# ANNUAL REPORT
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# STRATEGIA INVESTMENT COMPANY

*Keen to develop your Investment Strategy*

ANNUAL REPORT

2009

# STRATEGIA INVESTMENT COMPANY

*Keen to develop your Investment Strategy*

P.O.Box: 1346 Dasman 15464 Kuwait ☎ +965 2225 1200 +965 2225 1203 / 4 @ info@strategia.com.kw www.strategia.com.kw

His Highness
Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah
Amir of State of Kuwait

His Highness
Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah
Crown Prince

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# CHAIRMAN'S MESSAGE

**In The Name of Allah, Most Gracious, Most Merciful.**

Dear valued shareholders,

Peace and blessings of Allah be upon you. On behalf of my colleagues, Board Members, and Strategia Investment Company's staff, I have the pleasure to present to you the Company's Annual Report and Audited Financial Statements for the Financial Year ended on December 31st, 2009.

As the local market continues to experience critical conditions for the second consecutive year, the Company was not immune to such infection, which led to a loss of about KD 4,677,883, with a decrease of KD 5,714,015 as compared to 2008. In the interim, shareholders' equity reached KD 4,911,769, with a decline of KD 4,577,201 as compared to 2008. Therefore, Board of Directors has not approved any distributions for this year as of the date of holding the General Assembly meeting, which comes in the wake of the realized and unrealized losses of 2009. As of date of writing this report, the Company has obtained the Central Bank of Kuwait's approval to increase its capital by approximately 10.2 million KD and management will be reaching out to the regulatory bodies to finalize the required approvals.

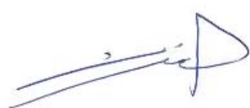
In light of this difficult period, the Company endeavored to take all required actions and continued considering its current status, including the reduction of administrative and operational costs, negotiation with banks to decrease its loans and associated costs in addition to rescheduling the same. On another front, the Company continued meeting global investment managers to find unique investment opportunities that can benefit from markets' current conditions. We have also increased our efforts in providing our clients with a high-level of service, supplicating Allah, the Almighty, to grant us success.

The Kuwait Stock Exchange's (KSE) performance was mixed during 2009, and this was attributable to various international, regional and domestic reasons. This in return had a negative impact on the market's performance and investors' confidence levels. Moreover, KSE-listed companies continued its loss announcements during the First Quarter of 2009. However, the Second Quarter results showed some signs of rapid recovery from the crisis, and the regional financial markets' indices started to improve at the end of the same quarter. As for the Second Half of 2009, KSE performance was negative, unlike the key international financial markets and the macro-economy condition which boomed in the wake of an increase in oil prices. Despite the negative performance, not all companies lost ground; where share prices of 71 companies out of 201 KSE-listed companies went up, while 12 companies maintained their price levels. The Local & Regional Investments Division was not immune from these market conditions as such as when the Division attempted to develop a local Islamic fund and a capital-guaranteed note, it witnessed many difficulties in marketing such products due to investors' weak confidence from one end, and the shortage of available liquidity from the other. However, the Company continued holding introductory and marketing meetings to build the client base that will be revisited as soon as the economy, in general, and the market, in particular, starts to recover.

During 2009, international capital markets went through a very volatile period, where a sharp rally was witnessed since March of 2009 and continued its climb for the remainder of the year. However, prior to this point, the two month period from January 1st to February 27th represented the worst start to a year in the history of the S&P 500 with a drop in value of 18.62%. By March 2nd, the Dow Jones Industrial Average Index had dropped more than 50% from its summer 2008 peak level. Moreover, there were few lapses throughout the last three quarters of 2009, however, our investments held up very well. As a result of our team's strong background and expertise, the Firm's AUM increased by 16% and many of our products outperformed their respective benchmarks with much lower risk being taken. In addition, our largest Real Estate Securities Managed Account appreciated by 53.47% during 2009 compared to its respective benchmark the Global EPRA NAREIT, which returned 38.26% for the same period. For the year, the Division's achievements were recognized for the third consecutive year by winning the "Best Investment Management in Kuwait" from the 2009 Euromoney Real Estate Liquid Awards. We also added new resources and expertise in the Infrastructure and Direct Real Estate asset class through our US office. The Division enhanced clients' visits locally and regionally throughout the year to introduce exceptional investment opportunities which meet their financial and investment needs and objectives. Moreover, in an attempt to update our investors with the latest market trends, the Company organized a seminar where the attendees from the various companies heard the different views of distinguished speakers in the real estate investment field on how the investment community has changed and the existing opportunities in light of these conditions.

As for direct real estate investors as well as fund managers, the year 2009 has been extremely difficult. Fund managers struggled to raise capital for their funds and the overall fundraising dropped significantly during the year. This was attributable to the reduction of investments in such markets during the last couple of years, which led to a sharp decline in the value of the offered investments. Despite the fact that 2009 was one of the best years for investing fresh capital, as the credit crunch sent property prices in a downward spiral for the first half of 2009, investors were extremely cautious about investing in real estate markets. As for the Direct Investment Division, one of our companies, Strategia Francais, which invests in European real estate properties, had suffered from the lack of required funding. The value added strategy, which was agreed on upon incorporation, needed further capital to make the required capital expenditure to the assets to increase their value. However, due to market and credit conditions, the strategy was temporarily postponed to simply survive beyond 2009. Strategia, in cooperation with the European Asset Manager, Inovalis, has provided the necessary funding for the assets to enable them to pass through the year and undertake the required reforms, in hope for the assets to be self sustainable and ready to be disposed at a better time.

In conclusion, I would like to thank our loyal clients for their trust and our valued shareholders for their support and I hope that such confidence will continue during this difficult stage and in the near future.



