

# Annual Report 2006







**HH The Crown Prince**  
**Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah**



**HH The Amir of Kuwait**  
**Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah**



**HE The Prime Minister**  
**Sheikh Nasser Al-Mohammad Al-Jaber Al-Sabah**

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## BOARD OF DIRECTORS & EXECUTIVE MANAGEMENT

1. **Mr. Omer Suleiman Hamad Al-Kazi**  
Chairman
2. **Mr. Mustafa Ibrahim Al-Saleh**  
Vice-Chairman
3. **Mr. Ali Mohammed Al-Olaimi**  
Board Member
4. **Mr. Adnan Abduqader Al-Musallam**  
Board Member
5. **Mr. Darar Khaled Fahad Al-Rabah**  
Board Member
6. **Mr. Abdul Mohsen Madrabi Al-Kandari**  
Board Member
7. **Mr. Adnan Abdul Wahab Al-Nusuf**  
Board Member
8. **Mr. Abdulrahman Ali Al-Dawoud**  
General Manager



# SHARIA SUPERVISORY BOARD REPORT

We have reviewed ADAM company's activities as well as its contracts and investments transactions and studied the shari,ah controller's report during the year ended 31 December 2006. We hereby certify that the company's all transactions were practiced in compliance with the Islamic Shari'ah.

**1. Sheikh / Dr. Khaled Mathkour AL Mathkour**

Head of Sharia Supervisory



**2. Sheikh / Dr. Abdulaziz Khalifa AL Qassar**

Member of Sharia Supervisory



**3. Sheikh / Dr. Issam Khalef AL-Enizi**

Member of Sharia Supervisory







# BOARD OF DIRECTORS' REPORT

## To ADAM Shareholders

Dear Sirs,

On behalf of myself and my fellow members of the Board of Directors and the executive management, it gives me great pleasure to begin my speech by praising the name of Allah and his kind apostle. Thanks be to Allah, lord of the worlds, and prayers and peace be upon the most honorable messenger, prophet Mohammed, and his companions.

I would like to congratulate you for the remarkable results that ADAM achieved during its second year, 2006, following the company's strategy and plan for the year. The distinguished performance that we achieved is based on the direction and efforts of you brothers and company officials, fulfilling the promises that we have made to you to take your company to a safe shore. The vision of these achievements and goals has begun to crystallize and we can clearly see the results of hard work and the drive to promote the company's performance. This would not have been accomplished without the grace of Allah and your continuous support in overcoming all obstacles.

Several developments and accomplishments were realized in the past period. The financial results as of 31 December 2006 show exceptional growth in the face of the challenges that your company encountered locally and globally. Following is a brief of the most significant accomplishments and activities that the company has achieved:

- ADAM continued its outstanding performance in covering private placements through the execution of several vital projects. ADAM succeeded in covering all private placements issued by the company during the year and covered their capital in record time, including Stehwaz Holding Co., which succeeded in increasing its capital from KD 1 million to KD 250 million, as well as the Joint Saudi Kuwaiti Company capital of SR 600 million (KD 48 million).
- During 2006, ADAM funds were rated highly by Eurekahedge International out of 400 investment funds worldwide. ADAM was able to maintain its funds' distinguished performance despite the adversity it encountered in the regional markets. Those funds included Al Dar Real Estate Fund, Al Dar Finance Fund, Al Dar Securities Fund and Al Dar Fund of Funds, all of which recorded excellent results. The company successfully navigated challenges encountered by most of the GCC economies in various sectors during 2006.
- ADAM's most significant project was its role as a listing consultant for Kuwaiti Shareholding Companies (Closed) in its drive to be listed on the KSE. The company is still in the process of listing Kuwait Parks Company and Khabary Holding Co.

- The company played the role of an issuance arranger to increase the capital of Wethaq Takaful Insurance Co.
- ADAM was able to attract several investments and provide highly efficient services in the realm of customer investment portfolio management, posting remarkable returns as of the end of 2006.
- Financial results indicate that the company realized a net profit of KD 21.7 million as of the end of 2006. The company's earnings per share amounted to 57 fils, bearing in mind that ADAM's total revenues were KD 24.6 million and expenses amounted to KD 2.9 million. The company's total assets were KD 69.2 million.
- Total shareholders equity was KD 64.8 million, while the average return on assets was 31.3%, the average return on shareholders equity amounted to 33.5% and average return on capital was 57%.

