arising from unforeseen contingencies. This reserve is not available for distribution.

15 (c) Foreign currency reserve

During the previous year, the company transferred an amount of RO 294,514 as a foreign currency reserve towards it borrowing increased in United States Dollar consistent with the Central Bank Of Oman regulation. As of 31 December 2008 the balance technically required in this account is RO 192,600.

16 Derivative financial instruments

During the year, the company entered into four interest rate hedging arrangements with a commercial bank in Oman with a view to cap exposure to fluctuating interest rates. The loan amount covered as at the balance sheet date was RO13,054,043 comprising of the following:

(i) Under the hedging agreement for a loan amount of RO 3,850,000 the company pays a fixed interest rate of 3.320% per annum and receives a floating interest rate based on 3 month US $ LIBOR.

(ii) Under the hedging agreement for a loan amount of RO 3,429,043 the company pays a fixed interest rate of 3.290% per annum and receives a floating interest rate based on 3 month US $ LIBOR

(iii) Under the hedging agreement for a loan amount of RO 3,850,000 the company pays a fixed interest rate of 3.500% per annum and receives a floating interest rate based on 6 month US $ LIBOR

(iv) Under the hedging agreement for a loan amount of RO 1,925,000 the company pays a fixed interest rate of 3.710% per annum and receives a floating interest rate based on 6 month US $ LIBOR

As at 31 December 2008, an unrealised loss of RO 322,818 relating to measuring the financial instrument at fair value is included in equity in respect of these contracts.

The table below shows the negative fair value of the derivative financial instrument, which is equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2008		*Notional amounts by term to maturity*		
	Negative fair value	*Notional amount Total*	*1 - 12 months*	*More than 1 upto 5 years*
	RO	*RO*	*RO*	*RO*
Interest rate swaps	**322,818**	**13,054,043**	**XXX**	**XXX**

17 Dividends paid and proposed

A stock dividend of 20% amounting to RO 3,260,348 proposed for the financial year 2007 was approved at the Annual General Meeting held in March 2008 and subsequently credited to shareholders account during the year.

For the year 2008, a cash dividend of 10% amounting to RO 2,338,528 has been proposed by the Board of Directors and will be submitted for the formal approval at the Annual General Meeting of the company to be held in March 2009.

18 Bonds

18 (a) Optional convertible bonds

	2008 RO	2007 RO
At 1 January	**777,836**	769,581
Add: amortization of bond issue expenses	**-**	8,255
Less: bonds converted into shares	**(656,495)**	-
Less: bonds repaid	**(121,341)**	-
At 31 December	**-**	777,836

In 2002, the company issued 2,721,500 Secured Optionally Redeemable Convertible Bonds with a face value of RO 1 each. These bonds carried an interest rate of 6% per annum payable half-yearly. The maturity period of the bonds is 63 months. The bonds were convertible into equity shares of the company as follows:

(a) 33.33% at the end of 36 months from the allotment date in October 2005
(b) 50% at the end of 48 months from the allotment date in October 2006
(c) 100% at the end of 63 months from the allotment date in January 2008

The convertible bonds issued by the company in 2002 were due for conversion / redemption in January 2008. Investors holding bonds aggregating to RO 656,495 opted for conversion. In accordance with the terms and conditions set out in the prospectus document dated 7 August 2002, these bonds have been converted into equity shares at a conversion price of RO 0.165 per share. Accordingly 3,978,755 equity shares of RO 0.100 were allotted to the bondholders resulting in increase in share capital and share premium accounts by RO 397,875 and RO 258,619 respectively.

The remaining bonds amounting to RO 121,341 were fully repaid in January 2008.

18 (b) Non - convertible bonds

	2008 RO	*2007 RO*
At 1 January	**563,336**	4,563,336
Less : Bonds repaid during the year	**(563,336)**	(4,000,000)
At 31 December	**-**	563,336

In 2004, the company issued 4,000,000 secured bonds with a face value of RO 1 each with a maturity period of 36 months. The bonds carried a floating rate of interest of 2% over the 6 months USD LIBOR subject to a floor rate of 4.25% and a cap rate of 6% per annum payable half yearly in arrears. The bonds matured and were fully repaid by the company in January 2008.