Hetaf Mahmoud Khajah
Chairman

# BOARD OF DIRECTORS

| | |
|---|---|
| Ms. Hetaf Mahmoud Hassan Khajah | Chairman |
| Mr. Abdulmohsen Barrak  Abdulmohsen Al-Mutair | Board Member |
| Mr. Mishary Ahmed Hoshan Al-Majed | Board Member |
| Mr. Abdulwahab Soud Khaled Al-Marzooq | Board Member |
| Mr. Soud Abdulaziz Mohamed Al-Mansour | Board Member |
| Mr. Mohamed Ghloum Abbas Nadoum | Board Member |

# INDEPENDENT AUDITORS' REPORT

**Ernst & Young**

Ernst & Young
Al Alban , AL Osaimi & Partners
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Email : Kuwait@kw.ey.com

**Baker Tilly Kuwait**

Dr. Saud Al-Humaidi & Partners
Public Accountants
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## Independent Auditors' Report To The Shareholders Of Strategia Investment Company K.S.C. (Closed)

We have audited the accompanying consolidated financial statements of Strategia Investment Company K.S.C. (Closed) (the 'parent company') and its subsidiaries (collectively the 'group'), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Financial Statements

Management of the parent company is responsible for the preparation and fair presentation of these consolidated financial statements is 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.

## Auditor's 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 misstatements.

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 auditor's judgment, 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 auditors consider 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

# INDEPENDENT AUDITORS' REPORT

## Opinion

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

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which states that the group has incurred a loss of KD 4,677,883 during the year ended 31 December 2009 (2008: KD 10,391,898), and as of that date, accumulated losses amounted to KD 13,701,551 (2008: KD 9,023,668). For these reasons, the group's ability to continue as a going concern is reliant on completion of the capital increase and the ability of the group to improve its profitability and cash flows.

## 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 2009 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 organization of banking business, and its related regulations during the year ended 31 December 2009.

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

DR. SAUD AL HUMAIDI
LICENSE NO. 51 A
AL-HUMAIDI & PARTNERS
INDEPENDENT MENBER OF
BAKER TILLY INTERNATIONAL

8 April 2010
Kuwait

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

| | Notes | 2009 | 2008 |
|---|---|---|---|
| | | KD | KD |
| Net fee income | 5 | 407,701 | 588,881 |
| Investment losses | 6 | (2,282,732) | (9,088,468) |
| Interest income | | 50,034 | 132,518 |
| Staff costs | | (229,684) | (411,903) |
| Administrative expenses | | (114,225) | (252,150) |
| Depreciation | | (44,187) | (50,003) |
| Interest expense | | (422,442) | (817,407) |
| Net provision for credit losses | 8 | - | (45,092) |
| Impairment of other assets | 11 | (761,600) | (114,750) |
| Impairment of goodwill | 12 | (1,400,000) | (400,000) |
| Net foreign exchange gain | | 169,307 | 9,084 |
| Net other (expenses)/income | | (50,055) | 57,392 |
| LOSS FOR THE YEAR | | (4,677,883) | (10,391,898) |
| | | | |
| BASIC AND DILUTED LOSS PER SHARE | 7 | (26.61) fils | (59.12) fils |

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

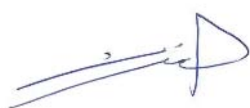
| | 2009<br>KD | 2008<br>KD |
|---|---|---|
| **Loss for the year** | **(4,677,883)** | (10,391,898) |
| Other comprehensive income | | |
| Net unrealised gain/(loss) on financial assets available-for-sale | **317,430** | (948,272) |
| Net realised (loss)/gain on financial assets available-for-sale reclassified to income statement on sale | **(126,031)** | 524,054 |
| Unrealised (loss)/gain on cash flow hedge | **(91,094)** | 39,138 |
| Exchange differences on translation of foreign operations | **377** | (6) |
| **Other comprehensive income for the year** | **100,682** | (385,086) |
| **Total comprehensive income for the year** | **(4,577,201)** | (10,776,984) |

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

| | Notes | 2009 | 2008 |
|---|---|---|---|
| | | KD | KD |
| **ASSETS** | | | |
| Bank balances and cash | | 3,065,529 | 3,948,048 |
| Loans and advances | 8 | - | 118,061 |
| Financial assets at fair value through income statement | 9 | 457,624 | 5,197,009 |
| Financial assets available-for-sale | 10 | 6,085,152 | 4,884,124 |
| Other assets | 11 | 362,185 | 2,000,606 |
| Furniture, fixtures and equipment | | 52,629 | 150,367 |
| Goodwill | 12 | 1,611,293 | 3,011,293 |
| **TOTAL ASSETS** | | 11,634,412 | 19,309,508 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 13 | 17,577,000 | 17,577,000 |
| Share premium | 14 | 250,000 | 250,000 |
| Statutory reserve | 15 | 453,471 | 453,471 |
| General reserve | 16 | 145,864 | 45,347 |
| Foreign currency translation reserve | | 40,151 | 39,774 |
| Cumulative changes in fair value | | 146,834 | 46,529 |
| Employee share option reserve | 17 | - | 100,517 |
| Accumulated losses | | (13,701,551) | (9,023,668) |
| **Total equity** | | 4,911,769 | 9,488,970 |
| | | | |
| **Liabilities** | | | |
| Short term borrowings | 18 | 6,223,678 | 9,345,545 |
| Other liabilities | | 498,965 | 474,993 |
| **Total liabilities** | | 6,722,643 | 9,820,538 |
| **TOTAL EQUITY AND LIABILITIES** | | 11,634,412 | 19,309,508 |



