

2005

ANNUAL REPORT



personalizing your strategy

2005

ANNUAL REPORT

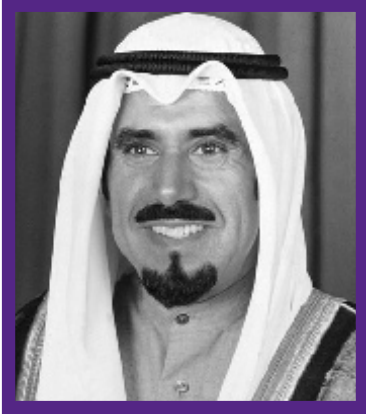


إستراتيـجيا

STRATEGIA

Investment Company للاستثمار

personalizing your strategy



Late Amir of Kuwait
Sheikh Jaber Al Ahmad Al-Jaber Al Sabah



Amir of Kuwait
Sheikh Sabah Al Ahmad Al-Jaber Al Sabah



Prime Minister of Kuwait
Sheikh Naser Al Mohammed Al-Ahmad Al Sabah



Crown Prince of Kuwait
Sheikh Nawaf Al Ahmad Al-Jaber Al Sabah



MEMBERS OF THE BOARD OF DIRECTORS

Mr. Ali Al-Bader
Chairman and Managing Director

Mr. Khaleefa Al-Enezi
Vice Chairman

Mr. Abdulmohsin Al-Mutair
Board Member

Mr. Hazem Al-Eissa
Board Member

Mr. Adel Al-Humaidhi
Board Member

CHAIRMAN'S MESSAGE

Dear Shareholders,

I am pleased to present to you on behalf of the Board of Directors, the Annual Report and the Financial Statements for the year ended 31 December, 2005.

The company achieved a net profit of Kuwaiti Dinars 1,196,557 which represents Kuwaiti Dinars 1,103,633 in realized profit and Kuwaiti Dinars 92,924 in unrealized profit. The company's shareholders' equity grew from Kuwaiti Dinars 15,491,730 to Kuwaiti Dinars 17,815,575 and its assets grew from Kuwaiti Dinars 15,542,533 to Kuwaiti Dinars 21,189,318. From our point of view represents a reasonable performance under the circumstances, as 2005 was the First full year of operation after the election of the board in January 2005.

The board and the executive management worked closely to establish the broad investment and risk management guidelines and the Company followed a Conservative Investment Strategy that focused its operation on real estate related Investments. It started Local Investment department in the second half of the year through its own portfolio as well as managing a portfolio on behalf of clients in the Kuwait stock market. It also launched "Strategia Capital Protected Note" in November 2005.

We continue to believe in the positive outlook of the markets we operate in, whether it is local, regional, on international (U.S, Europe, and Asia). In spite of some political and psychological factors the fundamentals are still encouraging and there are still investment opportunities of high returns. As per our current plans we look to achieving the requirements of the Kuwait Stock Exchange for listing during the first half of 2007, and we hope that the conditions in the market will be suitable for our shareholders to achieve the full benefits

Ali Al Bader
Chairman & Managing Director

Strategia Investment Company K.S.C. (Closed)
And Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2005

AUDITORS REPORT TO THE SHAREHOLDERS

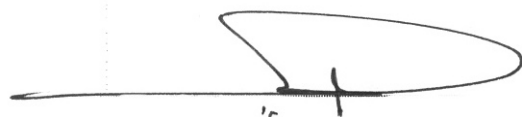
We have audited the accompanying consolidated balance sheet of Strategia Investment Company K.S.C. (Closed) ("the parent company") and its subsidiaries ("the Group") as of 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. The consolidated financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the group as of 31 December 2004 were audited by another auditor whose report dated 13 February 2005 expressed an unqualified opinion.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the 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 were required for the purpose of our audit and the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2005 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2005.