19 Bank borrowings

	2008 RO	2007 RO
Long term loans – RO	**50,697,488**	28,620,360
Long term loans – US $	**13,054,043**	11,556,000
Short term loans – RO	**26,500,000**	15,800,000
Bank overdrafts	**2,988,231**	932,132
	93,239,762	56,908,492

The company's bankers hold a pari passu charge over all the assets of the company for the credit facilities granted. In addition, the company is required to maintain certain performance and coverage ratios.

The related interest rate risk and maturity profile are given in note 28 and 29 respectively.

20 Creditors and other payables

	2008 RO	2007 RO
Trade creditors	**10,817,261**	12,940,196
Advances received from customers	**660,051**	250,048
Interest payable	**728,376**	217,529
Accrued expenses	**372,812**	363,773
End of service benefits (note 21)	**185,993**	92,409
Others	**605,094**	766,631
	13,369,587	14,630,586

21 End of service benefits

	2008 RO	2007 RO
Balance at 1 January	**92,409**	73,094
Charge for the Year	**113,506**	37,076
Payments made during the year	**(19,922)**	(7,761)
Balance at 31 December	**185,993**	92,409

22 Basic earning per share

Basic earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of shares.

	2008 RO	2007 RO
Profit for the year	**4,478,035**	3,848,419
Weighted average number of shares	**233,852,792**	159,038,649
Basic earnings per share for the year	**0.019**	0.024

22. Basic and diluted earning per share (continued)

During the year ended 31 December 2008, the company issued 32,603,480 bonus shares of RO 0.100 each to the existing shareholders. As the bonus issue was without consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

No figure for diluted earnings per share has been presented, as the company has not issued any instruments, which would have an impact on earnings per share when exercised.

23 Segment information

The company operates in the finance industry and its operations are confined to the Sultanate of Oman. Details regarding the company's corporate and retail loans are included in note 8.

24 Related party transactions

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

(a) Transactions included in statement of income are as follows:

	2008	*2007*
	RO	*RO*
Directors:		
Board sitting fees	**52,800**	65,800
Proposed directors remuneration	**-**	67,000
Other related parties		
Installment finance income	**306,293**	244,976

(b) Amounts due from related parties	***2008***	*2007*
	RO	*RO*
Installment finance debtors due from other related parties	**2,186,692**	1,854,813
Amounts due from directors	**2,000**	**18,800**
	2,188,692	1,873,613

No provision is required in respect of loans given to the related parties (Dec 2007: nil).

(c) Amounts due to related parties	***2008***	*2007*
	RO	*RO*
Amounts due to other related parties	**2,000,000**	-

(d) Compensation of the key management personnel is as follows:

	2008	*2007*
	RO	*RO*
Salaries and allowances	**204,548**	351,298
End of service benefits	**12,975**	9,115
	217,523	360,413

25 Contingent liabilities

(i) At 31 December 2008, there were contingent liabilities of RO 1,529,177 (Dec 2007 - RO 1,653,444) in respect of guarantees issued in the normal course of business on behalf of customers from which it is anticipated that no material liabilities will arise. Such guarantees are covered by counter guarantees from the customers in addition to other securities.

(ii) Litigation is a common occurrence in the financing and leasing industry due to the nature of the business. The company has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the company makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the company had several unresolved legal claims.

26 Capital commitments

At 31 December 2008, the company's capital commitments amounted to RO 85,094 (2007 – RO Nil).

27 Fair value information

The fair values of the company's financial instruments are not materially different from the carrying values.