Finally, I would like to take this opportunity to express my sincere gratitude to all those who have taken part in the development of the company, assuring you that we have even more projects and promising opportunities waiting to deliver rewarding returns for our shareholders. I would also like to thank the Investment Dar parent company for its continuous support to our management and to the company's shareholders and investors, Board of Directors, executive staff and company employees, praying to God Almighty to continue his blessing on our countries and to preserve and protect our beloved country under the patronage of His Highness the Amir of Kuwait, Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, his premier and the wise government.

Thank you for your cooperation and I wish you progress, prosperity and success as well as growth and development for our company.

Best Regards,



**Chairman**  
**Omar Sulaiman Al-Kazi**

# FINANCIAL ANALYSIS

## First: ADAM's Financial Position: Achievements in Figures

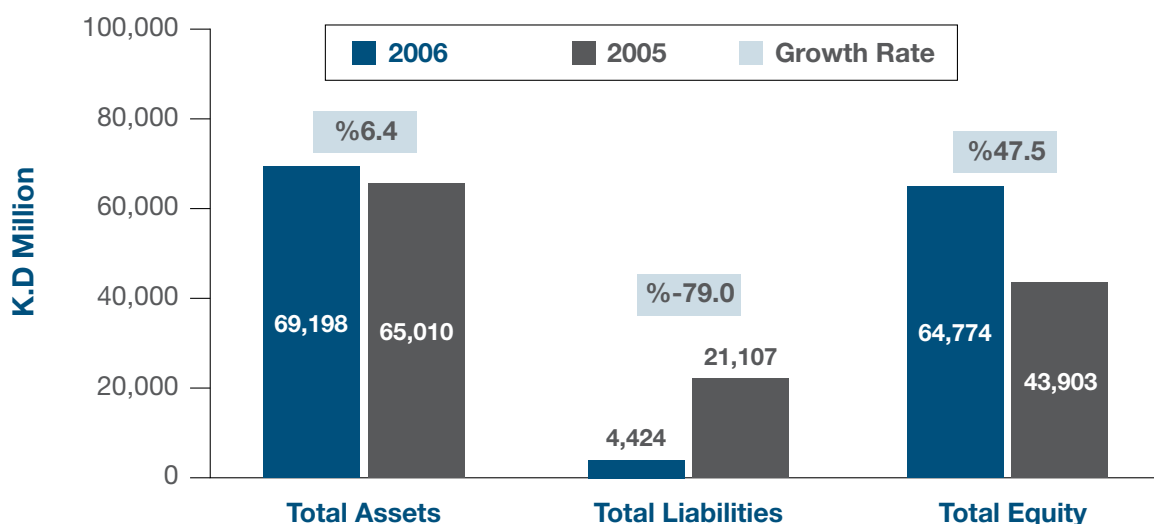
- During the second year of ADAM's incorporation, the company continued to pile on achievements, realizing them step by step by following clear operational policies. Taking advantage of the most promising investment opportunities available, with a focus on diversity, ADAM broadened its range of financial sources as well as raising its performance and profitability. The company also focused on its integral mission of raising the bar on the investment services it provides its customers, whose requirements and perspectives are carefully monitored and placed at the core of the company's business strategy.
- ADAM's growth is summed up in the following diagram with an outline of the main elements of the financial position at the end of 2006 and the growth percentage of each item compared with the preceding year 2005.

Table Amounts in KD Millions

Items	2005	2006	Change	% Growth	Effects
Total Assets Co.	65.010	69.198	▲ 4.187	▲ %6.4	Positive
Total Liabilities Co.	21.107	4.424	▼ -16.683	▲ %-79.0	Positive
Total Equity	43.903	64.774	▲ 20.870	▲ %47.5	Positive

- The next diagram shows the development of the company's financial position over the last two years.

