



إستراتیجیا  
STRATEGIA  
Investment Company لایستمنار

ANNUAL REPORT

KEEN TO DEVELOP YOUR INVESTMENT STRATEGY

2010





إستراتيـا  
STRATEGIA  
للإستثمار  
Investment Company

Keen to develop your Investment Strategy



ANNUAL REPORT

2010

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H.H. Sheikh  
**Sabah Al Ahmad Al Jaber Al Sabah**  
Amir of State of Kuwait



H.H. Sheikh  
**Nawaf Al Ahmad Al Jaber Al Sabah**  
The Crown Prince of State of Kuwait



H.H. Sheikh  
**Naser Al Mohammad Al Ahmad Al Sabah**  
The Prime Minister of State of Kuwait





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# CHAIRMAN'S MESSAGE

## Introduction

On behalf of the Board of Director, I would like to convey my earnest regards to our shareholders as well as to the staff of Strategia Investment Company (SIC). It is my great pleasure to present the annual report and financial statements, for the year ended 31<sup>st</sup> December 2010.

## Key events of 2010

Through very difficult times, your Board of Directors was able to attract new strategic shareholders and broaden our client base. This has enabled us to eliminate the accumulated losses and endorse a fresh capital increase amounting to KD11 million Kuwaiti Dinars, through a private placement that was arranged and managed by the reputable AlMarkaz, which is a reputable investment firm. In this regards, we would like to take this opportunity to give our appreciation to them for their support in such tough financial climate.

## Financial Highlight

During 2010, SIC financials witnessed key changes at all levels as highlighted below:

Type	2009 KWD million	2010 KWD million	Changes %
Total assets	11,634	23,176	99.21
Total liabilities	6,723	7,088	5.43
Owners equity	4,912	16,088	227.52
Gross income	(1,540)	814	152.86
Net profit (loss)	(4,678)	(952)	79.65
EPS (loss)	(27)	(5.4)	80.00

- Liquidity levels have been increased by more than 350% due to the fresh capital increase and the assets management strategy, during the same period.
- 
- In 2010, World Real Estate Liquidity Fund (WRELF) achieved an annual return of 16.3% with a standard deviation well below the benchmark.
- The company managed its capital to maintain strong credit rating and healthy ratios in order to support its business and maximize shareholder value.

It is worth mentioning that SIC's positive performance came as a result of the conservative policy adopted by the Board of Directors and business plans executed by its executive management, to rectify the huge negative and weak financial performance during the past three years; nonetheless, we will continue to exert our best efforts to reach even higher positive returns in the near future to reward our shareholders and investors.

## Economy Highlights

For the Kuwait stock exchange (KSE), its performance in the year 2010, in contrast to 2009, will be remembered as a year that witnessed the (KSE) record robust gains and outperformed its peers in the GCC region, with its weighted index recorded yearly returns of 25.5%. However, and in spite of the robust gains recorded during 2010, liquidity in the market suffered during this time and remained at weak levels due to the weak sentiment of most investors.

In the long term view, we strongly believe that GCC economies are resilient and will reward investors in view of the mega projects that have been announced by most of GCC governments, taking into consideration the great reserves of the hydrocarbon resources within the region. Further, during 2010, international securities and real assets, like commercial property and infrastructure, continued to produce excellent returns. The MSCI World Index was up +12% in '10 largely due to the dividend and fourth quarter rally. The S&P 500 index was up +12.8% during 2010.

We are pleased to have produced investment returns for our World RE Liquid fund over +16%. Throughout 2010, we were encouraging clients to invest in global infrastructure liquid investments for the 6% yield. For client accounts, we were more aggressive buying in May when markets feared a "double dip" as global markets dropped -9.5% and global REITS fell -7.9% in Q2. We increased yield in September, obtaining 7% to 9% yield public REIT securities.

Service levels from international department continued at a high level, increasing frequency of newsletters, Market Commentary and Risk reporting for clients. Strategia added staff to the Kuwait and U.S. office to continue to uncover exceptional opportunities for yield or capital growth in stocks, bonds hedge funds or real assets. To better serve clients wanting deeper analysis and risk assessments, we added more technology also adding consulting to services available to investors. We continue to be committed to providing investment solutions to clients with a wide range of investment goals and service that exceeds client expectations.

## Looking Forward

In spite of the great challenges in our financial industry, we are totally confident that our company will be able to pass the negative trends in view of our new shareholders structure, which will enable to achieve reasonable investment opportunities to build up a new chapter of sustainable growth.