28 Interest rate risk

The interest rate charged and paid by the company are similar to the prevailing market interest rates. The company's interest rate sensitivity position, based on the contractual repricing or maturity dates is set out below:

	Up to 1 month	*1 to 3 month*	*3 to 6 months*	*6 months to 12 months*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Non sensitive*	*Total*
	RO	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*
As of 31 DECEMBER 2008									
Assets									
Property and equipment	-	-	-	-	-	-	-	3,124,880	3,124,880
Investment securities	-	-	-	-	-	-	-	585,004	585,004
Instalment finance debtors	12,317,491	9,626,547	14,188,168	22,207,066	73,785,580	22,080,642	648,639	-	154,854,133
Other debtors and prepaid expenses	-	-	-	-	-	-	-	475,013	475,013
Deferred taxation	-	-	-	-	-	-	-	1,069,157	1,069,157
Deposit with Central Bank of Oman	-	-	-	-	-	-	50,000	-	50,000
Cash and cash equivalents	711,353	-	-	-	-	-	-	38,145	749,498
Total assets	**13,028,844**	**9,626,547**	**14,188,168**	**22,207,066**	**73,785,580**	**22,080,642**	**698,639**	**5,292,199**	**160,907,685**
Equity and liabilities									
Equity	-	-	-	-	-	-	-	32,047,767	32,047,767
Negative fair value of derivatives	-	-	-	-	322,818	-	-	-	322,818
Bank borrowings	19,496,395	9,060,476	12,666,791	15,499,664	36,516,436	-	-	-	93,239,762
Deposits	4,100,000	2,500,000	1,000,000	3,500,000	2,000,000	7,625,000	-	-	20,725,000
Creditors and other payables	9,884	11,949,710	680,904	543,096	-	-	185,993	-	13,369,587
Taxation	-	-	-	-	1,202,751	-	-	-	1,202,751
Total liabilities	**23,606,279**	**23,510,186**	**14,347,695**	**19,542,760**	**40,042,005**	**7,625,000**	**185,993**	**32,047,767**	**160,907,685**
Interest rate sensitivity gap	**(10,577,435)**	**(13,883,639)**	**(159,527)**	**2,664,306**	**33,743,575**	**14,455,642**	**512,646**	**(26,755,568)**	
Cumulative gap	**(10,577,435)**	**(24,461,074)**	**(24,620,601)**	**(21,956,295)**	**11,787,280**	**26,242,922**	**26,755,568**		

UNITED FINANCE COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

28 Interest rate risk (continued)

	Up to 1 month	*1 to 3 month.*	*3 to 6 months*	*6 months to 12 months*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Non sensitive*	*Total*
	RO	*RC*	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*
As of 31 December 2007									
Assets									
Property and equipment	-	-	-	-	-	-	-	2,101,060	2,101,060
Trading investments	554,149	-	-	-	-	-	-	-	554,149
Instalment finance debtors	3,920,594	6,580,168	7,337,726	17,380,103	49,874,965	17,714,309	3,455,558	-	106,263,423
Other debtors and prepaid expenses	-	-	-	-	-	-	-	238,392	238,392
Deferred taxation	-	-	-	-	-	-	-	698,609	698,609
Deposit with Central Bank of Oman	-	-	-	-	-	-	50,000	-	50,000
Cash and cash equivalents	1,636,377	-	-	-	-	-	-	27,587	1,663,964
Total assets	**6,111,120**	**6,580,168**	**7,337,726**	**17,380,103**	**49,874,965**	**17,714,309**	**3,505,558**	**3,065,648**	**111,569,597**
Equity and liabilities									
Equity	-	-	-	-	-	-	-	21,527,158	21,527,158
Optional convertible bonds	777,836	-	-	-	-	-	-	-	777,836
Non-convertible bonds	563,336	-	-	-	-	-	-	-	563,336
Bank borrowings	6,556,061	13,105,794	4,469,243	9,815,938	22,961,456	-	-	-	56,908,492
Deposits		-	3,000,000	2,800,000	3,000,000	7,625,000	-	-	16,425,000
Creditors and other payables	5,347	14,095,049	248,126	189,655	-	-	92,409	-	14,630,586
Taxation	-	495,976	-	-	241,213	-	-	-	737,189
Total liabilities	**7,902,580**	**27,696,819**	**7,717,369**	**12,805,593**	**26,202,669**	**7,625,000**	**92,409**	**21,527,158**	**111,569,597**
Interest rate sensitivity gap	**(1,791,460)**	**(21,116,651)**	**(379,643**	**4,574,510**	**23,672,296**	**10,089,309**	**3,413,149**	**(18,461,510)**	
Cumulative gap	**(1,791,460)**	**(22,908,111)**	**(23,287,754**	**(18,713,244)**	**4,959,052**	**15,048,361**	**18,461,510**		