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

MARCH - 14 - 2006
Kuwait

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2005

	Note	2005	2004
		(KD)	(KD)
Fee income		1,378,158	449,900
Interest income		71,236	92,659
Realised gain on investments at fair value through statement of income		711,027	-
Unrealised gain on investments at fair value through statement of income		92,924	141,676
Exchange loss		(30,416)	-
Other income		7,236	-
INCOME		2,230,165	684,235
General and administration expenses		327,969	110,595
Staff costs		516,706	188,995
Depreciation		21,091	5,463
Interest expense		73,830	-
Provision for loans and advances		54,891	7,510
Amortisation of goodwill		-	148,317
EXPENSES		994,487	460,880
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS) AND DIRECTORS' REMUNERATION		1,235,678	223,355
Contribution to KFAS		(11,121)	(2,010)
Directors' remuneration		(28,000)	-
PROFIT FOR THE YEAR		1,196,557	221,345
Earnings per share	3	8 fils	2.3 fils

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

31 December 2005

	Note	2005 (KD)	2004 (KD)
ASSETS			
Bank balance and cash		478,720	779,729
Investments at fair value through statement of income	4	2,959,944	10,784,124
Available for sale investments	5	10,637,194	-
Loans and advances	6	3,057,620	367,978
Other assets	7	547,416	186,301
Property and equipment		97,131	13,108
Goodwill	8	3,411,293	3,411,293
TOTAL ASSETS		21,189,318	15,542,533
LIABILITIES AND EQUITY			
Liabilities			
Short term borrowings	9	3,102,200	-
Other liabilities		271,543	50,803
TOTAL LIABILITIES		3,373,743	50,803
EQUITY			
Share capital	10	15,000,000	15,000,000
Share premium		250,000	250,000
Statutory reserve	11	147,980	24,412
General reserve	12	14,798	2,441
Cumulative changes in fair value		1,051,406	-
Employee share option reserve	13	94,342	-
Retained earnings		1,275,670	215,038
Foreign currency translation reserve		(18,621)	(161)
TOTAL EQUITY		17,815,575	15,491,730
TOTAL LIABILITIES AND EQUITY		21,189,318	15,542,533



Ali Hasan Mishari Al-Bader
(Chairman and Managing Director)



Khalifa Khalaf El Enezi
(Vice Chairman)

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2005

	2005	2004
	(KD)	(KD)
OPERATING ACTIVITIES		
Profit for the year	1,196,557	221,345
Adjustments for:		
Amortisation of goodwill	-	148,317
Provision for employee share option plan (ESOP)	94,342	-
Provision for loans and advances	54,891	7,510
Depreciation	21,091	5,463
	1,366,881	382,635
Changes in operating assets and liabilities:		
Investments at fair value through statement of income	7,824,180	(10,784,124)
Loans and advances	(2,744,533)	(367,978)
Other assets	(361,115)	(64,314)
Other liabilities	220,740	50,154
Net cash from (used in) operating activities	6,306,153	(10,783,627)
INVESTING ACTIVITIES		
Purchase of real estate division	-	(3,559,610)
Purchase of property and equipment	(105,114)	(18,571)
Purchase of available for sale investments	(9,585,788)	-
Net cash used in investing activities	(9,690,902)	(3,578,181)
FINANCING ACTIVITIES		
Issue of share capital	-	15,125,000
Short term borrowings	3,102,200	-
Net cash from financing activities	3,102,200	15,125,000
Foreign currency translation reserve	(18,460)	(161)
(DECREASE) INCREASE IN BANK BALANCE AND CASH	(301,009)	763,031
Bank balance and cash at 1 January	779,729	16,698
BANK BALANCE AND CASH AT 31 DECEMBER	478,720	779,729

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Share Capital	Share premium	Statutory reserve	General reserve	Cumulative changes in fair value	Employee share option reserve	Retained earnings	Foreign currency translation reserve	Total
	(KD)	(KD)	(KD)	(KD)	(KD)	(KD)	(KD)	(KD)	(KD)
Balance at 1 January 2004	125,000	-	2,077	207	-	-	18,262	-	145,546
Foreign currency translation adjustment	-	-	-	-	-	-	-	(161)	(161)
Total expenses recognised directly in equity	-	-	-	-	-	-	-	(161)	(161)
Profit for the year	-	-	-	-	-	-	221,345	-	221,345
Total income and expenses for the year	125,000	-	2,077	207	-	-	239,607	(161)	366,730
Issue of share capital	9,875,000	-	-	-	-	-	-	-	9,875,000
Rights issue	5,000,000	250,000	-	-	-	-	-	-	5,250,000
Transfer to reserves	-	-	22,335	2,234	-	-	(24,569)	-	-
Balance at 31 December 2004	15,000,000	250,000	24,412	2,441	-	-	215,038	(161)	15,491,730
Balance at 1 January 2005	15,000,000	250,000	24,412	2,441	-	-	215,038	(161)	15,491,730
Change in fair value of available for sale investments	-	-	-	-	1,051,406	-	-	-	1,051,406
Employee share based payment (Note 13)	-	-	-	-	-	94,342	-	-	94,342
Foreign currency translation adjustment	-	-	-	-	-	-	-	(18,460)	(18,460)
Total income (expenses) for the year recognised directly in equity	-	-	-	-	1,051,406	94,342	-	(18,460)	1,127,288
Profit for the year	-	-	-	-	-	-	1,196,557	-	1,196,557
Total income and expenses for the year	15,000,000	250,000	24,412	2,441	1,051,406	94,342	1,411,595	(18,621)	17,815,575
Transfer to reserves	-	-	123,568	12,357	-	-	(135,925)	-	-
Balance at 31 December 2005	15,000,000	250,000	147,980	14,798	1,051,406	94,342	1,275,670	(18,621)	17,815,575

