



إستراتیجیا

STRATEGIA

Investment Company نلاستثمار

ANNUAL REPORT
2006

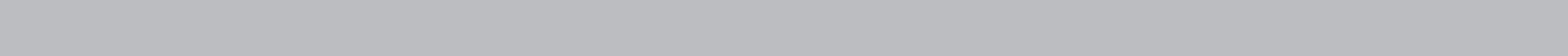


إستراتیجیا

STRATEGIA

لإستثمارة Investment Company

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



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



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

BOARD OF DIRECTORS

Mr. Ali Hasan Al Bader
Chairman & Managing Director

Mr. Khaleefa Khalaf Al Enezi
Vice Chairman

Mr. Abdulmohsin Barrak Al Mutair
Board Member

Mr. Adel Fahad Al Humaidhi
Board Member

Mr. Abdulaziz Nasser Al Fouzan
Board Member

Mr. Misha'al Nasser Habib
Board Member

Ms. Hetaf Mahmoud Khajah
Board Member

CHAIRMAN'S MESSAGE

Dear Shareholders

On behalf of the board of directors, I am pleased to present to you the Annual and Financial Report for the year ending December 31, 2006.

The company's net profit for the year 2006 achieved Kuwaiti Dinar 1,587,026, a growth of 32.6% from 2005. In addition, shareholders equity reached Kuwaiti Dinar 18,821,344, representing a growth of 5.6% from 2005. This performance is remarkable considering the circumstances that the company endured during the first quarter of 2006, with the sudden and immediate resignation of top management members, leading the board of directors to take swift action to contain the situation and ensure that the company delivers its obligations to its clients and shareholders. Consequently, this crisis provided an opportunity to build a new team that sustains and develops the company's business to achieve clients and shareholders expectations.

The board of directors has recommended a share dividends distribution of 8% for the shareholders as of the date of the Annual General Meeting.

The year 2006 was a difficult year for local investment companies as a result of the downtrend in the Kuwait Stock Exchange Index mainly fueled by the regional and political situation, and the sharp decline in the Gulf Cooperation Counsel Countries Stock Exchange Indices.

Although the Kuwaiti Market regained some of its losses in the fourth quarter of 2006, we expect the upward trend will continue in 2007 with a focus on companies that have positive performance, effective strategies for growth and high expected returns.

As for the Global Real Estate Investments, the US market continued its run of good performance due to high liquidity, growing demand on Real Estate Investments, and record privatizations of Public Real Estate Companies. European markets have also achieved exceptional performance as did Asia due to huge capital inflow into China, and India as well as other high performing Emerging Markets.

We anticipate that 2007 will continue to be a positive year for Global Real Estate Markets due to the reasons mentioned earlier albeit at a lower expected rate than previous years.

Strategia is in the midst of applying for listing in the Kuwait Stock Exchange within 2007. We have a positive outlook on the company's business and profitability growth for 2007 and beyond.

I would like to take this opportunity to extend our gratitude to our valued clients for their confidence in the company, as well as our valued shareholders for the support they provide. We would like to extend special thanks to the Kuwait and Middle East Financial Investment Company.



Ali H. Al-Bader

Chairman & Managing Director

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

Independent Auditor's Report to the Shareholders

We have audited the accompanying consolidated financial statements of Strategia Investment Company K.S.C. (Closed) ("the parent company") and its subsidiaries ("the group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, consolidated statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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 parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2006 that might have had a material effect on the business of the parent company or on its financial position.

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



Waleed Al Osaimi
License No. 68A
of Ernst & Young

17 February 2007, Kuwait

Consolidated Statement of Income

Year ended 31 December 2006

	Note	2006 KD	2005 KD
Fee income		1,401,318	1,378,158
Dividend income		62,941	-
Interest income		183,380	71,236
Realised (loss) gain on investments at fair value through statement of income		(230,440)	570,322
Unrealised gain on investments at fair value through statement of income		304,739	92,924
Realised gain on sale of available for sale investments		786,218	140,705
Other income		30,355	7,236
INCOME		2,538,511	2,260,581
General and administration expenses		293,484	327,969
Staff costs		366,931	516,706
Depreciation		37,754	21,091
Interest expense		235,392	73,830
(Release of) charge for provision for loans and advances		(33,433)	54,891
Exchange loss		15,753	30,416
EXPENSES		915,881	1,024,903
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS) AND DIRECTORS' REMUNERATION		1,622,630	1,235,678
Contribution to KFAS		(14,604)	(11,121)
Directors' remuneration		(21,000)	(28,000)
PROFIT FOR THE YEAR		1,587,026	1,196,557
BASIC AND DILUTED EARNINGS PER SHARE	3	10.6 fils	8 fils