Hetaf Mahmoud Khajah
(Chairman)

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

| | Notes | 2009<br>KD | 2008<br>KD |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss for the year | | (4,677,883) | (10,391,898) |
| Adjustments for: | | | |
| Depreciation | | 44,187 | 50,003 |
| Write off of furniture, fixtures and equipment | | 56,830 | - |
| Interest expense | | 422,442 | 817,407 |
| Interest income | | (50,034) | (132,518) |
| Net loss on financial assets at fair value through income statement | 6 | 1,140,675 | 8,510,036 |
| Realised gain on sale of financial assets available-for-sale | 6 | (126,031) | (524,054) |
| Impairment of financial assets available-for-sale | 6 | 1,405,113 | 491,044 |
| Dividend income | 6 | (137,025) | (436,666) |
| Net provision for credit losses | | - | 45,092 |
| Impairment of other assets | 11 | 761,600 | 114,750 |
| Impairment of goodwill | 12 | 1,400,000 | 400,000 |
| | | 239,874 | (1,056,804) |
| Changes in operating assets and liabilities: | | | |
| Net purchase of financial assets at fair value through income statement | | 489,030 | 210,075 |
| Loans and advances | | 40,000 | 2,020,214 |
| Other assets | | 957,496 | (814,396) |
| Other liabilities | | 29,780 | (89,855) |
| Net cash flows from operating activities | | 1,756,180 | 269,234 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of financial assets available-for-sale | | (227,675) | (832,359) |
| Proceeds from sale of financial assets available-for-sale | | 1,048,644 | 2,788,501 |
| Purchase of furniture, fixtures and equipment | | (3,279) | (94,712) |
| Dividend received | | 137,025 | 436,666 |
| Interest received | | 47,420 | 226,415 |
| Net cash flows from investing activities | | 1,002,135 | 2,524,511 |
| **FINANCING ACTIVITIES** | | | |
| Short term borrowings | | (3,212,961) | 751,639 |
| Interest paid | | (428,250) | (607,589) |
| Net cash flows (used in)/from financing activities | | (3,641,211) | 144,050 |
| **NET (DECREASE)/INCREASE IN BANK BALANCES AND CASH** | | (882,896) | 2,937,795 |
| Net foreign exchange difference | | 377 | (6) |
| Bank balances and cash at 1 January | | 3,948,048 | 1,010,259 |
| **BANK BALANCES AND CASH AT 31 DECEMBER** | | 3,065,529 | 3,948,048 |

The attached notes 1 to 25 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

| | Share capital | Share premium | Statutory reserve | General reserve | Foreign currency translation reserve | Cumulative changes in fair value | Employee share option reserve | (Accumulated losses )/ retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD | KD | KD | KD | KD |
| As at 1 January 2009 | 17,577,000 | 250,000 | 453,471 | 45,347 | 39,774 | 46,529 | 100,517 | (9,023,668) | 9,488,970 |
| Loss for the year | - | - | - | - | - | - | - | (4,677,883) | (4,677,883) |
| Other comprehensive income for the year | - | - | - | - | 377 | 100,305 | - | - | 100,682 |
| Total comprehensive income for the year | - | - | - | - | 377 | 100,305 | - | (4,677,883) | (4,577,201) |
| Transfer (Note 17) | - | - | - | 100,517 | - | - | (100,517) | - | - |
| **At 31 December 2009** | **17,577,000** | **250,000** | **453,471** | **145,864** | **40,151** | **146,834** | **-** | **(13,701,551)** | **4,911,769** |
| As at 1 January 2008 | 16,200,000 | 250,000 | 453,471 | 45,347 | 39,780 | 431,609 | 100,517 | 2,745,230 | 20,265,954 |
| Loss for the year | - | - | - | - | - | - | - | (10,391,898) | (10,391,898) |
| Other comprehensive income for the year | - | - | - | - | (6) | (385,080) | - | - | (385,086) |
| Total comprehensive income for the year | - | - | - | - | (6) | (385,080) | - | (10,391,898) | (10,776,984) |
| Issue of bonus shares | 1,377,000 | - | - | - | - | - | - | (1,377,000) | - |
| At 31 December 2008 | 17,577,000 | 250,000 | 453,471 | 45,347 | 39,774 | 46,529 | 100,517 | (9,023,668) | 9,488,970 |

The attached notes 1 to 25 form part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## 1 CORPORATE INFORMATION

The consolidated financial statements of Strategia Investment Company K.S.C. (Closed) (the "parent company") and its subsidiaries (collectively the "group") for the year ended 31 December 2009 were authorised for issue in accordance with a resolution by the parent company's board of directors on 8 April 2010. The Ordinary General Assembly of the shareholders of the parent company has the power to amend these consolidated financial statements after the issuance.

The parent company is a Kuwaiti 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 was listed on Kuwait Stock Exchange on 3 December 2008 and its registered office is at Al Nassar Tower, Fahed Al Salem Street, P.O. Box 1346, Kuwait.

## 2 FUNDAMENTAL ACCOUNTING CONCEPT

The group has incurred a loss of KD 4,677,883 for the year ended 31 December 2009 (2008: KD 10,391,898) and, as of that date, the group has total accumulated losses of KD 13,701,551 (2008: KD 9,023,668). The consolidated financial statements have been prepared under the going concern concept.