### Development of Financial Center of ADAM Co. During 2006 & 2005



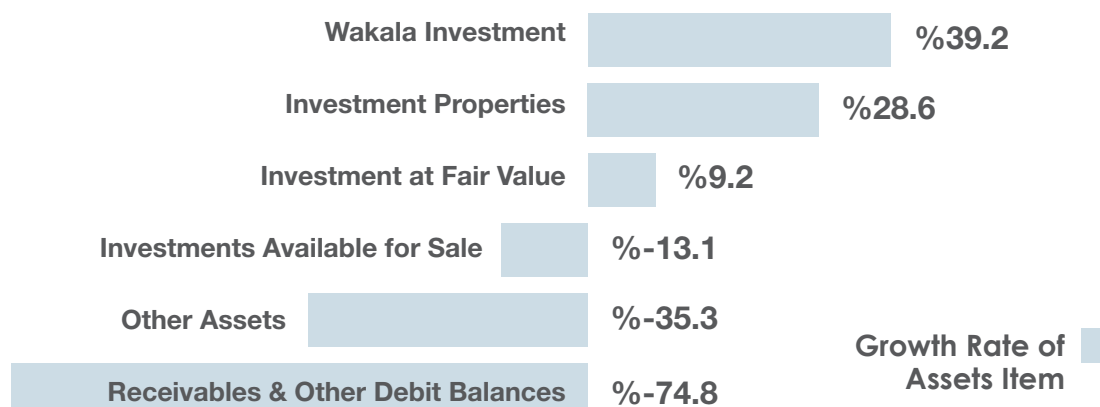
- The figures in the preceding table and diagram represent significant achievements realized by the company as follows:

- 1) Growth in the company's assets by 6.4% compared with 2005. This is a positive indicator of the success of the company's strategy of increasing its investments in the regional and local markets – under a strong policy of observing strict standards in the selection of investment opportunities – despite the adverse fluctuations in regional investment markets in 2006. The following diagram

## FINANCIAL ANALYSIS - CONTINUED

gives us a comprehensive picture of the changes to the company's assets and elements in 2006 compared with 2005.

### Growth Rate of Assets Company in the End of 2006



- 2) The reduction of the company's liabilities by 79.5% compared with 2005 is a good indicator of the company's available assets capability to meet all its obligations while maintaining maximum profitability and returns to its shareholders. It is worth mentioning that the reduction of the company's liabilities and obligations is positively reflected in the company's rates of liquidity and indebtedness. Some positive developments:
  - The company enjoys a good rate of comprehensive liquidity. The company's assets contributed in the coverage of more than 15.6 times the volume of its liabilities and obligations, giving shareholders confidence in the company's ability to meet any encumbrances or commitments which may arise in coming years.
  - The company's current liquidity is also high, up to 9.9 times, compared with about 2.4 times in 2005. This rate is one of the most significant indicators in measuring the company's solvency and the extent of its ability to fulfill its short-term obligations.
  - The company is capable of controlling its indebtedness, which has been reduced to nearly 6.8%, compared with 48.1% in 2005. This is an extremely good ratio, and it is one of the key standards by which shareholders measure the company's ability to maximize its freedom to utilize equity without incurring large liabilities and obligations.
- 3) Gross total equity and balances grew by more than KD 20,870, an increase of 47.5% compared with 2005. Consequently, the shareholders' proprietary percentage of the total assets of the company increased to about 93.6% at the end of 2006, compared with about 67.5% in 2005. This provides shareholders with more security and satisfaction in their investments.
- 4) In 2006, the company made a deep commitment to provide the best quality of investment services to its clients in the various fields available in the markets. During this year, the company developed new investment products for its clients that contributed to the development and enhancement of the company's financial position over 2005.