I can assure our shareholders, that SIC new phase has begun and we are committed to become market leader both locally and internationally.

Finally, on behalf of the Boards of Directors, I would like to give tribute His Highness the Amir, Sheikh Sabah Al Ahmad Al Sabah, H.H the Crown Prince Sheikh Nawaf Al Ahmad Al Sabah, H.H the Prime Minister Sheikh Nasser Mohammad Al Sabah and H. Excellency the Governor of the Central Bank Of Kuwait, Sheikh Salem Abdulaziz Al Sabah, may Almighty God safeguards them all, for their continued support and guidance of our country's economic sector and institutions.



**Mishal Nasser Habib**  
Chairman & Managing Director



## BOARD OF DIRECTORS

### **Mr. Mishal Nasser Habib**

Chairman & Managing Director

### **Mr. Ahmed Mohammad Hassan**

Vice Chairman

### **Mr. Abdulmohsen Barrak Al-Mutair**

Board Member

### **Mr. Soud Abdulaziz Al-Mansour**

Board Member

### **Mr. Hassan Kamal Caedbey**

Board Member

### **Mrs. Amani Ibrahim Al-Omani**

Board Member

### **Mr. Ghazi Ahmed Al-Osaimi**

Board Member





**STRATEGIA INVESTMENT COMPANY K.S.C.  
(CLOSED) AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2010**


**Al Aiban, Al Osaimi & Partners**

P.O. Box 74 Safat, 13001 Safat, Kuwait  
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 Ahmed Al Jaber Street  
 Tel: 2245 2880/2295 5000  
 Fax: 2245 6419  
 Email: kuwait@kw.ey.com


**BAKER TILLY  
 KUWAIT**
**Dr. Saud Al-humaidi & Partners**

**Public Accountants**  
 P.O. Box 1486 Safat, 13015 Kuwait  
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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF STRATEGIA INVESTMENT COMPANY K.S.C. (CLOSED)

### Report on the Consolidated Financial Statements

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 2010, 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 information.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statement that are free from material misstatement, whether due to fraud or error.

**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 about 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' 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 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.

**Al Aiban, Al Osaimi & Partners**

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF STRATEGIA INVESTMENT COMPANY K.S.C. (CLOSED) (continued)

### Opinion

In our opinion, the consolidated financial present fairly, in all material respects, the financial position of the Group as at 31 December 2010, 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.

### Reporting 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 Parents Company's Articles of Association, as amended, 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, or of the Parents Company's Articles of Association, as amended, have occurred during the year ended 31 December 2010 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 2010.

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

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

2 March 2011  
 Kuwait



## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 KD	2009 KD
<b>REVENUE</b>			
Fee income	4	615,350	693,069
Investment gain/(loss)	5	154,921	(2,282,732)
Interest income		43,600	50,034
		<u>813,871</u>	<u>(1,539,629)</u>
<b>EXPENSES</b>			
Staff costs		(474,101)	(325,945)
Administrative expenses		(497,077)	(303,332)
Depreciation		(38,482)	(44,187)
Finance costs		(370,590)	(422,442)
Impairment of other assets	10	(77,982)	(761,600)
Impairment of goodwill	11	(269,383)	(1,400,000)
Foreign exchange (loss)/gain		(38,512)	169,307
Other expenses		-	(50,055)
		<u>(1,766,127)</u>	<u>(3,138,254)</u>
<b>LOSS FOR THE YEAR</b>		<u>(952,256)</u>	<u>(4,677,883)</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	6	<u>(5.4) fils</u>	<u>(26.6) fils</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 December 2010

	Note	2010 KD	2009 KD
<b>Loss for the year</b>		<u>(952,256)</u>	<u>(4,677,883)</u>
<b>Other comprehensive income</b>			
Net unrealised gain on financial assets available-for sale		1,304,037	317,430
Realised on sale of financial assets available-for-sale	5	(52,229)	(126,031)
Unrealised gain on cash flow hedge		-	(91,094)
Exchange differences on translation of foreign operations		26	377
Net loss on cash flow hedge transferred to the consolidated income statement		140,827	-
<b>Other comprehensive income for the year</b>		<u>1,392,661</u>	<u>100,682</u>
<b>Total comprehensive income (loss) for the year</b>		<u><u>440,405</u></u>	<u><u>(4,577,201)</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