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

Consolidated Balance Sheet

31 December 2006

	Note	2006 KD	2005 KD
ASSETS			
Bank balance and cash	4	2,408,623	478,720
Investments at fair value through statement of income	5	2,563,283	2,926,191
Available for sale investments	6	15,190,600	10,670,947
Loans and advances	7	1,418,059	3,057,620
Other assets	8	607,705	547,416
Property and equipment		66,881	97,131
Goodwill		3,411,293	3,411,293
TOTAL ASSETS		25,666,444	21,189,318
EQUITY AND LIABILITIES			
Equity			
Share capital	9	15,000,000	15,000,000
Share premium		250,000	250,000
Statutory reserve	10	310,243	147,980
General reserve	11	31,024	14,798
Foreign currency translation reserve		54,601	(18,621)
Cumulative changes in fair value		390,752	1,051,406
Employee share option reserve	12	100,517	94,342
Retained earnings		2,684,207	1,275,670
Total equity		18,821,344	17,815,575
Liabilities			
Short term borrowings	13	6,453,124	3,102,200
Other liabilities		391,976	271,543
Total liabilities		6,845,100	3,373,743
TOTAL EQUITY AND LIABILITIES		25,666,444	21,189,318



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 Cash Flows Statement

Year ended 31 December 2006

	2006 KD	2005 KD
OPERATING ACTIVITIES		
Profit for the year	1,587,026	1,196,557
Adjustments for:		
Provision for employee share option plan (ESOP)	6,175	94,342
(Release of) charge for provision for loans and advances	(33,433)	54,891
Depreciation	37,754	21,091
	<u>1,597,522</u>	<u>1,366,881</u>
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Investments at fair value through statement of income	362,908	7,824,180
Loans and advances	1,672,994	(2,744,533)
Other assets	(60,289)	(361,115)
Other liabilities	120,433	220,740
	<u>3,693,568</u>	<u>6,306,153</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(7,504)	(105,114)
Purchase of available for sale investments	(5,180,307)	(9,585,788)
	<u>(5,187,811)</u>	<u>(9,690,902)</u>
FINANCING ACTIVITIES		
Short term borrowings	3,350,924	3,102,200
	<u>3,350,924</u>	<u>3,102,200</u>
Foreign currency translation reserve	73,222	(18,460)
	<u>1,929,903</u>	<u>(301,009)</u>
INCREASE (DECREASE) IN BANK BALANCE & CASH	1,929,903	(301,009)
Bank balance and cash at 1 January	478,720	779,729
BANK BALANCE AND CASH AT 31 DECEMBER	2,408,623	478,720

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

Statement of Changes in Equity

Year ended 31 December 2006

	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Employee share option reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2006	15,000,000	250,000	147,980	14,798	(18,621)	1,051,406	94,342	1,275,670	17,815,575
Change in fair value of available for sale investments	-	-	-	-	-	170,674	-	-	170,674
Effect of sale of available for sale investments	-	-	-	-	-	(831,328)	-	-	(831,328)
Employee share based payment (Note 12)	-	-	-	-	-	-	6,175	-	6,175
Foreign currency translation adjustment	-	-	-	-	73,222	-	-	-	73,222
Total income (expense) recognised directly in equity	-	-	-	-	73,222	(660,654)	6,175	-	(581,257)
Profit for the year	-	-	-	-	-	-	-	1,587,026	1,587,026
Total income and expense for the year	-	-	-	-	73,222	(660,654)	6,175	1,587,026	1,068,976
Transfer to reserves	-	-	162,263	16,226	-	-	-	(178,489)	-
Balance at 31 December 2006	15,000,000	250,000	310,243	31,024	54,601	390,752	100,517	2,684,207	18,884,551
Balance at 1 January 2005	15,000,000	250,000	24,412	2,441	(161)	-	-	215,038	15,491,730
Change in fair value of available for sale investments	-	-	-	-	-	1,051,406	-	-	1,051,406
Employee share based payment (Note 12)	-	-	-	-	-	-	94,342	-	94,342
Foreign currency translation adjustment	-	-	-	-	(18,460)	-	-	-	(18,460)
Total income (expense) recognised directly in equity	-	-	-	-	(18,460)	1,051,406	94,342	-	1,127,288
Profit for the year	-	-	-	-	-	-	-	1,196,557	1,196,557
Total expense and income for the year	-	-	-	-	(18,460)	1,051,406	94,342	1,196,557	2,323,845
Transfer to reserves	-	-	123,568	12,357	-	-	-	(135,925)	-
Balance at 31 December 2005	15,000,000	250,000	147,980	14,798	(18,621)	1,051,406	94,342	1,275,670	17,815,575