29 Maturity profile of the assets and liabilities

The company has undrawn credit facilities to cover any gap in maturity, if required

The maturity profile of the assets and liabilities as of 31 December 2008 was as follows:

	Up to 1 month	*2 to 3 months*	*4 to 6 months*	*7 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Total*
	RO	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*
Assets							
Property and equipment	-	-	-	-	-	3,124,880	**3,124,880**
Investments	-	-	-	-	585,004	-	**585,004**
Instalment finance debtors	12,317,491	9,626,547	14,188,168	22,207,066	73,785,580	22,729,281	**154,854,133**
Other receivables and prepayments	-	475,013	-	-	-	-	**475,013**
Deferred tax asset	-	-	-	-	-	1,069,157	**1,069,157**
Deposit with Central Bank of Oman	-	-	-	-	-	50,000	**50,000**
Cash and cash equivalents	749,498	-	-	-	-	-	**749,498**
Total assets	**13,066,989**	**10,101,560**	**14,188,168**	**22,207,066**	**74,370,584**	**26,973,318**	**160,907,685**
Liabilities							
Negative fair value of derivatives	-	-	-	-	322,818	-	**322,818**
Bank borrowings	19,496,395*	9,060,476*	12,666,791	15,499,664	36,516,436	-	**93,239,762**
Deposits	4,100,000	2,500,000	1,000,000	3,500,000	2,000,000	7,625,000	**20,725,000**
Creditors and other payables	9,884	11,949,710	680,904	543,096	-	185,993	**13,369,587**
Taxation	-	-	-	-	1,202,751	-	**1,202,751**
Total liabilities	**23,606,279**	**23,510,186**	**14,347,695**	**19,542,760**	**40,042,005**	**7,810,993**	**128,859,918**
Net	**(10,539,290)**	**(13,408,626)**	**(159,527)**	**2,895,671**	**34,328,579**	**19,162,325**	**32,047,767**

* Short term bank borrowings are renewable in nature

UNITED FINANCE COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

29 The maturity profile of the assets and liabilities as of 31 December 2007 was as follows:

	Up to 1 month	*2 to 3 months*	*4 to 6 months*	*7 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Total*
	RO	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*
Assets							
Property and equipment	-	-	-	-	-	2,101,060	**2,101,060**
Investments	554,149	-	-	-	-	-	**554,149**
Instalment finance debtors	3,920,594	6,580,168	7,337,726	18,019,965	48,610,255	21,794,715	**106,263,423**
Other receivables and prepayments	-	238,392	-	-	-	-	**238,392**
Deferred tax asset	-	-	-	-	-	698,609	**698,609**
Deposit with Central Bank of Oman	-	-	-	-	-	50,000	**50,000**
Cash and cash equivalents	1,663,964	-	-	-	-	-	**1,663,964**
Total assets	**6,138,707**	**6,818,560**	**7,337,726**	**18,019,965**	**48,610,255**	**24,644,384**	**111,569,597**
Liabilities							
Optional convertible bonds	777,836	-	-	-	-	-	**777,836**
Non-convertible bonds	563,336	-	-	-	-	-	**563,336**
Bank borrowings	6,556,061	13,105,794	4,469,243	9,815,938	22,961,456	-	**56,908,492**
Deposits	-	-	3,000,000	2,800,000	3,000,000	7,625,000	**16,425,000**
Creditors and other payables	5,347	14,095,049	248,126	189,655		92,409	**14,630,586**
Taxation	_	495,976	-	-	241,213	-	**737,189**
Total liabilities	**7,902,580**	**27,696,819**	**7,717,369**	**12,805,593**	**26,202,669**	**7,717,409**	**90,042,439**
Net	**(1,763,873)**	**(20,878,259)**	**(379,643)**	**5,214,372**	**22,407,586**	**16,926,975**	**21,527,158**