Year ended 31 December 2010

	Notes	2010 KD	2009 KD
<b>ASSETS</b>			
Bank balances and cash	7	13,786,153	3,065,529
Financial assets at fair value through income statement	8	490,002	457,624
Financial assets available-for-sale	9	7,078,441	6,085,152
Other assets	10	452,726	362,185
Furniture, fixtures and equipment		26,871	52,629
Goodwill	11	1,341,910	1,611,293
<b>TOTAL ASSETS</b>		<b>23,176,103</b>	<b>11,634,412</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	15,000,000	17,577,000
Share premium	12	460,935	250,000
Statutory reserve	13	-	453,471
General reserve	13	-	145,864
Foreign currency translation reserve		40,177	40,151
Cumulative changes in fair values		1,539,469	146,834
Accumulated losses		(952,256)	(13,701,551)
<b>Total equity</b>		<b>16,088,325</b>	<b>4,911,769</b>
<b>Liabilities</b>			
Short term borrowings	14	6,096,891	6,223,678
Other liabilities		990,887	498,965
<b>Total liabilities</b>		<b>7,087,778</b>	<b>6,722,643</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>23,176,103</b>	<b>11,634,412</b>



**Mishal Nasser Habib**  
(Chairman & Managing Director)



**Tahani Al-Ajmi**  
(General Manager)

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended 31 December 2010

	Notes	2010 KD	2009 KD
<b>OPERATING ACTIVITIES</b>			
Loss for the year		(952,256)	(4,677,883)
Adjustments for:			
Depreciation		38,482	44,187
Write off of furniture, fixtures and equipment		-	56,830
Finance costs		370,590	422,442
Interest income		(43,600)	(50,034)
Net (gain)/loss on financial assets at fair value through income statement	5	(54,161)	1,140,675
Gain on sale of financial assets available-for-sale	5	(52,229)	(126,031)
Impairment of financial assets available-for-sale	5	68,350	1,405,113
Dividend income	5	(116,881)	(137,025)
Impairment of other assets	10	77,982	761,600
Impairment of goodwill	11	269,383	1,400,000
Foreign exchange loss/(gain)		7,811	(84,753)
		<u>(386,529)</u>	<u>155,121</u>
Changes in operating assets and liabilities:			
Financial assets at fair value through income statement		21,783	489,030
Loans and advances		-	40,000
Other assets		(74,654)	1,017,246
Other liabilities		130,870	33,254
Net cash flows (used in) from operating activities		<u>(308,530)</u>	<u>1,734,651</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of financial assets available-for-sale		(337,922)	(227,675)
Proceeds from sale of financial assets available-for-sale		580,220	1,048,644
Purchase of furniture, fixtures and equipment		(12,724)	(3,279)
Dividends received		19,703	137,025
Interest received		43,600	47,420
Net cash flows from investing activities		<u>292,877</u>	<u>1,002,135</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital	12	10,736,151	-
Short term borrowings, net		-	(3,191,432)
Finance costs paid		-	(428,250)
Net cash flows from (used in) financing activities		<u>10,736,151</u>	<u>(3,619,682)</u>
<b>NET INCREASE (DECREASE) IN BANK BALANCES AND CASH</b>		<b>10,720,498</b>	<b>(882,896)</b>
Net foreign exchange difference		126	377
Bank balances and cash at 1 January		<u>3,065,529</u>	<u>3,948,048</u>
<b>BANK BALANCES AND CASH AT 31 DECEMBER</b>	7	<u><b>13,786,153</b></u>	<u><b>3,065,529</b></u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Year ended 31 December 2010

	Share capital	Share premium	Statutory reserve	General reserve	Foreign currency translation reserve	Cumulative changes in fair values	Employee share option reserve	Accumulated losses	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD
As at 1 January 2010	17,577,000	250,000	453,471	145,864	40,151	146,834	-	(13,701,551)	4,911,769
Loss for the year	-	-	-	-	-	-	-	(952,256)	(952,256)
Other comprehensive income	-	-	-	-	26	1,392,635	-	-	1,392,661
Total comprehensive income (loss) for the year	-	-	-	-	26	1,392,635	-	(952,256)	440,405
Extinguishment of accumulated losses (Note 12)	(12,852,216)	(250,000)	(453,471)	(145,864)	-	-	-	13,701,551	-
Issue of share capital (Note 12)	10,275,216	460,935	-	-	-	-	-	-	10,736,151
<b>At 31 December 2010</b>	<b>15,000,000</b>	<b>460,935</b>	<b>-</b>	<b>-</b>	<b>40,177</b>	<b>1,539,469</b>	<b>-</b>	<b>(952,256)</b>	<b>16,088,325</b>
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	-	-	-	-	377	100,305	-	-	100,682
Total comprehensive income (loss) for the year	-	-	-	-	377	100,305	-	(4,677,883)	(4,577,201)
Transfer	-	-	-	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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 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 2010 were authorised for issue by the Parent Company's board of directors on 2 March 2011. The annual general meeting of the shareholders have the power to amend these consolidated financial statements after issuance.