## Second: Company's Financial Performance Statement

### Tangible Results of a Deliberate Strategy

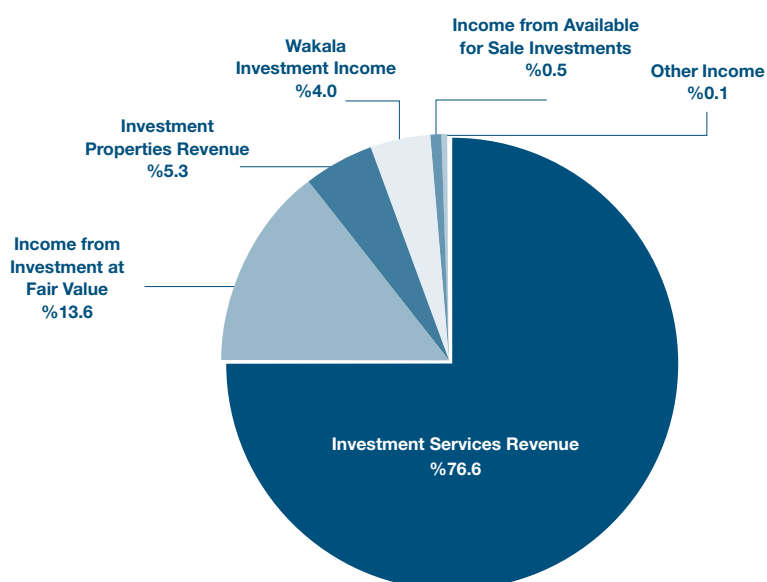
- In spite of the stagnancy in all stock exchanges in the region during 2006, ADAM strove to keep up with developments and exploit its capabilities and potential to the maximum. This is reflected in the company's financial results. ADAM adopted a carefully studied strategy, taking into account

circumstances, fluctuations and the achievements required to reach the targeted objectives. As a result, the management successfully overcame obstacles for a tangible improvement in the company's net profits. The following table shows the key items of the company's statement of income and variation ratio as of the end of 2006.

**Table Amounts in KD Millions**

Items	2005	2006	Change	% Growth	Effects
Net Profit	13.422	21.688	▲ 8.266	▲ %61.6	Positive
Total Revenues	14.960	24.623	▲ 9.703	▲ %65	Positive
Total Expenses	1.312	2.682	1.369	%104	Negative

The preceding table illustrates the positive growth ratio realized in the net profits and operational revenues of the company. The company's expenditure rates vary distinctively and reasonably due to operational expansion projects. The net profit margin index amounted to 88.1%, while the company's gross margin profit index was about 89.1%. The following chart shows the sources of the company's revenues as of the end of 2006.



### Third: Indexes of Proceeds & Profitability of the Company: Self-Explanatory Success

The company raised its proceeds indexes as of the end of 2006. The financial proceeds are considered better than those of 2005 when computed on an annual basis. This is a result of the company management's constant efforts to produce significant net profits for two consecutive years. The following diagrams show the main indicators related to ADAM's financial performance progress as of the end of 2006, compared with 2005.

Profitability Indexes	2005*	(2005 Yearly)	2006	% Growth
EPS	61.81	35.32	57.07	61.6%
B.V	219.52	219.52	170.46	-22.3%
ROA	36.1 %	20.6%	31.3 %	51.8%
ROE	53.5%	30.6%	33.5%	9.5%
ROC	117.4%	67.1%	57.1%	-15.0%

\* Note: Statement of Income for 2005 begins as of 6 April 2004 & goes through 31 December 2005. It covers 21 business months.





**Financial Statements and  
The Independent Auditor's Report**  
for the year ended 31 December 2006

## **Independent auditor's Report to the Shareholders**

**Al Dar Asset Management Company (ADAM) K.S.C. (Closed)  
State of Kuwait**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Al Dar Asset Management Company (ADAM) K.S.C. (Closed) (the Company) which comprise the balance sheet as of 31 December 2006, and the statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate 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 financial statements.

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

## Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **the Company** as of 31 December, 2006, 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.

## Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Company and the financial statements, together with the contents of the report of the Board of Directors relating to these 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 financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Company Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of provision of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2006 that might have had a material effect on the business of the 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 2006.