The ability of the group to continue as a going concern is dependent on the completion of the capital increase and the ability of the group to improve its profitability and cash flows. At the statement of financial position date, the parent company's continuing technical default amounting to KD 6,223,678 (2008: KD 9,345,545) (Note 18) is due to an ongoing legal case against the lending bank. The board of directors meeting held on 14 January 2010 proposed the reduction of the accumulated losses against the existing share capital by KD 13.3 million as of 31 December 2009 and increase in the share capital by KD 11 million which is subject to approval in the Extra Ordinary General Meeting. During the year, the parent company, received a directive from CBK to increase its share capital to at least KD 15,000,000 by 31 March 2010.

## 3.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through income statement and financial assets available-for-sale that have been measured at fair value. The consolidated financial statements are presented in Kuwaiti Dinars (KD).

### Statement of compliance

The consolidated financial statements of the group 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) as issued by the International Accounting Standards Board (IASB) except for the International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement requirement for a 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 assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2009.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets that is not held by the group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions of non-controlling interest are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

The subsidiaries of the group are as follows:

| Name | Country of incorporation | Principal activity | Equity interest % | |
|---|---|---|---|---|
| | | | 2009 | 2008 |
| Strategia Investors Inc. | United States of America | Investment manager and advisor | **100%** | 100% |
| Marquee Fund Manager Limited | United Kingdom | Investment manager and advisory services | **100%** | 100% |
| Strategia Investors Service Limited | Antigua and Burmuda | Investment manager and advisor to a real estate fund | **100%** | 100% |

## 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The group has adopted the following new and amended IFRS as of 1 January 2009:

### IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

### IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 21, including the related revised comparative information.

### IAS 1 Presentation of Financial Statements

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

#### Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets

The amendment to IAS 39, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through income statement by the entity upon initial recognition) out of the fair value through income statement category to the available-for-sale or held-to-maturity category in particular circumstances. The amendment also permits an entity to transfer from the fair value through income statement, or available-for-sale categories, to the loans and receivables category a financial asset that meets the definition of loans and receivables, if the entity has the intention and ability to hold that financial asset for the foreseeable future.

During the year, the group has adopted these amendments and on 2 September 2009 reclassified financial assets at fair value through income statement held for trading with a fair value of KD 3,109,680 to the 'financial assets available-for-sale category as this investment is no longer held for the purpose of selling or repurchasing in the near term due to the impact of the global financial crisis on the local and regional equity markets. The fair value of this investment as at 31 December 2009 is KD 3,239,250. Had the group not adopted these amendments, the increase in the fair value of the reclassified investment amounting to KD 129,570 would have been recorded in the consolidated income statement in investment income/(loss) under 'net gain/(loss) on financial assets at fair value through income statement'.

## 3.3 IASB STANDARDS AND IFRIC INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following IASB Standards and IFRIC interpretations have been issued but are not yet effective and have not been early adopted by the group:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes in IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with non-controlling interests.

## IFRS 9 Financial Instruments

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

## IAS 24 Related Party Disclosures (Amended)

The revised standard was issued in November 2009 and becomes effective for annual periods beginning on or after 1 January 2011. The revised standard simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.

## IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the group has not made non-cash distributions to shareholders in the past.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## 3.4 SIGNIFICANT ACCOUNTING POLICIES

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

### Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the aggregate of the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest

Goodwill is initially measured at cost being the excess of the cost of the business combination over the. Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units that are expected to benefit from the synergies of combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

### Revenue recognition

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. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognised:

### Fee income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include management fees, advisory fees and commission income.

### Dividend income

Dividend income is recognised when the group's right to receive the payment is established. Dividend income is included in investment income/loss in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## Interest income/expenses

Interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the 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 liability.

## Foreign currency translation

The group's consolidated financial statements are presented in KD, which is also the parent company's functional currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is 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 values are recognised in the consolidated income statement, foreign exchange differences are recognised in the consolidated income statement.

The assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their income statements are translated at the average rates of exchange for the year of operations. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

## Financial instruments – initial recognition and subsequent measurement

### (i) Financial assets

#### Initial recognition and measurement

Financial assets within scope of IAS 39 are classified as financial assets at fair value through income statement, loans and receivables, held to maturity or financial assets available-for-sale, as appropriate. The group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

Purchases and sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset.

The group's financial assets include bank balances and cash, financial assets at fair value through income statement, loans and advances, financial assets available-for-sale, and other assets. At 31 December 2009, the group did not have any held-to-maturity investments.

### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through income statement
Financial assets at fair value through income statement include financial assets held for trading and financial assets designated upon initial recognition at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Financial assets at fair value through income statement are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated income statement under investment income/loss.

The group evaluated its financial assets at fair value through income statement (held for trading) whether the intent to sell them in the near term is still appropriate. When the group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and advances, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through income statement using the fair value option at designation.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in interest expenses in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement.

## Financial assets available-for-sale

Financial assets classified as available-for-sale are those, which are neither classified as financial assets at fair value through income statement, held to maturity nor loans and receivables.

After initial recognition, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in cumulative changes in fair value

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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reserve until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss is recognised in the consolidated income statement in investment income/loss and removed from the cumulative changes in fair value reserve. Financial assets whose fair value cannot be reliably measured are stated as cost less impairment losses, if any.

## Derecognition

A financial asset (or, where applicable a part of financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive the cash flows from the asset have expired
- the group has transferred its right 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 either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor is transferred control of the asset, the asset recognised to the extent of the group's continuing involvement in the asset.

In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained

## (ii) Impairment of financial assets

The group assesses at each reporting 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 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 debtors or a group of debtors 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.

Impairment is determined as follows:

- for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate;
- for assets carried at fair value, impairment is the difference between cost and fair value; and
- for assets carried at cost, impairment is the difference between actual cost and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset

Loans and receivables are subject to credit risk provision for loan impairment if there is objective evidence that

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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the group will not be able to collect all amounts due. The amount of the provision is difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the contractual interest rate. The amount of loss arising from impairment is taken to the consolidated income statement.