The attached notes 1 to 24 form part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

1 ACTIVITIES

The consolidated financial statements of Strategia Investment Company K.S.C. (Closed) (the “parent company”) and its subsidiaries (“the group”) were authorised for issue by the Board of Directors on 14th March 2006 and are issued subject to the approval of the Ordinary General Assembly of the shareholders of the parent company.

Strategia Investment Company K.S.C. (Closed) is a Kuwaiti closed shareholding company incorporated in Kuwait in 1998 and is engaged in carrying out investment for own account and for clients, portfolio and fund management activities and is regulated by Central Bank of Kuwait. The parent company’s registered office is at 2nd floor, BKME Building, Joint Banking complex , Darwaza, Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the International Accounting Standard (IAS) 39: Financial Instruments: Recognition and Measurement requirement for collective provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

The consolidated financial statements are presented in Kuwaiti Dinars.

The consolidated financial statements are prepared under the historical cost convention as modified for the revaluation at fair value of investments at fair value through statement of income and available-for-sale investments.

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, with the exception of the following policies which have been revised due to certain International Financial Reporting Standards (IFRS) that became mandatory for the financial years starting on or after 1 January 2005. The principal effects are discussed below:

IFRS 2 “Share based Payments”

The Group operates an Employee Stock Options Plan under which share options are granted to eligible employees. The main impact of IFRS 2 on the group is the recognition of periodic expense over the estimated vesting period and a corresponding entry to equity.

There is no material impact on the consolidated statement of income for the comparative year ended 31 December 2004 or on retained earnings at 1 January 2004.

IFRS 3 “Business Combinations” and IAS 36 “Impairment of Assets”

The adoption of IFRS 3 and IAS 36 has resulted in the group ceasing goodwill amortisation with effect from 1 January 2005. Goodwill is now tested for impairment annually. There is no effect of the adoption of IFRS 3 to retained earnings.

IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”

Classification

All investments previously classified as “held for trading” have been redesignated as “investments at fair value through statement of income”. The carrying amount of held for trading investments reclassified as “investments carried at fair value through statement of income” as at 31 December 2004 were KD 10,784,124.

Derecognition of financial assets

With effect from 1 January 2005 a financial asset (in whole or in part) is derecognised when the contractual rights to cash flows from the financial asset expire, the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation

These consolidated financial statements include the accounts of the parent company and its subsidiaries (listed below). Subsidiaries are those enterprises 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 subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date it effectively ceases. The purchase method of accounting is used. Purchase method involves allocating the cost of business combination to fair value of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisition.

Significant inter-company balances and transactions, including inter-company 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.

Name	Beneficial ownership	
	2005	2004
Subsidiaries		
Strategia Investors Inc (Formerly KME Management Service Ltd) <i>(Incorporated in United States of America and principal activity is to serve as an investment manager and advisor)</i>	100%	100%
Marquee Fund Manager Limited <i>(Incorporated in United Kingdom and its principal activity is to serve as investment manager and advisory services).</i>	100%	100%
Strategia Investors Service Limited <i>(Incorporated in Antigua and Barbuda and principal activity is to serve as an investment manager and advisor to real estate fund)</i>	100%	100%

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured.

Placement and advisory fees are recognised when securities are sold or when specific advisory services are rendered. Management fees relating to portfolios, fund management, custody services and other fees are recognised when earned. Interest income is considered an integral part of the effective yield of a loan and is recognised using the effective yield method.

Investments

The Group classifies its investments as "investments at fair value through statement of income" and "available-for-sale investments". Management determines the appropriate classification of each instrument at the time of acquisition. All investments are initially measured at fair value of the consideration given plus transaction costs except for investments classified as fair value through statement of income. Transaction costs on investments classified as fair value through statement of income are recognised in the consolidated statement of income.