The Parent Company is a Kuwaiti shareholding company incorporated in 1998 and is engaged in carrying out investment (for its own account and for clients), portfolio and fund management activities and is regulated by the Central Bank of Kuwait (CBK). The Parent Company's shares were 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.

### 2.1 BASIS OF PREPARATION

#### 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 CBK. 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 CBK's requirement for a minimum general provision as described under the accounting policy for impairment of assets.

#### Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the measurement at fair value of financial assets at fair value through income statement and financial assets available-for-sale. The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is also the Parent Company's functional and presentation currency.

#### Basis of consolidation

##### *Basis of consolidation from 1 January 2010*

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2010.

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 when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. The financial statements of subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.1 BASIS OF PREPARATION (continued)

#### Basis of consolidation (continued)

##### *Basis of consolidation from 1 January 2010 (continued)*

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated income statement
- Reclassifies the parent's share of components previously recognised in other comprehensive income to consolidated income statement or retained earnings, as appropriate.

##### *Basis of consolidation prior to 1 January 2010*

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

Acquisitions of non-controlling interests were 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 were recognised in goodwill.

Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interests had a binding obligation to cover these.

Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

The subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activity	Equity interest %	
			2010	2009
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%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.2 CHANGES IN ACCOUNTING POLICIES

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

During the year, the Group has adopted the following amended standards effective for the annual periods beginning on or after 1 January 2010:

- IFRS 3 (Revised) – Business Combinations and consequential amendments to IAS 27 effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRIC Interpretation 17: Distributions of non-cash assets to owners (*effective for the period beginning on or after 1 July 2009*)

***IFRS 3 (Revised) – Business Combinations and consequential amendments to IAS 27 – Consolidated and Separate Financial Statements. The main changes in the Group’s accounting policies are as follows:***

- Acquisition related costs are expensed in the consolidated statement of income in the periods in which the costs are incurred;
- Changes in ownership interest in a subsidiary that do not result in a loss of control are treated as transaction between equity holders and are accounted for within equity; and
- Equity interest held prior to control being obtained is remeasured to fair value at the date of obtaining control, any resulting gain or loss is recognised in the statement of income.

#### ***IFRIC Interpretation 17: Distribution of Non-cash Assets to Owners***

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group

### 2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

**New and revised International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations relevant to the Group, issued, but not yet effective**

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

- IFRS 9: Financial Instruments: Classification and Measurement (*effective for annual periods beginning on or after 1 January 2013*)
- IAS 24 (Revised 2009) Related Party Disclosures (*effective for the period beginning on or after 1 January 2011*)
- IFRIC Interpretation 14 Prepayments of a minimum funding requirement (Amendment) (*effective for the period beginning on or after 1 January 2011*)
- IFRIC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments (*effective for the period beginning on or after 1 July 2010*)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### *IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### *IAS 24 Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The Group does not expect any impact on its financial position or performance.

### *IFRIC Interpretation 14: Prepayments of a minimum funding requirement (Amendment)*

This Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits.

### *IFRIC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments*

This Interpretation provides guidance for the accounting when an entity renegotiates terms of a liability with the result that a debtor extinguishes a financial liability fully or partially by issuing equity instruments to the creditor.

### **Improvement to IFRSs**

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below:

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*.

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

Adoption of other IASB Standards and IFRIC Interpretations will not have material effect on the financial performance, position or the consolidated financial statements of the Group. Additional disclosures will be made in the consolidated financial statements when these Standards and Interpretations become effective.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **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 or receivable. 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.

#### *Interest income*

Interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset, to the net carrying amount of the financial asset.

#### **Business combinations and goodwill**

##### *Business combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Business combinations and goodwill (continued)**

##### *Business combinations from 1 January 2010 (continued)*

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated 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 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.

##### *Business combinations prior to 1 January 2010*

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Business combinations and goodwill (continued)**

##### **Impairment of goodwill**

Goodwill is tested for impairment annually (as at 31 December) and when 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 the cash-generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

#### **Financial instruments – initial recognition and subsequent measurement**

##### **i) Financial assets**

###### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through income statement, loans and receivables, held-to-maturity investments 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.