In addition, in accordance with Central Bank of Kuwait (CBK) instructions, a minimum general provision of 1% for cash facilities and 0.5% for non cash facilities is made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

**Financial assets available-for-sale**

For financial asset available-for-sale financial investments, the group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement in investment income - is removed from other comprehensive income and recognised in the consolidated income statement in investment income. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

## (iii) Financial liabilities

### Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through income statement and loans and borrowings. The group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in case of loans and borrowings, plus directly attributable transactions costs.

The group's financial liabilities include short term borrowings and other liabilities. At 31 December 2009, the group did not have any financial liabilities at fair value through income statement.

### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

### Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in interest expenses in the consolidated income statement.

### Derecognition

A financial liability is derecognised when the obligation under liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

## (iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## (v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to their quoted market prices (bid price), without any deduction for transactions cost.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

## Hedge accounting

The group uses non-derivative financial instruments to hedge its foreign currency risks.

For the purposes of hedge accounting, hedges are classified as:
- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or unrecognised firm commitment (except for foreign currency); and
- cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which the group wishes to apply hedge accounting. 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 effectiveness of changes in the hedging instrument's fair value 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 periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

## Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in cumulative changes in fair values while the ineffective portion is recognised immediately in the consolidated income statement in net foreign exchange gain/(loss).

Amounts recognised as other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity are transferred to the consolidated 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, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects the consolidated income statement.

## Impairment of goodwill

Goodwill is tested for impairment annually (as at 31 December) and when the circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets Where the recoverable amount of cash-generating less than is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### Fiduciary assets

The group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these consolidated financial statements as they are not the assets of the group.

## 4 SIGNIFICANT ACCOUTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

### Judgments

The preparation of the group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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:

#### Impairment of goodwill

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### Fair value of financial instruments

Where the fair value of financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### Impairment losses on loans and advances

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

## 5 NET FEE INCOME

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| Net management fees from fiduciary activities | 328,069 | 507,589 |
| Net advisory fees and consultancy fees | 79,632 | 81,292 |
| | 407,701 | 588,881 |

## 6 INVESTMENT LOSSES

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| Net loss on financial assets at fair value through income statement | (1,140,675) | (8,510,036) |
| Realised gain/(loss) on sale of financial assets available-for-sale | 126,031 | (524,054) |
| Impairment of financial assets available-for-sale (Note 10) | (1,405,113) | (491,044) |
| Dividend income | 137,025 | 436,666 |
| | (2,282,732) | (9,088,468) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 7 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing loss for the year by the weighted average number of shares outstanding during the year as follows:

| | 2009 | 2008 |
|---|---|---|
| Loss for the year (KD) | **(4,677,883)** | (10,391,898) |
| Weighted average number of shares outstanding | **175,770,000** | 175,770,000 |
| Basic and diluted loss per share | **(26.61) fils** | (59.12) fils |

## 8 LOANS AND ADVANCES

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| Gross amount due | - | 200,125 |
| Less: Provision for credit losses | - | (82,064) |
| | - | 118,061 |

Movement in the provision for credit losses relating to loans and advances is as follows:

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| As at 1 January | **82,064** | 36,972 |
| Transfer to other assets (Note 11) | **(82,064)** | - |
| Release of provision | - | (34,970) |
| Charge for the year | - | 80,062 |
| At 31 December | - | 82,064 |

During the year, the gross amount of the remaining amount due balance of KD 160,125 has been transferred to other receivables as it no longer meets the criteria for classification as loans and advances (Note 11). Similarly, the related amount of provision for credit losses was also transferred.

## 9 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

| | | 2009 | 2008 |
|---|---|---|---|
| | | KD | KD |
| I. | **Held for trading:** | | |
| | Quoted equity securities | - | 4,309,280 |
| II. | **Designated upon initial recognition:** | | |
| | Managed equity funds | **457,624** | 887,729 |
| | | **457,624** | 5,197,009 |

On 2 September 2009, the quoted equity securities were reclassified to financial assets available-for-sale due to adoption of amendments to IAS 39 and IFRS 7 (see Notes 3 and 10).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 10 FINANCIAL ASSETS AVAILABLE-FOR-SALE

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| Quoted equity securities | 3,239,250 | - |
| Unquoted equity securities | 1,221,838 | 1,221,838 |
| Managed equity funds | 1,624,064 | 3,662,286 |
| | 6,085,152 | 4,884,124 |

On 2 September 2009, the parent company reclassified quoted equity securities from financial assets at fair value through income statement due to adoption of amendments to IAS 39 and IFRS 7 (see Notes 3 and 9). The unrealised loss on the reclassified investment for the period from 1 January 2009 to 2 September 2009 amounting to KD 1,199,600 is included under investment loss.

Unquoted equity securities and managed equity funds amounting to KD 2,721,468 (2008: KD 2,477,066) are carried at cost, less impairment, if any, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. There is no active market for these financial assets and the group intends to hold them for the long term. Management has performed a review of its unquoted equity securities to assess whether impairment has occurred in the value of these investments and recorded an impairment loss of KD 1,405,113 (2008: KD 491,044) (Note 6) in the consolidated income statement.