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

Notes of Consolidated Financial Statement

31 December 2006

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 parent company board of directors on 17 February 2007, 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 registered office is at Joint Banking complex, BKME Building, 2nd floor, 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 the regulations of the 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 IAS 39 requirement for a collective impairment 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.

IASB Standards and Interpretations issued but not adopted

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

IFRS 7 Financial Instruments: Disclosures

IFRIC Interpretation 8 Scope of IFRS 2

The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks. The application of IFRIC 8, which is also effective for 2007, is not expected to have a material impact on the financial statements of the group.

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

Principles of consolidation

The consolidated financial statements include the accounts of the parent company and its subsidiaries. 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.

Notes of Consolidated Financial Statement (Continued)

31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of consolidation (Continued)

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.

All material 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.

The principal subsidiaries of the group are as follows:

Subsidiaries Name	Beneficial ownership	
	2006	2005
Strategia Investors Inc (Formerly KME Management Service Ltd) <i>(Incorporated in United State of America and principal activity is to serve as an investment manger and advisor)</i>	100%	100%
Marquee Fund Manager Limited <i>(Incorporated in United kingdom and its principal activity is to serve as investment manger and advisory services).</i>	100%	100%
Strategia Investors Services Limited <i>(Incorporated in Antigua and Barbuda and principal activity is to serve as an investment manger 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.

Dividend revenue is recognised when the right to receive the dividend is established.

Financial assets and liabilities

The group classifies its financial assets and liabilities as investments at fair value through statement of income, loans and advances, investments available for sale or financial liabilities.

The group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A regular way purchase of financial assets is recognised using the trade date accounting. Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract.

Financial assets and liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through statement of income, directly attributable transaction costs. Transaction costs

Notes of Consolidated Financial Statement (Continued)

31 December 2006

on financial assets and financial liabilities at fair value through statement of income are expensed immediately, while on other financial instruments they are amortised.

Investments at fair value through statement of income

The group upon initial recognition classifies investments as investments at fair value through statement of income if they acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy.

After initial recognition investments at fair value through statement of income are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

Investments available for sale

Investments available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as investments at fair value through statement of income, investments held to maturity or loans and receivables.

After initial recognition, investments available for sale are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Loans and receivables

Loans and advances are classified as "Loans and receivables" and are carried at amortised cost, less any amounts written off, and net of suspended interest and provision for impairment.

Financial liabilities

Financial liabilities are stated at amortised cost using the effective interest method. "Short term borrowings" is classified as financial liabilities.

Fair values

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.

For financial instruments where there is no active market fair value 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.

Notes of Consolidated Financial Statement (Continued)

31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair values (Continued)

The fair value of interest bearing items is estimated based on discounted cash flow using interest rates for items with similar terms and risk characteristic.

Derecognition

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

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

Offsetting

Financial assets and liabilities are offset when the group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Business Combinations and Goodwill

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

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

Goodwill is allocated to each of the group's cash-generating units or groups of cash generating units and is tested annually for impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit, to which goodwill relates. The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Notes of Consolidated Financial Statement (Continued)

31 December 2006

When a subsidiary is sold, the difference between the selling price and the net assets plus cumulative translation difference and goodwill is recognised in the consolidated statement of income.

Impairment of assets

The carrying amounts of the group's assets are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable value of loans and advances is based on the net present value of future cash flows discounted at original interest rates. The provision for impairment of loans and advances also covers losses where there is objective evidence that probable losses are present in components of the loans and advances portfolio at the balance sheet date. Assets with a short duration are not discounted. The recoverable amount of the group's investments available for sale is their fair value.

In addition, in accordance with Central Bank of Kuwait instruction, a minimum general provision of 2% on all credit facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

Reversal, of impairment losses except for impairment losses relating to goodwill recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal of impairment losses are recognized in the consolidated statement of income except for available for sale equity investments which are recognised in the cumulative changes in fair values.