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, financial assets available-for-sale, and other assets. At 31 December 2010, the Group did not have held-to-maturity investments and loans.

###### *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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments – initial recognition and subsequent measurement (continued)

The Group evaluated its financial assets at fair value through income statement (held for trading), to determine whether the intention 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 receivables, available-for-sale or held to maturity is permitted depending 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. The Group does not have any loans. Receivables include accrued management fees and other receivables.

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

#### *Financial assets available-for-sale*

Financial assets classified as available-for-sale are those equity investments, which are neither classified as financial assets at fair value through income statement, held-to-maturity nor loans and receivables. After initial measurement, 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 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 a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive 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 a 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments – initial recognition and subsequent measurement (continued)

##### 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.

##### *Financial assets available-for-sale*

For financial assets available-for-sale, 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. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments – initial recognition and subsequent measurement (continued)

##### 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 the 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 2010, 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:

###### *Loans and borrowings*

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

###### *Derecognition*

A financial liability is derecognised when the obligation under the 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.

##### **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.

##### **iv) 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 transaction costs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Financial instruments – initial recognition and subsequent measurement (continued)**

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; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 21.

#### **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.

#### **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.

#### **Employees' end of service benefits**

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

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

#### **Foreign currency translation**

The consolidated financial statements are presented in Kuwait Dinars, 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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments – initial recognition and subsequent measurement (continued)

##### *i) Transactions and balances*

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.

##### *ii) Group companies*

The assets and liabilities of foreign operations are translated into Kuwait Dinars at the rate of exchange prevailing at the reporting date and their income statements are translated at weighted average rate for the year. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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 require a material adjustment to the carrying amount of the asset or liability affected in future periods

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:

#### *Classification of investments*

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

The Group classifies financial assets at fair value through income statement if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets at fair value through income statement depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as at fair value through income statement.

All other financial assets are classified as available-for-sale.

#### *Valuation of unquoted equity investments*

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

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

The determination of the cash flows and discount factors for unquoted equity investments require significant estimation. For the investments where this estimation cannot be reliably determined, they are carried at cost less impairment, if any.

#### *Impairment of financial assets available-for-sale*

The Group treats financial assets available-for-sale 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### *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.

#### *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.

### 4. FEE INCOME

	2010	2009
	KD	KD
Management fees from fiduciary activities	589,909	613,437
Advisory fees and consultancy fees	25,441	79,632
	<u>615,350</u>	<u>693,069</u>

### 5. INVESTMENT GAIN/(LOSS)

	2010	2009
	KD	KD
Realised loss on financial assets at fair value through income statement	(5,376)	(54,705)
Unrealised gain/(loss) on financial assets at fair value through income statement	59,537	(1,085,970)
Realised gain on sale of financial assets available-for-sale	52,229	126,031
Impairment of financial assets available-for-sale (Note 9)	(68,350)	(1,405,113)
Dividend income	116,881	137,025
	<u>154,921</u>	<u>(2,282,732)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 6. 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:

	2010	2009
Loss for the year (KD)	<u>(952,256)</u>	<u>(4,677,883)</u>
Weighted average number of shares outstanding	<u>175,628,795</u>	<u>175,770,000</u>
Basic and diluted loss per share	<u>(5.4) fils</u>	<u>(26.6) fils</u>

### 7. BANK BALANCES AND CASH

	2010	2009
	KD	KD
Cash at banks and on hand	356,119	469,441
Short-term deposits	<u>13,430,034</u>	<u>2,596,088</u>
	<u>13,786,153</u>	<u>3,065,529</u>

Short-term deposits are held with local banks in Kuwait, denominated in Kuwaiti Dinars which yield an average effective annual interest rate of 1.25% to 1.75% per annum (2009: 1.90% to 3.25%) and have contractual maturities of less than three months.

Short-term deposits include an amount of KD 10,525,055 which is the cash subscription received by the lead manager net of transaction fees. The lead manager has confirmed in writing that the Parent Company is the beneficial owner of this amount. For details of the subscription, refer Note 12.

### 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2010	2009
	KD	KD
Designated upon initial recognition		
Managed equity funds	<u>490,002</u>	<u>457,624</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2010

**9. FINANCIAL ASSETS AVAILABLE-FOR-SALE**

	2010	2009
	KD	KD
Quoted equity securities	4,694,326	3,239,250
Unquoted equity securities	717,231	1,221,838
Managed equity funds	1,666,884	1,624,064
	<u>7,078,441</u>	<u>6,085,152</u>

Unquoted equity securities and managed equity funds amounting to KD 2,148,511 (2009: KD 2,721,468) 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 and managed equity funds to assess whether impairment has occurred in the value of these investments and recorded an impairment loss of KD 68,350 (2009: KD 1,405,113) (Note 5) in the consolidated income statement.