## 11 OTHER ASSETS

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| Accrued management fees | 872,411 | 590,906 |
| Other receivables | 433,520 | 1,497,469 |
| Prepaid expenses | 14,668 | 26,981 |
| Allowance for impairment of other assets | (958,414) | (114,750) |
| | 362,185 | 2,000,606 |

Movement in the allowance for impairment of other assets is as follows:

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| As at 1 January | 114,750 | - |
| Transfer from loans and advances (Note 9) | 82,064 | - |
| Charge for the year | 761,600 | 114,750 |
| At 31 December | 958,414 | 114,750 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 12 GOODWILL

Goodwill arose in 2004 on acquisition of the investment management and advisory services business of the real estate division of Kuwait and Middle East Financial Investment Company K.S.C. (Closed) ("KMEFIC"). The consideration paid to KMEFIC amounting to KD 3,559,610 which was subsequently reduced by KD 148,317 till the year ended 31 December 2004 is treated as goodwill.

The recoverable amount has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate of 11.5% applied to cash flow projections which are extrapolated using a projected growth rate in a range of -10% to +5%.

The calculation of value in use is most sensitive to the following assumptions:

- Margins;
- Discount rates;
- Market share during budget period;
- Growth rates used to extrapolate cash flows beyond the budget period; and
- Inflation rates.

**Margins**
Margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

**Discount rates**
Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

**Market share assumptions**
These assumptions are important because, as well as using industry data for growth rates management assess how the position relative to its competitors, might change over the budget period.

**Growth rates and local inflation rates**
Rates are based on published industry research.

### Sensitivity to changes in assumptions

With regard to the assessment of value in use of the goodwill, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Based on the analysis, management has recognised impairment loss of KD 1,400,000 (2008: KD 400,000) for decline in fair value below the carrying value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 13 SHARE CAPITAL

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| Authorised, issued and fully paid up 175,770,000 shares of 100 fils each | 17,577,000 | 17,577,000 |

## 14 SHARE PREMIUM

The share premium is not available for distribution.

## 15 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, director's remuneration and zakat has to be transferred to the statutory reserve. In the current year, no transfer has been made to statutory reserve since the group has incurred a loss. The parent company may resolve to discontinue such annual transfers, when the reserve equals 50% of paid up share capital.

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

## 16 GENERAL RESERVE

In accordance with the parent company's Articles of Association, 1% of profit for the year before contribution to KFAS, director's remuneration and zakat has to be transferred to the general reserve. In the current year, no transfer has been made to the general reserve since the group has incurred a loss. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

## 17 EMPLOYEE SHARE OPTION RESERVE

The parent company had a stock option plan for all of its employees. Options were exercisable at a price approved by Board of Directors at the date of grant. The weighted average vesting period was three years. The options expired if they were not exercised within the period specified in the grant. If an employee left the group before the options vest they were forfeited. Share Options totalling 4,147,500 shares were granted with a vesting period of 3 years. 2008 was the final year in which shares options granted fully vested to the employees of the parent company. The employees to whom share options were granted left the group and hence the options were forfeited. As options were forfeited, in 2009 the parent company transferred the amount in employee share option reserve to general reserve, as resolved by the directors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 18 SHORT TERM BORROWINGS

| | | 2009 | 2008 |
|---|---|---|---|
| | | KD | KD |
| Loan in KD | Secured | **4,944,600** | 8,100,000 |
| Loan in Euro | Unsecured | **1,279,078** | 1,245,545 |
| | | **6,223,678** | 9,345,545 |

All short term borrowings carry interest rates ranging from 5.5% to 10.75% (2008: 5.75% to 10.75%) per annum and are overdue at the statement of financial position date.

Loan in KD is secured against quoted equity securities classified as financial assets available-for-sale with a carrying value of KD 3,239,250 (2008: classified as financial assets at fair value through income statement with a carrying value of KD 4,309,280).

At 31 December 2009, the parent company was in legal dispute in relation to the credit facility agreements relating to the secured loan in KD and unsecured loan in Euro with two banks. As at the statement of financial position date, the parent company has accrued interest amounting to KD 354,809 (2008: KD 216,017) on these loans. The parent company's management is in discussions with the lending banks to arrive at an acceptable debt restructuring plan.
The debt restructuring may involve upfront repayment of a part of debt by capital injection, bundling of existing debts into a new syndicated facility amortising over a medium term, providing additional collateral to the financers over the parent company's financial assets, renegotiating the pricing of credit facilities, restrictions on the corporate actions associated with the distribution of cash and stock dividends and other terms and restrictions usually associated with debt restructuring process.

### Cash flow hedge:

Loan in Euro of Euro 3,100,000 (2008: Euro 3,201,200) is designated as a hedging instrument against the group's exposure to foreign currency exchange risk on its hedged item – investment in certain managed equity funds classified as financial assets available-for-sale with a carrying value of KD 8,252 (2008: KD 1,217,769). On 30 September 2009 the cash flow hedge became ineffective and hence the gains or losses on the retranslation of this borrowing since the date the hedge became ineffective are recoginsed in the consolidated income statement. The cumulative gain or loss on the hedging instrument that has been recognised in the consolidated statement of other comprehensive income for the period when the hedge was effective has been kept separately in equity under change in fair value reserve and will continue to be there till the client holds the hedged item.

## 19 RELATED PARTY TRANSACTIONS

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

Transactions with related parties included in the consolidated financial statements are as follows:

| | Other related parties | Directors and key management | **Total** | Total |
|---|---|---|---|---|
| | | | **2009** | 2008 |
| | KD | KD | **KD** | KD |
| **Consolidated income statement** | | | | |
| Interest income | - | - | - | 8,860 |
| Interest expense | - | - | - | (201,965) |
| **Consolidated statement of financial position** | | | | |
| Other liabilities | - | 35,210 | **35,210** | (94,819) |

**Compensation of key management personnel**

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

| | **2009** | 2008 |
|---|---|---|
| | **KD** | KD |
| Short-term employee benefits | **112,018** | 283,561 |
| Termination benefits | **17,833** | 14,100 |
| | **129,851** | 297,661 |

## 20 FIDUCIARY ASSETS

The group manages portfolios on behalf of customers and maintains cash balances and securities in fiduciary accounts which are not reflected in the group's consolidated statement of financial position. The aggregate net asset value of assets held in a fiduciary capacity by the group at 31 December 2009 amounted to KD 87,890,567 (2008: KD 80,297,665).