30 Risk Management

Financial institutions are faced with the dual challenge of achieving business growth/ profitability and managing the inherent risks. They are exposed to credit risk, market risk and liquidity risks. They continuously strive to face challenges and exploit the opportunities the market offers through a process of proactively assessing market forces and economic factors to maintain a competitive edge by devising appropriate strategies to mitigate and manage risk.

The Board of Directors set the overall risk parameters and tolerances and the significant risk management policies. The Audit Committee of the Board reviews and reports to the Board of Directors on the company's risk profile and risk taking activities. The Management Committee chaired by Chief Executive Officer has the primary responsibility of sanctioning risk taking activities and risk management policies within the overall risk parameters and tolerances defined by the Board of Directors. The Risk Management Committee comprising of the risk management officials and chaired by the Chief Financial Officer provides the forum for review and approval of risk measurement methodologies, risk control processes and the approval of new products. Review of risks arising from external factors is also evaluated. The committee also reviews all the risk policies and limits that require the formal approval of the Management Committee. The risk management control process is based on a detailed structure of policies, procedures and limits and comprehensive risk measurement and management systems for the control, monitoring and reporting of risks. Periodic reviews by the internal and external auditors and regulatory authorities subject the risk management processes to additional scrutiny that help to further strengthen the risk management environment.

(a) Credit Risk

Credit risk is that which arises when one party to a financial instrument fails to discharge an obligation causing the other party to incur a financial loss. Well defined policies and processes are in place at both the business units and corporate level that are intended to ensure that risks are assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counter party, and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligator, risk grade and geography. The company attempts to control credit risk through continuously reviewing and improving its credit policies to meet the demanding needs of market, setting and monitoring credit exposures, limiting transactions with specific counter parties and assessing their creditworthiness and restricting exposure to any particular industry or individuals or groups of customers in a particular region / location. In addition, to mitigate the risk of unforeseen eventualities, adequate security cover is maintained over the assets of the borrowers. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the company's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the company does not occupy repossessed properties for business use.

30 Risk Management (continued)

Maximum exposure to credit risk

The table below gives the maximum exposure to credit risk. The maximum exposures are shown at gross before the effect of mitigation through the use of collateral agreements:

	Gross maximum exposure	*Gross maximum exposure*
	2008	*2007*
	RO	*RO*
Installment finance debtors	**154,854,133**	106,263,423
Other receivables	**475,013**	238,392
Investment securities	**585,004**	554,149
Bank balances and deposits	**799,498**	1,713,964
Total	**156,713,648**	108,769,928
Contingent liabilities	**1,529,177**	1,653,444
Commitments	**85,094**	-
Derivative financial instruments	**13,054,043**	-
Total	**14,668,314**	1,653,444
Total credit risk exposure	**171,381,962**	110,423,372

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty and by industry sector exposures. There is no significant credit exposure relating to instalment finance debtors to any single counterparty as of 31 December 2008 and 2007. An industry sector analysis of the company's instalment finance debtors before taking into account collateral held is as follows:

	Gross maximum exposure	*Gross maximum exposure*
	2008	*2007*
	RO	*RO*
Personal loans	**28,750,118**	40,527,273
Business loan - Services	**41,127,424**	26,617,090
- Trading	**9,259,646**	536,675
- Manufacturing	**7,770,192**	3,668,170
- Construction contracts	**30,900,033**	13,502,982
- Construction equipments	**35,686,480**	8,996,510
- Others	**1,360,240**	12,414,722
	154,854,133	106,263,423

30 Risk Management (continued)

Credit quality per class of financial assets

The credit quality of financial assets is regularly monitored by the company. The company's unimpaired finance debtors' receivables which are past due but not impaired amounted to RO 31,147,831 (2007 – RO 9,635,313).