Mutual equity funds amounting to KD 235,604 (2009: KD 124,434) are carried at net asset values provided by the fund managers.

During the year ended 31 December 2009, the Group reclassified certain quoted trading investments from the "financial assets at fair value through income statement" category to "financial assets available-for-sale" category. As at 31 December 2010, the carrying value of such reclassified trading investments amounted to KD 4,405,380 (2009: KD 3,239,250). The Group has recorded an unrealised gain of KD 1,166,130 for the year ended 31 December 2010 (2009: KD 129,570) in respect of the reclassified financial assets in other comprehensive income. Had the Group not reclassified these investments, unrealised gain of KD 1,166,130 for the year ended 31 December 2010 (2009: KD 129,570) would have been recorded in the consolidated income statement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 10. OTHER ASSETS

	2010	2009
	KD	KD
Accrued management fees – net of allowance for impairment of KD 568,789 (2009: KD 568,789)	156,065	303,622
Other receivables - – net of allowance for impairment of KD 389,625 (2009: KD 389,625)	265,739	43,895
Prepaid expenses	30,922	14,668
	<u>452,726</u>	<u>362,185</u>

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

	2010	2009
	KD	KD
At 1 January	958,414	114,750
Transfer from loans and advances	-	82,064
Charge for the year	77,982	761,600
Utilised	(77,982)	-
At 31 December	<u>958,414</u>	<u>958,414</u>

### 11. 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 reduced by amortization of KD 148,317, until the year ended 31 December 2004, was 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 13.6% applied to cash flow projections which are extrapolated using a projected growth rate in a range of -24% to +0%.

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 11. GOODWILL (continued)

#### *Margins*

Margins are based on management estimates after considering 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).

#### **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, an impairment loss of KD 269,383 (2009: KD 1,400,400) has been recognised for decline in fair value below the carrying value.

### 12. SHARE CAPITAL

	2010	2009
	KD	KD
Authorised, issued and fully paid up 150,000,000 (2009: 175,000,000) shares of 100 fils each	15,000,000	17,577,000

An Extra Ordinary General Meeting was held on 17 June 2010 which approved the extinguishment of accumulated losses as of 31 December 2009 against the existing share capital, share premium, statutory reserve and general reserve by KD 13,701,551 and increase in the share capital by KD 10,275,216 by issuing 102,752,160 new shares of 100 fils each at a premium of 2 fils per share. After obtaining approval from the Ministry of Commerce, a prospectus for subscription of additional shares was issued on 29 June 2010 and a lead manager was appointed. The cash from the subscription was received by the lead manager from the new investors on 30 December 2010 at a premium ranging from 2 fils to 5 fils per share amounting to KD 10,736,151.

Accordingly, the adjustment for write off of accumulated losses has been recorded by adjusting the amount of the balance as of 31 December 2009 against share premium of KD 250,000, statutory reserve of KD 453,471 (Note 13), general reserve of KD 145,864 (Note 13) and the remaining amount of KD 12,852,216 has been set-off against share capital.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 13. RESERVES

#### 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 is required to be transferred to the statutory reserve. The Parent Company may resolve to discontinue such annual transfers, when the reserve equals 50% of paid up share capital. In the current year, accumulated losses of KD 453,471 as on 31 December 2009 (Note 12) have been extinguished against the statutory reserve balance. No transfer has been made for the current year since the Group has incurred a loss.

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.

#### 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 is required to be transferred to the general reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. In the current year, accumulated losses of KD 145,864 as on 31 December 2009 (Note 12) have been extinguished against the general reserve balance. No transfer has been made for the current year since the Group has incurred a loss.

### 14. SHORT TERM BORROWINGS

		2010	2009
		KD	KD
Loan in KD	Secured	4,944,600	4,944,600
Loan in Euro	Unsecured	1,152,291	1,279,078
		<u>6,096,891</u>	<u>6,223,678</u>

The loan denominated in KD is secured against quoted equity securities with a carrying value of KD 4,405,380 (2009: KD 3,239,250) classified as financial assets available-for-sale.