Investments carried at fair value through statement of income

Investments are classified as fair value through statement of income if the fair value of the investment can be reliably measured. Investments classified as "Investments at fair value through statement of income" upon initial recognition are remeasured at fair value with all changes in fair value being recorded in the consolidated statement of income.

31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Available for sale investment

After initial recognition, investments classified as “available for sale investments” 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 consolidated statement of income for the year.

Loans and advances

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

Fair value

For investments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in funds, or similar investment vehicles are based on the last published bid price.

For financial instruments where there is no active market fair value is normally based on one of the following:

- recent transactions
- brokers' quotes
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models.

Derecognition

A financial asset (in whole or in part) is derecognised either when the group has transferred substantially all the risks and rewards of ownership or, when it has neither transferred or retained substantially all the risks and rewards, or when it no longer has control over the asset or a proportion of the asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets of the acquired entity as at the date of the acquisition. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the balance sheet. Any excess, at the date of acquisition, of the Group's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill.

Goodwill is stated at cost less accumulated amortisation (up to 31 December 2004) and impairment losses and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the consolidated statement of income.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists the recoverable amount is estimated and an impairment loss is recognised in the consolidated statement of income.

Loans and advances of the Group are subject to credit risk provision for loan impairment if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantee and collateral, discounted based on the contractual interest rate. As per the Central Bank of Kuwait's requirements, a minimum general provision of 2% is made on all credit facilities not subject to specific provision.

31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment transactions

The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP). Under the terms of the plan, share options are granted to permanent employees. The options are exercisable in future period. The fair value of the options is recognised as an expense over the vesting period with corresponding effect to equity.

Short term borrowings

Short term borrowings are measured at amortised cost using the effective yield method.

Foreign currency

Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity and for non-monetary assets whose change in fair value are recognised in the statement of income are recognised in the statement of income.

Assets including goodwill and liabilities, both monetary and non-monetary, of foreign subsidiaries are translated at the exchange rates prevailing at the balance sheet date. Operating results of such subsidiaries are translated at average rates of exchange for the subsidiary's period of operations. The resulting exchange differences are accumulated in a separate section of the equity (foreign currency translation reserve) until the disposal of the subsidiary.

Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the group and accordingly are not included in these consolidated financial statements.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of investments

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

Classification of investments as fair value through statement of income depends on how management monitor the performance of these investments. When they have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through statement of income.

Impairment of investments

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty

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

Valuation of unquoted equity investments

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

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

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

Impairment of Goodwill

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

3 EARNINGS PER SHARE

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

	2005	2004
	(KD)	(KD)
Profit for the year	1,196,557	221,345
	<i>Shares</i>	<i>Shares</i>
Weighted average number of shares outstanding during the year	150,000,000	96,379,781
Earnings per share	8 fils	2.3 fils

4 INVESTMENTS AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2005	2004
	(KD)	(KD)
Quoted securities	1,746,700	
Investment in funds	1,213,244	10,784,124
	2,959,944	10,784,124

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

5 AVAILABLE FOR SALE INVESTMENTS

	2005	2004
	(KD)	(KD)
Investments in quoted securities	324,000	-
Investments in unquoted securities	2,484,071	-
Investments in funds	7,829,123	-
	10,637,194	-

Investment in unquoted securities are carried at cost as management is unable to estimate fair values. However, management is not aware of any circumstances that would indicate any impairment in the value of these investments on the balance sheet date.

6 LOANS AND ADVANCES

	2005	2004
	(KD)	(KD)
Gross loans	3,120,020	375,488
Less: General provision	62,400	7,510
	3,057,620	367,978

Gross loans carries an interest rate of 2.5% per annum (2004: 2.5% per annum) over the Central Bank Kuwait discount rate.

7 OTHER ASSETS

	2005	2004
	(KD)	(KD)
Accrued management fees	424,633	140,056
Others	122,783	46,245
	547,416	186,301

8 GOODWILL

During the year 2004, the parent company has purchased Kuwait and Middle East Financial Investment Company K.S.C. (closed) real estate division, which did not have any identifiable assets or liabilities on the date of acquisition. Consideration paid amounting to KD 3,559,610 was treated as goodwill.

	2005	2004
	(KD)	(KD)
Opening balance	3,411,293	
Addition	-	3,559,610
Amortisation charge for the year	-	(148,317)
	3,411,293	3,411,293

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

9 SHORT TERM BORROWINGS

During the year, the group has obtained short term unsecured borrowings of KD 3,102,200 (2004: Nil) from a related party with an average interest rate of 5.5% per annum and is repayable in full within twelve months of the balance sheet date.