Aging analysis of past due but not impaired instalment finance debtors is set out as below:

	Less than 30 days 2008 RO	***31 to 89 days 2008 RO***	***Total 2008 RO***
Installment finance debtors	**24,436,902**	**6,710,929**	**31,147,831**

	Less than 30 days 2007 RO	*31 to 89 days 2007 RO*	*Total 2007 RO*
Installment finance debtors	6,388,001	3,247,312	9,635,313

All loans extended by the company are against security of assets financed and in certain cases if required against additional security. All loans are additionally secured by personal guarantees of the borrowers.

Renegotiated instalment finance debtors

As of 31 December 2008 renegotiated instalment finance debtors amounted to RO nil (December 2007 RO-760,217)

(b) Market Risk

Market risk is the risk of loss due to adverse changes in interest rates and foreign currency rates.

Interest rate risk arises from the possibility that changes in the interest rates and the mis-matches in the amounts of assets or liabilities that mature or re-price during a given period. The company manages this risk by matching the re-pricing of assets and liabilities and through risk management strategies. The loans extended by the company are for periods varying from one to over five years are at fixed interest rates, albeit with interest variance clause. However, any re-pricing of the company's liabilities by its lenders due to economic factors would result to some extent in interest rate risk. The company mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates.

The Company has borrowed at floating rates and used interest rate swaps, which have economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swap, the company agreed with other party to exchange at appropriate intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed principal amounts.

Currency risk arises from the possibility of changes in the value of financial assets due to changes in the foreign currency rates. The company liabilities comprise of borrowings in US Dollars in addition to local currency borrowings. As there is an exchange parity agreement between Oman and the United States of America, the exchange rates have remained stable over the years. However, in line with the requirements of the Central Bank of Oman an exchange variance reserve is maintained on the foreign currency exposure in excess of 40% of the net worth of the company to mitigate any probable risk arising out of any unforeseen fluctuation in exchange rates.

30 Risk Management (continued)

Trading market risk

The company does not actively participate in trading in debts, equity securities, foreign exchange or derivative instruments.

Interest rate risk

Interest rate risk arises in the company's core balance sheet as a result of mismatches in the re-pricing of interest rate sensitive financial assets and liabilities. The company mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates.

The following table shows the sensitivity to the company's net interest income that would result out of a possible change in interest rates

Change in Interest rate	Change in basis points	Sensitivity to net interest income (RO '000)
Increase in interest rate	+100 bps	(1,140)
Increase in interest rate	+200 bps	(2,279)
Decrease in interest rate	- 25 bps	285

(c) Liquidity risk

Liquidity risk is that an entity will encounter when it is unable to meet its obligations at any given time. The company's conservative liability management policies are designed to ensure that even in adverse situations the company should be in a position to meet its obligations. In normal conditions the objective is to ensure that there is sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. The objectives are met through the application of prudent liquidity controls.

The maturity profile of assets and liabilities is set out in note 29.

(d) Operational risk

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

(e) Capital management

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

The company manages its capital structure and makes adjustments to it in the light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 Dec 2008 and 31 Dec 2007. Capital comprises share capital, legal reserve, special reserve, foreign currency reserve and retained earnings, and is measured at RO 32,047,767 as at 31 December 2008 (2007: RO 21,527,158). The company is already in compliance with the Central Bank of Oman's minimum capital requirement of RO 20 Million.

31 COMPARATIVE FIGURES

Certain corresponding figures for 2007 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.