The net fee income earned from trust and other fiduciary activities amounted to KD 438,844 (2008: KD 588,881).

## 21 OPERATING SEGMENT INFORMATION

For management purposes, the group is organised into business units based on activities and services and has two reportable operating segments as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

| | | |
|---|---|---|
| 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. |

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on return on investments. The group does not have any inter-segment transactions.

The following table presents segment revenue and results information regarding the group's business segments:

| **31 December 2009** | Proprietary investment management | Investment management and advisory services | Total |
|---|---|---|---|
| | KD | KD | KD |
| Revenue | **(2,232,698)** | **438,844** | **(1,793,854)** |
| Results | **(5,116,727)** | **438,844** | **(4,677,883)** |
| Operating assets | **9,474,322** | **1,960,090** | **1,1434,412** |
| Operating liabilities | **6,696,746** | **25,897** | **6,722,643** |
| Other segment information | | | |
| Net provision for credit losses | **-** | **-** | **-** |
| Impairment of other assets | **192,211** | **568,789** | **761,000** |
| Impairment of goodwill | **-** | **1,400,000** | **1,400,000** |
| Impairment of financial assets available-for-sale | **1,405,113** | **-** | **1,405,113** |

| **31 December 2008** | Proprietary investment management | Investment management and advisory services | Total |
|---|---|---|---|
| | KD | KD | KD |
| Revenue | (8,955,950) | 588,881 | (8,367,069) |
| Results | (10,980,779) | 588,881 | (10,391,898) |
| Operating assets | 15,568,190 | 3,741,318 | 19,309,508 |
| Operating liabilities | 9,799,353 | 21,185 | 9,820,538 |
| Other segment information | | | |
| Net provision for credit losses | 45,092 | - | 45,092 |
| Impairment of other assets | 114,750 | - | 114,750 |
| Impairment of goodwill | - | 400,000 | 400,000 |
| Impairment of financial assets available-for-sale | 491,044 | - | 491,044 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## Geographic information

| | 2009 | 2008 |
|---|---|---|
| **Revenue** | **KD** | KD |
| Middle East | **(1,060,728)** | (7,602,498) |
| United States of America | **(865,414)** | (526,118) |
| Europe | **132,288** | 210,195 |
| Others | **-** | (448,648) |
| | **(1,793,854)** | (8,367,069) |

The revenue information above is based on the location of the assets generating the revenue.

| | 2009 | 2008 |
|---|---|---|
| **Non-current assets** | **KD** | KD |
| Middle East | **6,287,751** | **5,057,474** |
| United States of America | **1,453,071** | **1,770,542** |
| Europe | **8,252** | **1,217,768** |

Non-current assets for this purpose consist of assets that include amounts expected to be recovered more than twelve months after the reporting period

## 22 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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 financial position date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. Except for financial assets at fair value through income statement and financial assets 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 financial assets at fair value through income statement and financial assets available-for-sale is determined based on management's estimate of liquidation of those investments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

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

| **31 December 2009** | Up to 1 month | 1 – 3 months | 4 – 12 months | Over 1 year | Total |
|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD |
| **ASSETS** | | | | | |
| Bank balances and cash | **469,441** | **2,596,088** | - | - | **3,065,529** |
| Financial assets at fair value through income statement | - | **430,602** | **27,022** | - | **457,624** |
| Financial assets available-for-sale | - | **28,722** | **95,699** | **5,960,731** | **6,085,152** |
| Other assets | **18,582** | **321,609** | **21,994** | - | **362,185** |
| Furniture, fixtures and equipment | - | - | - | **52,629** | **52,629** |
| Goodwill | - | - | - | **1,611,293** | **1,611,293** |
| **Total Assets** | **488,023** | **3,377,021** | **144,715** | **7,624,653** | **11,634,412** |
| **LIABILITIES** | | | | | |
| Short term borrowings | **6,223,678** | - | - | - | **6,223,678** |
| Other liabilities | **245,266** | **98,544** | **52,318** | **102,837** | **498,965** |
| **Total liabilities** | **6,468,944** | **98,544** | **52,318** | **102,837** | **6,722,643** |

| 31 December 2008 | Up to 1 month | 1 – 3 months | 4 – 12 months | Over 1 year | Total |
|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD |
| ASSETS | | | | | |
| Bank balances and cash | 3,948,048 | - | - | - | 3,948,048 |
| Loans and advances | - | - | 39,600 | 78,461 | 118,061 |
| Financial assets at fair value through income statement | 4,309,280 | 371,176 | 516,553 | - | 5,197,009 |
| Financial assets available-for-sale | - | 578,285 | 606,934 | 3,698,905 | 4,884,124 |
| Other assets | 1,231,904 | 115,479 | 653,223 | - | 2,000,606 |
| Furniture, fixtures and equipment | - | - | - | 150,367 | 150,367 |
| Goodwill | - | - | - | 3,011,293 | 3,011,293 |
| Total Assets | 9,489,232 | 1,064,940 | 1,816,310 | 6,939,026 | 19,309,508 |
| LIABILITIES | | | | | |
| Short term borrowings | 9,345,545 | - | - | - | 9,345,545 |
| Other liabilities | 218,174 | - | 118,021 | 138,798 | 474,993 |
| Total liabilities | 9,563,719 | - | 118,021 | 138,798 | 9,820,538 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The group's policy is to monitor those business risk through the group's strategic planning process.