10 SHARE CAPITAL

The authorised, issued and paid share capital as of 31 December 2005 comprised 150,000,000 shares (2004: 150,000,000) of 100 fils each.

11 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 and directors remuneration has been transferred to the statutory reserve. The parent company may resolve to discontinue such annual transfers, when the reserve equals 50% of paid-up capital.

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

12 GENERAL RESERVE

In accordance with the parent company's Articles of Association, 1% of profit for the year before contribution to KFAS and directors remuneration is transferred to the general reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

13 SHARE BASED PAYMENTS

The Parent Company has a stock option plan for all of its employees. Options are exercisable at a price approved by Board of Directors at the date of grant. The weighted average vesting period is three years. The options expire if they are not exercised within the period specified in the grant. If an employee leaves the Group before the options vest they are forfeited. Share Options totaling 3,000,000 shares were granted with a vesting period of 3 years. The group recognised an expense of KD 94,342 and a corresponding increase in equity related to equity-settled share-based payment transactions during the year.

The shares under the stock option plan have already been issued to a related party. The related party issues these shares to the employees at the completion of the vesting period.

14 RELATED PARTY TRANSACTIONS

These represent transactions with certain parties (major shareholders, directors and executive officers of the group, close members of their families and companies of which they are principal owners or over which they are able to exercise significant influence) entered into by the group in the ordinary course of business. The terms of these transactions are approved by the group's management.

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

	2005	2004
	(KD)	(KD)
Realised gain on investment carried at fair value through statement of income	140,704	-
Unrealised gain on investment carried at fair value through statement of income	63,638	64,189
Interest income	3,477	2,109
Provision for management executive bonus	81,600	-
Interest expense	73,830	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

14 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
	(KD)	(KD)
Share based payment	91,142	
Short-term benefits	155,474	76,417
Termination benefits	16,316	9,219

The year end balances in respect of related parties are as follows:

	2005	2004
	(KD)	(KD)
Investment carried at fair value through statement of income	1,108,036	4,095,639
Available for sale investments	4,477,321	-
Loans and advances	1,380,475	333,975
Short term borrowing	3,102,200	-
Other liabilities	25,535	9,219

15 FIDUCIARY ASSETS

The group manages portfolios on behalf of customers and maintains cash balances and securities in fiduciary accounts which are not reflected in group's consolidated balance sheet.

The aggregate value of assets held in a fiduciary capacity by the group at 31 December 2005 amounted to KD 64,773,579 (2004: KD 42,798,221).

16 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposure. The group had the following significant net exposures denominated in foreign currencies at 31 December:

	2005	2004
	(KD)	(KD)
	Equivalent	Equivalent
US Dollar	5,302,394	1,381,011
EURO	1,248,086	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

17 SEGMENTAL INFORMATION

Primary segment information

For management purposes, the Group is organised into two major business segments. The principal activities and services under these segments are as follows:

Proprietary investment management	Investing of Group funds in securities, lending to corporate and individual customers and managing the Group's liquidity requirements.
Investment management and advisory services	Discretionary and non-discretionary investment portfolio management, managing of local and international investment funds and providing advisory and structured finance services and other related financial services.

31 December 2005	<i>Proprietary investment management</i>	<i>Investment management and advisory services</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
ASSETS			
Bank balances and cash	339,294	139,426	478,720
Investments at fair value through statement of income	2,959,944	-	2,959,944
Available for sale investments	10,637,194	-	10,637,194
Loans and advances	3,057,620	-	3,057,620
Other assets	390,377	157,039	547,416
Property and Equipment	97,131	-	97,131
Goodwill	-	3,411,293	3,411,293
TOTAL ASSETS	17,481,560	3,707,758	21,189,318
LIABILITIES			
Short term Borrowings	3,102,200	-	3,102,200
Other liabilities	271,543	-	271,543
TOTAL LIABILITIES	3,373,743		3,373,743
Year ended 31 December 2005			
Segment income	852,007	1,378,158	2,230,165
Segment profit	72,605	1,123,952	1,196,557

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17 SEGMENTAL INFORMATION (continued)