**Bader A. Al Wazzan**  
**Licence No. 62A**

Kuwait, 28 February 2007

## Balance Sheet as at 31 December 2006

(All amounts in Kuwaiti Dinars)

	Note	31 December 2006	31 December 2005
<b>Assets</b>			
Cash and cash equivalents	3	2,987,175	97,096
Wakala investments	4	17,306,042	12,432,274
Investments at fair value through profit and loss	5	31,302,768	28,656,350
Receivables and other debit balances	6	3,123,830	12,374,055
Due from parent company	20	6,596,872	-
Available for sale investments	7	1,925,526	2,215,632
Investment properties	8	5,865,124	4,561,771
Advance payments to purchase real estate		-	4,533,506
Other assets		90,267	139,608
<b>Total assets</b>		<b>69,197,604</b>	<b>65,010,292</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Wakala Payable	9	3,785,289	16,570,943
Payables and other credit balances	10	563,311	963,343
Due to parent company	20	-	3,553,519
Employees' end of service indemnity		75,039	18,995
<b>Total liabilities</b>		<b>4,423,639</b>	<b>21,106,800</b>
<b>Equity</b>			
Share capital	11	38,000,000	20,000,000
Statutory reserve	12	4,575,314	2,381,237
Voluntary reserve	13	4,575,314	2,381,237
Change in fair value reserve		328,599	415,432
Retained earnings		17,294,738	18,725,586
<b>Total equity</b>		<b>64,773,965</b>	<b>43,903,492</b>
<b>Total liabilities and equity</b>		<b>69,197,604</b>	<b>65,010,292</b>

The accompanying notes from (1) to (26) form an integral part of these financial statements



**Omar Soliman Al-Kadi**  
Chairman



**Mustafa E. Al-Saleh**  
Vice Chairman

## Statement of Income for the year ended 31 December 2006

(All amounts in Kuwaiti Dinars)

	Note	For the year ended 31 December 2006	For the period from 6 April 2004 till 31 December 2005
<b>Revenue</b>			
Wakala investments income		983,974	769,911
Income from investments at fair value through profit and loss	14	3,343,874	10,093,606
Income from available for sale investments	15	122,021	369,223
Share of results of associate		-	122,811
Gain from sale of share in associate		-	389,680
Investment services revenues	16	18,852,383	12,586,043
Investments properties revenue	17	1,303,353	1,772,524
Other income		17,242	5,821
		<u>24,622,847</u>	<u>26,109,619</u>
<b>Expenses and other charges</b>			
Finance cost		726,025	414,538
Wakala investments provision		353,184	-
Consultants & administrative service expenses		128,523	536,921
General and administrative expenses		758,140	630,465
Staff cost		716,207	634,767
Losses on foreign currency differences		-	80,557
Board of Directors' remuneration		55,000	110,000
Kuwait Foundation for Advancement of Sciences "KFAS"		197,467	214,311
		<u>2,934,546</u>	<u>2,621,559</u>
Net profit for the year / period		<u>21,688,301</u>	<u>23,488,060</u>
Earnings per share (fils)	18	<u>57</u>	<u>62</u>

The accompanying notes from (1) to (26) form an integral part of these financial statements

## Statement of Changes in Equity for the year ended 31 December 2006

(All amounts in Kuwaiti Dinars)

	Share capital (note 11)	Statutory reserve (note 12)	Voluntary reserve (note 13)	Change in fair value reserve	Retained earnings	Total
Subscription in share capital	20,000,000	-	-	-	-	20,000,000
Changes in fair value of available for sale investments	-	-	-	415,432	-	415,432
Net profit recognized directly in equity	-	-	-	415,432	-	415,432
Net profit for the period	-	-	-	-	23,488,060	23,488,060
Net recognized profit for the period	-	-	-	415,432	23,488,060	23,903,492
Transfer to reserves	-	2,381,237	2,381,237	-	(4,762,474)	-
<b>Balance as of 31 December 2005</b>	<b>20,000,000</b>	<b>2,381,237</b>	<b>2,381,237</b>	<b>415,432</b>	<b>18,725,586</b>	<b>43,903,492</b>
Balance as of 31 December 2005	20,000,000	2,381,237	2,381,237	415,432	18,725,586	43,903,492
Bonus shares	18,000,000	-	-	-	(18,000,000)	-
Transfer for Zakat 2005	-	-	(730,995)	-	-	(730,995)
Changes in fair value of available for sale investments	-	-	-	(45,006)	-	(45,006)
Transferred on sale of available for sale investments	-	-	-	(41,827)	-	(41,827)
Net loss recognized directly in equity	-	-	(730,995)	(86,833)	-	(817,828)
Net profit for the year	-	-	-	-	21,688,301	21,688,301
Net recognized profit for the year	-	-	(730,995)	(86,833)	21,688,301	20,870,473
Transfer to reserves	-	2,194,077	2,925,072	-	(5,119,149)	-
<b>Balance as of 31 December 2006</b>	<b>38,000,000</b>	<b>4,575,314</b>	<b>4,575,314</b>	<b>328,599</b>	<b>17,294,738</b>	<b>64,773,965</b>