## 23.1 Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument leading to financial loss.

The group has policies and procedures in place to limit the amount of credit exposure to any counter party. These procedures include the non-concentration of credit risk.

### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers as required. Commitments to extend credit represent unused portions of authorisations to extend cash credit. With respect to credit risk on commitments to extend credit, the group is potentially exposed to loss in an amount equal to the total unused commitments.

### Maximum exposure to credit risk

The group does not have loans and advances as at 31 December 2009 (2008: KD 118,061). With respect to credit risk arising from the other financial assets of the group, which comprise bank balances and cash and other assets, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The maximum exposure is the carrying amount as described in the consolidated statement of financial position.

### Risk concentration of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

The group's financial assets subject to credit risk, before taking into account any collateral held or credit enhancements are substantially located in Kuwait.

The group's financial assets subject to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sector as:

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| Banks and financial institutions | 3,065,529 | 3,948,048 |
| Construction and real estate | - | 1,221,074 |
| Managed funds | 362,185 | 590,906 |
| Others | - | 188,626 |
| | 3,427,714 | 5,948,654 |

## 23.2 Liquidity risk

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

The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities.

The table below summarises the maturity profile of the group's financial liabilities based on contractual undiscounted payments:

| **31 December 2009** | On demand | Less than 3 months | 3 – 12 months | Over 1 year | Total |
|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD |
| Short term borrowings | **6,223,678** | - | - | - | **6,223,678** |
| Other liabilities | **245,266** | **98,544** | **52,318** | **102,837** | **498,965** |
| **Total liabilities** | **6,468,944** | **98,544** | **52,318** | **102,837** | **6,722,643** |

| 31 December 2008 | | | | | |
|---|---|---|---|---|---|
| Short term borrowings | 9,409,795 | - | - | - | 9,409,795 |
| Other liabilities | 218,174 | - | 118,021 | 138,798 | 474,993 |
| Total liabilities | 9,627,969 | - | 118,021 | 138,798 | 9,884,788 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## 23.3 Market risk

Market risk is the risk that the fair value of future cash flows of financial instrument will fluctuate because of changes in market prices. Market prices comprise of interest rate risk, currency risk, and equity price risk.

### 23.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market interest rates. The group is not significantly exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities since it does not own significant floating rate investments and financial liabilities that could have a material impact on the group's loss.

### 23.3.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group manages its foreign currency risk by continuous assessment of the group's open positions and current and expected exchange rate movements and hedging transactions to manage any significant risk in foreign currencies such as US Dollar and Euro.

The effect on loss (due to change in the fair value of monetary assets and liabilities) and on equity (due to change in the fair value of non monetary assets and liabilities), as a result of change in currency rate, with all other variables held constant is shown below:

| | Change in currency rate by 5% | | | |
|---|---|---|---|---|
| | Effect on equity | | Effect on loss | |
| | **2009** | 2008 | **2009** | 2008 |
| | **KD** | KD | **KD** | KD |
| USD | **94,517** | 161,984 | **29,776** | 53,094 |
| Euro | **(63,541)** | (1,510) | **528** | 23,048 |

### 23.3.3 Equity price risk

The group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The group manages the equity price risk through diversification of equity instruments in terms of geographical distribution and industry concentration. The majority of the group's quoted investments are listed on the Kuwait Stock Exchange.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

The effect on equity (as a result of a change in the fair value of financial assets available-for-sale at 31 December 2009) and group's loss (as a result of a change in the fair value of financial assets at fair value through income statement at 31 December 2009) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

| | Change in equity price by 5 % | | | |
|---|---|---|---|---|
| Market indices | Effect on equity | | Effect on loss for the year | |
| | **2009** | 2008 | **2009** | 2008 |
| | **KD** | KD | **KD** | KD |
| Kuwait | **166,748** | 30,347 | **-** | 215,464 |
| Others | **1,436** | 28,914 | **22,881** | 44,386 |

## 23.4 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 group cannot expect to eliminate all operational risks, but in endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## 24 CAPITAL MANAGEMENT

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

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008.

The group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The group's policy is to keep the gearing ratio between 15% and 50%. The group includes within net debt, short term borrowings, and other liabilities, less bank balances and cash. Capital includes equity attributable to the equity holders of the parent company less cumulative changes in fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

| | 2009 | 2008 |
|---|---|---|
| | KD | KD |
| Short term borrowings | **6,223,678** | 9,345,545 |
| Other liabilities | **498,965** | 474,993 |
| Less: Bank balances and cash | **(3,065,529)** | (3,948,048) |
| Net debt | **3,657,114** | 5,872,490 |
| Equity | **4,911,769** | 9,488,970 |
| Add/(less) cumulative changes in fair value | **(146,834)** | (46,529) |
| Total capital | **4,764,935** | 9,442,441 |
| **Capital and net debt** | **8,422,049** | 15,314,931 |
| Gearing ratio | **43.42%** | 38.34% |

## 25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The estimated fair values of financial assets and liabilities, except for certain unquoted equity instruments classified as financial assets available-for-sale (Note 10), approximated their respective net book values at the reporting date.

### Fair value hierarchy

The group uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Assets measured at fair value

| **31 December 2009** | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| | KD | KD | KD | **KD** |
| Financial assets at fair value through income statement | - | 457,624 | - | **457,624** |
| Financial assets available-for-sale | 3,239,250 | 124,434 | - | **3,363,684** |

During the reporting period ending 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.