31 December 2004	<i>Proprietary investment management</i>	<i>Investment management and advisory services</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
ASSETS			
Bank balances and cash	674,565	105,164	779,729
Investments at fair value through statement of income	10,784,124	-	10,784,124
Available for sale investments	-	-	-
Loans and advances	367,978	-	367,978
Other assets	61,709	124,592	186,301
Property and equipment	13,108	-	13,108
Goodwill	-	3,411,293	3,411,293
TOTAL ASSETS	11,901,484	3,641,049	15,542,533
LIABILITIES			
Other liabilities	50,803	-	50,803
TOTAL LIABILITIES	50,803	-	50,803
Year ended 31 December 2004			
Segment income	234,335	449,900	684,235
Segment profit	75,955	145,390	221,345

Secondary segment information

The group operates in different geographical areas. A geographical analysis based on location of assets is as follows:

	<i>Segment revenue</i>		<i>Segment profit</i>	
	2005	2004	2005	2004
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Geographical areas:				
Kuwait	1,598,552	218,500	724,452	(121,183)
United States of America	379,685	204,963	247,081	106,621
Europe	251,928	260,862	225,024	235,907
	2,230,165	684,325	1,196,557	221,345

	<i>Assets</i>		<i>Liabilities</i>	
	2005	2004	2005	2004
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Geographical areas:				
Kuwait	15,788,424	14,208,309	3,347,173	30,994
United States of America	2,502,427	1,229,060	9,155	5,752
Europe	2,898,467	105,164	17,415	14,057
	21,189,318	15,542,533	3,373,743	50,803

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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18 CREDIT RISK

The Group is exposed to credit risk in respect of losses that would have to be recognised if counterparties fail to perform as contracted.

The Group's exposure to credit risk is primarily in respect of bank balances and loans and advances. As at the balance sheet date, the Group's maximum exposure to credit risk is equal to the carrying amount of the above assets disclosed in the balance sheet.

19 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 table below summarises the maturity profile of the group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements

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

31 December 2005	Up to 1 Month	1-3 Months	4-12 Months	Over 1 Year	Total
	KD	KD	KD	KD	KD
ASSETS					
Bank balance and cash	478,720	-	-	-	478,720
Investments at fair value through statement of income	1,422,700	103,120	34,088	1,400,036	2,959,944
Available for sale investments	-	-	8,306,008	2,331,186	10,637,194
Loans and advances	-	980,000	1,666,000	411,620	3,057,620
Other assets	528,533	-	18,883	-	547,416
Property and equipment	-	-	-	97,131	97,131
Goodwill	-	-	-	3,411,293	3,411,293
Total Assets	2,429,953	1,083,120	10,024,979	7,651,266	21,189,318
LIABILITIES					
Short term borrowings	3,102,200	-	-	-	3,102,200
Other liabilities	271,543	-	-	-	271,543
Total liabilities	3,373,743	-	-	-	3,373,743

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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19 LIQUIDITY RISK (continued)

31 December 2004	Up to 1 Month	1-3 Months	4-12 Months	Over 1 Year	Total
	KD	KD	KD	KD	KD
ASSETS					
Bank balance and cash	779,729	-	-	-	779,729
Investments at fair value through statement of income	6,688,485	-	-	4,095,639	10,784,124
Loans and advances	-	-	-	367,978	367,978
Other assets	140,056	-	46,245	-	186,301
Property and equipment	-	-	-	13,108	13,108
Goodwill	-	-	-	3,411,293	3,411,293
Total Assets	7,608,270	-	46,245	7,888,018	15,542,533
LIABILITIES					
Other liabilities	50,803	-	-	-	50,803
Total liabilities	50,803	-	-	-	50,803

20 MARKET RISK

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Financial instruments, which potentially subject the Group to market risk consist principally of investments at fair value through statement of income and available for sale investments. The Group manages this risk by diversifying its investments and monitoring market movements.

21 EQUITY PRICE RISK

Equity price risk arises from the change in fair values of equity investments. The group manages this risk through diversification of investments in terms of geographical distribution.

22 CAPITAL COMMITMENTS

At 31 December 2005, the group had capital commitments amounting to KD 180,468 (2004: KD Nil) in respect of available for sale investments.

23 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, investments at fair value through statement of income, available for sale investments, loans and advances and other assets. Financial liabilities consist of short term borrowings and other liabilities.

The fair values of financial instruments, with the exception of certain available-for-sale investments carried at cost (see note 5), are not materially different from their carrying values.

24 COMPARATIVES

Certain of the comparative figures have been restated to conform to current year presentation. Such reclassification do not impact the previously reported profit or equity.