The accompanying notes from (1) to (26) form an integral part of these financial statements

## Statement of Cash Flows for the year ended 31 December 2006

(All amounts in Kuwaiti Dinars)

	Note	31 December 2006	Period from 6 April 2004 till 31 December 2005
<b>Cash flows from operating activities</b>			
Net profit for the year/ period		21,688,301	23,488,060
<b>Adjustments:</b>			
Wakala investments income		(983,974)	(769,911)
Income from investments at fair value through profit & loss		(3,343,874)	(10,093,606)
Income from available for sale investments	15	(122,021)	(369,223)
Investment properties revenue	17	(1,303,353)	(1,772,524)
Share of results of associate		-	(122,811)
Gain from sale of share in associate		-	(389,680)
Finance cost		726,025	414,538
Wakala investments provision		353,184	-
Depreciation and amortisation		69,805	73,290
Employees' end of service indemnity		56,044	18,995
Operating profit before changes in working capital		17,140,137	10,477,128
Investments at fair value through profit and loss		299,738	(18,949,670)
Receivables and other debit balances		9,250,255	(12,374,055)
Payables and other credit balances		(400,032)	963,343
Due to/from parent company		(10,150,391)	3,553,519
Net cash generated from/ (used in) operating activities		17,140,137	(16,329,735)
<b>Cash flows from investing activities</b>			
Payment in debit Wakala investment		(45,657,250)	(12,298,000)
Proceeds from Wakala investments		40,443,657	182,223
Proceeds from Wakala investments revenue		970,615	453,414
Paid for purchase of available for sale investments		-	(2,387,000)
Proceeds from sale of available for sale investments		249,132	829,286
Dividends received		473,880	513,664
Payment to purchase investment properties		-	(11,568,638)
Proceeds from sale of investment properties		-	8,779,391
Advance payments to purchase real estate		4,533,506	(4,533,506)
Payment to purchase investment in associate		-	(785,129)
Proceeds from sale investment in associate		-	1,297,620
Payment to purchase property and equipment		(18,134)	(195,515)
Payment to purchase intangible assets		(2,330)	(17,383)
Net cash generated from/ (used in) investing activities		993,076	(19,729,573)
<b>Cash flows from financing activities</b>			
Proceeds from subscription in share capital		-	20,000,000
Paid for zakat 2005		(730,995)	-
(payment to)/ Proceeds from credit Wakala investment		(12,863,199)	16,398,000
Finance cost paid		(648,480)	(241,596)
Net cash (used in)/ generated from financing activities		(14,242,674)	36,156,404
Change in cash and cash equivalents		2,890,079	97,096
Cash and cash equivalents at the beginning of the year/ period		97,096	-
Cash and cash equivalents at end of the year/ period	3	2,987,175	97,096

The accompanying notes from (1) to (26) form an integral part of these financial statements

## Notes to the Financial Statements for the year ended 31 December 2006

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 1. Incorporation and activities

Al Dar Asset Management Company (ADAM) K.S.C. (Closed) "the Company" was incorporated in Kuwait, in accordance with the authenticated memorandum of association number 1778 Vol. 1 on 3 April 2004. The Company registered in the Commercial register on 6 April 2004 under number 99764. The Company was also registered as an investment Company with the Central Bank of Kuwait on 11 July 2004.