At 31 December 2010, the Parent Company remains in default with respect to its short term borrowings. As a result the Parent Company is in a legal dispute with its creditor banks. The Parent Company's management is in discussions with these banks to arrive at an acceptable debt restructuring plan. As at 31 December 2010, the Parent Company has accrued interest amounting to KD 572,138 (2009: KD 210,209) on these loans at interest rates ranging from 5.50% to 8.25% (2009: 5.5% to 10.75%) per annum.

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 creditor banks 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 shares and other terms and restrictions usually associated with debt restructuring process.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 15. 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:

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, assets and liabilities information regarding the Group's operating business segments:

	Proprietary investment management	Investment management and advisory services	Total
	KD	KD	KD
<b>31 December 2010</b>			
Segment revenue	198,521	615,350	813,871
Segment result	(1,374,830)	422,574	(952,256)
Depreciation	(38,482)	-	(38,482)
Assets	21,417,885	1,758,218	23,176,103
Liabilities	7,033,688	54,090	7,087,778
Other disclosures			
Impairment of other assets	-	77,982	77,982
Impairment of goodwill	-	269,383	269,383
Impairment of financial assets available-for-sale	68,350	-	68,350

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2010

**15. SEGMENT INFORMATION (continued)**

	Proprietary investment management KD	Investment management and advisory services KD	Total KD
31 December 2009			
Segment revenue	<u>(2,232,698)</u>	<u>693,069</u>	<u>(1,539,629)</u>
Segment result	<u>(5,116,727)</u>	<u>438,844</u>	<u>(4,677,883)</u>
Depreciation	(44,187)	-	(44,187)
Assets	<u>9,674,322</u>	<u>1,960,090</u>	<u>11,634,412</u>
Liabilities	<u>6,696,746</u>	<u>25,897</u>	<u>6,722,643</u>
Other disclosures			
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

**Geographic information**

The Group operates in three business regions; Middle East, United States of America and Europe. The following table shows the distribution of the Group's segment revenue and non-current assets by region:

	2010 KD	2009 KD
Revenue		
Middle East	2,062	(1,060,728)
United States of America	779,157	(611,189)
Europe	32,652	132,288
	<u>813,871</u>	<u>(1,539,629)</u>

The revenue information above is based on the location of the assets generating the revenue as follows:

	2010 KD	2009 KD
Non-current assets		
Middle East	6,237,469	6,287,751
United States of America	2,193,355	1,453,071
Europe	16,398	8,252

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 16. 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.

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

	Other related parties	Directors and key management	Total	Total
	KD	KD	KD	KD
<b>Consolidated statement of financial position</b>				
Other liabilities	-	31,565	31,565	35,210

### Compensation of key management personnel of the Group

	2010	2009
	KD	KD
Salaries and other employee benefits	205,635	112,018
Termination benefits	4,578	17,833
	<u>210,213</u>	<u>129,851</u>

### 17. 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 2010 amounted to KD 76,919,766 (2009: KD 87,890,567).

The net fee income earned from trust and other fiduciary activities amounted to KD 615,350 (2009: KD 693,069).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 18. 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 from the reporting 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 reporting date 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.

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

	Up to 1 month	1 – 3 months	4 – 12 months	Over 1 year	Total
2010	KD	KD	KD	KD	KD
<b>ASSETS</b>					
Bank balances and cash	13,786,153	-	-	-	13,786,153
Financial assets at fair value through income statement	-	490,002	-	-	490,002
Financial assets available-for-sale	-	14,540	1,022,100	6,041,801	7,078,441
Other assets	18,156	411,653	19,917	3,000	452,726
Furniture, fixtures and equipment	-	-	-	26,871	26,871
Goodwill	-	-	-	1,341,910	1,341,910
<b>Total Assets</b>	<b>13,804,309</b>	<b>916,195</b>	<b>1,042,017</b>	<b>7,413,582</b>	<b>23,176,103</b>
<b>LIABILITIES</b>					
Short term borrowings	6,096,891	-	-	-	6,096,891
Other liabilities	628,924	60,220	198,505	103,238	990,887
<b>Total liabilities</b>	<b>6,725,815</b>	<b>60,220</b>	<b>198,505</b>	<b>103,238</b>	<b>7,087,778</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2010

**18. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

	Up to 1 month	1 – 3 months	4 – 12 months	Over 1 year	Total
2009	KD	KD	KD	KD	KD
<b>ASSETS</b>					
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
<b>Total Assets</b>	<b>488,023</b>	<b>3,377,021</b>	<b>144,715</b>	<b>7,624,653</b>	<b>11,634,412</b>
<b>LIABILITIES</b>					
Short term borrowings	6,223,678	-	-	-	6,223,678
Other liabilities	245,266	98,544	52,318	102,837	498,965
<b>Total liabilities</b>	<b>6,468,944</b>	<b>98,544</b>	<b>52,318</b>	<b>102,837</b>	<b>6,722,643</b>

**19. 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's principal financial liabilities comprise short-term borrowings and other liabilities. The main purpose of these financial liabilities is to fund the Group's operations. The Group has various financial assets such as cash and balances with banks and financial institutions, quoted and unquoted financial instruments and other assets which arise directly from its operations.