Share based payment transactions

The group operates equity settled share based compensation plans. The fair value of the employee services received in exchange for the grant of options or shares are recognised as expenses. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable or shares that will be granted. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

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 and are recognised in the consolidated 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

Notes of Consolidated Financial Statement (Continued)

31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency (Continued)

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.

Contingencies

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

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

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 investments.

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.

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:

Notes of Consolidated Financial Statement (Continued)

31 December 2006

Impairment losses on loans and advances

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

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 judgment.

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.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Valuation of unquoted 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; and
- Other valuation models.

3. BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted 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:

	2006 KD	2005 KD
Profit for the year	1,587,026	1,196,557
	Shares	Shares
Weighted average number of shares outstanding during the year	150,000,000	150,000,000
Basic and diluted earnings per share	10.6 fils	8 fils

Notes of Consolidated Financial Statement (Continued)

31 December 2006

4. BANK BALANCE AND CASH

Bank balance and cash includes bank deposit of KD 1,289,140 (2005 Nil) with commercial banks in Kuwait of which KD 289,140 (2005: KD Nil) are denominated in US Dollars. Bank deposits carry interest at an average rate of 5.5 % (2005: Nil) per annum.

5. INVESTMENTS AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2006 KD	2005 KD
Quoted securities	1,201,850	1,746,700
Investment in funds	1,361,433	1,179,491
	2,563,283	2,926,191

6. AVAILABLE FOR SALE INVESTMENTS

	2006 KD	2005 KD
Investments in quoted securities	4,792,882	324,000
Investments in unquoted securities	3,844,148	2,517,824
Investments in funds	6,553,570	7,829,123
	15,190,600	10,670,947

Investments in unquoted securities are carried at cost as the nature of these investments is such that a reasonable estimate of fair value can only be determined when the individual investments are realised or disposed of. The management is not aware of any circumstances that would indicate any impairment in the value of these investments at the balance sheet date.

7. LOANS AND ADVANCES

	2006 KD	2005 KD
Gross loans	1,447,026	3,120,020
Less: General provision	28,967	62,400
	1,418,059	3,057,620

Gross loans carry an average interest rate of 5.97% (2005: 7.6%) per annum.

Notes of Consolidated Financial Statement (Continued)

31 December 2006

8. OTHER ASSETS

	2006 KD	2005 KD
Accrued management fees	522,988	424,633
Others	84,717	122,783
	607,705	547,416

9. SHARE CAPITAL

The authorised, issued and paid share capital as of 31 December 2006 comprised 150,000,000 shares (2005: 150,000,000) of 100 fils each.

10. 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.

11. 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.

12. 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 4,147,500 (2005: 4,147,500) shares were granted with a vesting period of 3 years. The group recognized an expense of KD 6,175 (2005: 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.

Notes of Consolidated Financial Statement (Continued)

31 December 2006

13. SHORT TERM BORROWINGS

During the year, the group has obtained short term unsecured borrowings of KD 6,453,124 (2005:KD 3,102,200) from related parties with an average interest rate of 4.97% (2005 5.5%) per annum and is repayable in full within twelve months of the balance sheet date.

14. PROPOSED DIVIDEND

The board of directors have proposed an issue of 8% bonus shares of the paid up share capital which is subject to the approval of the shareholders at the annual general meeting.

15. RELATED PARTY TRANSACTIONS

These represent transactions with certain parties (major shareholders, directors and key management 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:

	2006	2005
	KD	KD
Interest income	1,242	3,477
Compensation of key management personnel		
Provision for management executive bonus	33,648	81,600

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

	2006	2005
	KD	KD
Share based payment	5,525	91,142
Short-term benefits	129,060	155,474
Termination benefits	9,191	16,316

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

	2006	2005
	KD	KD
Loans and advances	24,990	1,380,475
Short-term borrowings	6,453,124	3,102,200
Other liabilities	30,447	25,535

Notes of Consolidated Financial Statement (Continued)

31 December 2006

16. 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 2006 amounted to KD 79,505,348 (2005: KD 64,773,579).

17. CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The group views the Kuwaiti Dinars as its functional currency. Hedging transactions are used to manage any significant risk in other currencies. Non-monetary assets carried at fair values that are not denominated in group's functional currency, are hedged using non-derivative financial liabilities for foreign currency risk. The hedged portion of such non-monetary assets at 31 December 2006 is KD 1,660,242 (2005: KD Nil).