The Company's headquarters is domiciled at the state of Kuwait – Sharq area – Shuhada street – Raya Tower.

The Company's activities are represented in carrying out all investment activities, finance, management of funds, movable and non-movable rights, carrying out investment projects and other complementary or related activities in accordance with Noble Islamic Shariaa principles.

The Company is owned by 100% to the Investment Dar (K.S.C.C.) "Parent Company".

These financial statements were approved for issuance by the board of directors on 28 February 2007 and are subject to the approval of the shareholders in the General Assembly meeting.

### 2. Basis of preparation and significant accounting policies

#### 2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted for use by the Government of Kuwait for financial institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRS except for the IAS (39) requirements for general provision, which have been replaced by the Central Bank of Kuwait's requirements for a minimum general provision as described in note (2.3).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. These estimation may effect the financial assets and liabilities balances and the values disclosed as a proper financial assets and liabilities as at the financial statements date. It may also effect the recorded profit and losses during the year. These estimates are based on best available and present information, but the actual results may divert these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note (22).

Standards and interpretations have been issued but are not yet effective and mandatory, and have not yet been adopted by the Company:-

IFRS Financial Instruments: Disclosures

IFRS (1) Capital Disclosure

IFRIC (9) Derivatives

IFRIC (10) Interim Financial Reporting and Impairment

The application of IFRS, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks. The application of IFRIC 8,9,10 and 11 which will be effective for the year ending 31 December 2007 is not expected to have a material impact on the financial statements of the company.



## 2.2 Cash and cash equivalents

Cash on hand, time and demand deposits at banks and financial institutions whose original maturity do not exceed three months from the date of placement are classified as cash and cash equivalents at balance sheet date.

## 2.3 Financial assets

### Classification

The Company classifies its financial assets at the purchase date based on the purpose of acquisition of such investments. The company has classified its financial assets into "Financial assets at fair value through profit and loss", "Receivables" and "Available for sale assets".

#### Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset held for trading is classified in this category if acquired principally for the purpose of selling in the short term. The financial assets designated at fair value through profit and loss at inception are classified in this category when it was managed and evaluated on a fair value basis in accordance with a document risk management or investment strategy approved by the management.

#### Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides goods and services directly to a debtor with no intention of trading such receivables.

#### Available for sale assets

These are financial assets that are not included in any of the above categories and are principally, those acquired to be held, for an indefinite period of time which could be sold when liquidity is needed or upon changes in rates of profit.

### Recognition and De-recognition

Financial instruments are initially recognized when the company becomes a party in a contractual agreement on these financial instruments. Regular purchases and sales of financial instrument are recognised on purchase date – the date on which the Company commits to purchase and sell the asset. Financial instruments are derecognised when the rights to receive cash flows from the assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

### Measurement

Financial assets are initially recognised at fair value plus transaction costs for all assets not carried at fair value through profit and loss. Subsequently, financial assets carried at fair value.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss category are included in the income statement, unrealized gains and loss arising from changes in the fair value of financial assets classified as available-for-sale are recognized in equity except the losses resulting from impairment in value. When available for sale financial asset are sold, the accumulated change in fair value recognized in the equity are transferred to income statement.

The fair value of quoted financial assets are determined based on last bid prices, for the quoted financial assets, the fair value estimated by using other suitable valuation methods.

## Notes to the Financial Statements for the year ended 31 December 2006 (Continued)

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 2. Basis of preparation and significant accounting policies (Continued)

#### 2.3 Financial assets (Continued)

##### Impairment in value

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

A specific provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all such of receivables. The amount of the specific provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the effective rate of return. The amount of the provision is recognised in the income statement.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision of 2% of all Murabaha and Wakala receivables net of certain restricted categories of collateral and not subject to specific provision excluding some categories of guarantees that are under the instruction of Central Bank of Kuwait is provided.

#### 2.4 Investment properties

Properties not occupied by the Company and acquired for long-term leases or for capital appreciation in future are classified as investment properties.