The Group classifies the risks faced as part of its monitoring and controlling activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified categories of risks. The categories of risks are:

- A. Risks arising from financial instruments:
- Credit risk which includes default risk of clients and counterparties
  - Market risk which includes interest rate, foreign exchange and equity price risks
  - Liquidity risk

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### B. Other risks

Operational risk which includes risks due to operational failures

The Parent Company's Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

#### 19.1 Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument leading to financial loss. Financial assets subject to credit risk consist principally of bank balances and short term deposits and other assets.

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.

#### Maximum exposure to credit risk

The Group does not have loans and advances as at 31 December 2010. With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances and short term deposits and other assets, the Group's maximum exposure is 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.

The maximum credit exposure to a single counter party is KD 10,525,055 (2009: KD 1,806,288).

#### 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.

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:

	2010	2009
	KD	KD
Banks and financial institutions	13,786,153	3,065,529
Other assets	421,804	347,517
	<u>14,207,957</u>	<u>3,413,046</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 19.2 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:

	On demand KD	Less than 3 months KD	3 – 12 months KD	Over 1 year KD	Total KD
<b>31 December 2010</b>					
Short term borrowings	6,096,891	-	-	-	6,096,891
Other liabilities	628,924	60,220	198,505	103,238	990,887
<b>Total liabilities</b>	<b>6,725,815</b>	<b>60,220</b>	<b>198,505</b>	<b>103,238</b>	<b>7,087,778</b>
<b>31 December 2009</b>					
Short term borrowings	6,223,678	-	-	-	6,223,678
Other liabilities	245,266	98,544	52,318	102,837	498,965
<b>Total liabilities</b>	<b>6,468,944</b>	<b>98,544</b>	<b>52,318</b>	<b>102,837</b>	<b>6,722,643</b>

#### 19.3 Market risk

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

##### 19.3.1 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's exposure to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities at the reporting date is not significant.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 19.3.2 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 change in foreign currencies such as US Dollar and Euro.

The effect on results (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 results	
	2010	2009	2010	2009
	KD	KD	KD	KD
USD	73,053	94,517	114,295	29,776
Euro	93	1,239	(53,616)	(63,425)

#### 19.3.3 Equity price risk

The Group's listed 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.

The effect on equity (as a result of a change in the fair value of financial assets available-for-sale at 31 December 2010) and Group's results (as a result of a change in the fair value of financial assets at fair value through income statement at 31 December 2010) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

Market indices	Change in equity price by 5 %			
	Effect on equity		Effect on results for the year	
	2010	2009	2010	2009
	KD	KD	KD	KD
Kuwait	220,502	166,748	-	-
Others	25,995	1,436	24,500	22,881

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 19.4 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 it 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.

### 20. 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. As part of the capital management, the Parent Company has offset accumulated losses against existing share capital – refer Note 12 for details. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

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 under 50%. The Group includes within net debt, short term borrowings, and other liabilities, less bank balances and cash. Capital includes total equity less cumulative changes in fair value.

	2010	2009
	KD	KD
Short term borrowings	6,096,891	6,223,678
Other liabilities	990,887	498,965
Less: Bank balances and cash	(13,786,153)	(3,065,529)
Net debt	<u>(6,698,375)</u>	<u>3,657,114</u>
Equity	16,088,325	4,911,769
Less: cumulative changes in fair values	(1,539,469)	(146,834)
Total capital	<u>14,548,856</u>	<u>4,764,935</u>
<b>Capital and net debt</b>	<u><u>7,850,481</u></u>	<u><u>8,422,049</u></u>
Gearing ratio	<u>- %</u>	<u>43.42%</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 21. 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 9), 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

	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
<b>31 December 2010</b>				
Financial assets at fair value through income statement	-	490,002	-	490,002
Financial assets available-for-sale	4,694,327	235,604	-	4,929,931
31 December 2009				
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 2010, 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.