The group had the following significant net exposures denominated in foreign currencies at 31 December:

	2006 KD	2005 KD
	Equivalent Long	Equivalent Long
Egyptian Pound	4,792,882	-
US Dollar	941,542	5,302,394
Euro	122,211	1,248,086

18. 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 & 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.

Notes of Consolidated Financial Statement (Continued)

31 December 2006

18. SEGMENTAL INFORMATION (Continued)

31 December 2006	Proprietary investment management	Investment management and advisory services	Total
ASSETS	KD	KD	KD
Bank balances and cash	2,222,261	186,362	2,408,623
Investments at fair value through statement of income	2,563,283	-	2,563,283
Available for sale investments	15,190,600	-	15,190,600
Loans and advances	1,418,059	-	1,418,059
Other assets	557,983	49,722	607,705
Property and equipment	66,881	-	66,881
Goodwill	-	3,411,293	3,411,293
TOTAL ASSETS	22,019,067	3,647,377	25,666,444
LIABILITIES			
Short term borrowings	6,453,124	-	6,453,124
Other liabilities	374,413	17,563	391,976
TOTAL LIABILITIES	6,827,537	17,563	6,845,100
Year ended 31 December 2006			
Segment income	1,137,195	1,401,316	2,538,511
Segment profit	409,126	1,177,898	1,587,026
31 December 2005			
ASSETS	KD	KD	KD
Bank balances and cash	339,294	139,426	478,720
Investments at fair value through statement of income	2,926,191	-	2,926,191
Available for sale investments	10,670,947	-	10,670,947
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	882,423	1,378,158	2,260,581
Segment profit	72,605	1,123,952	1,196,557

Notes of Consolidated Financial Statement (Continued)

31 December 2006

Secondary segment information

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

	Segment revenue		Segment profit	
	2006	2005	2006	2005
	KD	KD	KD	KD
Geographical areas:				
Middle East	1,035,897	1,628,968	312,006	724,452
United States of America	571,617	379,685	416,840	247,081
Europe	799,373	251,928	726,556	225,024
Others	131,624	-	131,624	-
	2,538,511	2,260,581	1,587,026	1,196,557

	Assets		Liabilities	
	2006	2005	2006	2005
	KD	KD	KD	KD
Geographical areas:				
Middle East	15,050,605	15,788,424	6,827,537	3,347,173
United States of America	3,753,549	2,502,427	678	9,155
Europe	2,016,489	2,898,467	16,885	17,415
Others	4,845,801	-	-	-
	25,666,444	21,189,318	6,845,100	3,373,743

19. 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.

20. 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 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. Except for investments at fair value through income statement and investments available for sale, the maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements. The maturity profile for investments at fair value through income statement and investments available for sale is determined based on management's estimate of liquidation of those investments.

Notes of Consolidated Financial Statement (Continued)

31 December 2006

20. LIQUIDITY RISK (Continued)

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

31 December 2006

	Up to 1 Month KD	1 – 3 Months KD	4 – 12 months KD	Over 1 year KD	Total KD
ASSETS					
Bank balance and cash	2,408,623	-	-	-	2,408,623
Investments at fair value through statement of income	1,201,850	689,819	671,614	-	2,563,283
Available for sale investments	-	-	4,792,882	10,397,718	15,190,600
Loans and advances	490,000	-	39,200	888,859	1,418,059
Other assets	522,988	-	84,717	-	607,705
Property and equipment	-	-	-	66,881	66,881
Goodwill	-	-	-	3,411,293	3,411,293
Total Assets	4,623,461	689,819	5,588,413	14,764,751	25,666,444

LIABILITIES

Short term borrowings	-	1,660,242	4,792,882	-	6,453,124
Other liabilities	327,657	-	39,355	24,964	391,976
Total liabilities	327,657	1,660,242	4,832,237	24,964	6,845,100

31 December 2005

	Up to 1 Month KD	1 – 3 Months KD	4 – 12 months KD	Over 1 year KD	Total 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	1,366,283	2,926,191
Available for sale investments	-	-	8,306,008	2,364,939	10,670,947
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	223,802	-	26,338	21,403	271,543
Total liabilities	3,326,002	-	26,338	21,403	3,373,743

Notes of Consolidated Financial Statement (Continued)

31 December 2006

21. 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.

22. 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.

23. CAPITAL COMMITMENTS

At 31 December 2006, the group had capital commitments amounting to KD 1,238,364 (2005: KD 180,468) in respect of available for sale investments.

24. 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 (Note 6), are not materially different from their carrying values.