Investment properties are stated at cost on acquisition and re-measured at fair value. Fair value is determined by an independent valuer on each balance sheet date. Gains or losses arising from change in fair value are recognised in the income statement.

#### 2.5 Land and real estate under development

Land and real estate under development are recognized at cost, which includes development costs. When the development process is completed, the land and real estate are classified either as investment property or land and real estate held for trading or as property for the Company's self-occupation as per management intention regarding the future use of these properties.

#### 2.6 Investment in associate

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights assumes existence of significant influence.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss if any).

The Company's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognised in equity. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

## 2.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Cost comprises of acquisition costs and all directly attributable costs of bringing the asset to working condition for its intended use.

Depreciation is calculated on the straight-line basis over the estimated useful lives, which are three years.

## 2.8 Intangible assets

### Goodwill

Goodwill represents the excess of fair value of net assets acquired from subsidiary, associate and joint projects over the acquisition cost at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses which is tested annually.

### Computer Software

Cost of acquisition of computer software are capitalized based on the actual incurred costs that are necessary to use these software. These assets are amortized over their expected useful lives of three years.

## 2.9 Impairment of non financial assets

Property and equipment and intangible assets are reviewed at the balance sheet date to indicate the impairment in value whenever the events or changes in circumstances indicate that the carrying amount may not be recoverable. Whenever the carrying amount exceeds the recoverable amount, the impairment losses are recognised in the income statement.

## 2.10 Wakala payables

Wakala payables are recognized initially at fair value, net of transactions costs incurred. Subsequently Wakala payables are carried at amortised cost. The difference between the received amount from Wakala payables and the paid amount are recognized as a finance cost over the time of the Wakala using the effective yield method.

## 2.11 Employees' end of service Indemnity

The Company is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at cessation of employment.

The defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of all employees on the balance sheet date. This basis is considered to be a reliable approximation of the present value of the Company's liability.

## Notes to the Financial Statements for the year ended 31 December 2006 (Continued)

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 2. Basis of preparation and significant accounting policies (Continued)

#### 2.12 Revenue recognition

Murabaha, Musawama, Wakala & Ijarah income are recognized on a time proportion basis using the effective rate of return on the outstanding balances for these transactions.

Dividend income is recognized when the right to receive dividends is established.

Revenue from sale of land and real estate is recognized on the completion of the sales contract.

Management fees are recognised when earned.

#### 2.13 Foreign currencies

The functional currency of the Company is the Kuwaiti Dinar. Foreign currency transactions are recorded in Kuwaiti Dinars at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to Kuwaiti Dinars at the closing rate prevailing at the year-end. Resultant gains or losses are taken to statement of income.

As for non – monetary assets which carried by fair value foreign exchange difference is considered in the statement of income.

#### 2.14 Zakat

Based on the recommendation of the Shari'ah Supervisory Board, the Company started to calculate Zakat based on Weaa Al – Zakat which consists of assets and liabilities that are subject to zakat. Zakat is deducted from the voluntary reserve.

#### 2.15 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company and accordingly are not included in these financial statements.

### 3. Cash and cash equivalents

	<u>2006</u>	<u>2005</u>
Current accounts at banks	2,740,213	5,721
Saving accounts	246,962	56,375
Cash on hand	-	35,000
	<u>2,987,175</u>	<u>97,096</u>

### 4. Wakala investments

This balance represents the amounts deposited in Islamic institutions, include an amount of KD 15,986,368 (KD 10,905,205 as of 31 December 2005) with the Parent Company (Note 20).

The average effective rate of return as of 31 December 2006 is 8.2% (8.6% as of 31 December 2005).

**5. Investments at fair value through profit and loss**

	<u>2006</u>	<u>2005</u>
Held for trading investments	5,073,360	6,909,281
Investments designated at fair value through statement of income at inception	<u>26,229,408</u>	<u>21,747,069</u>
	<u>31,302,768</u>	<u>28,656,350</u>

Investments at fair value through profit and loss includes:

Investments in local shares - quoted	7,005,587	11,030,960
Investments in local shares - unquoted	11,359,260	4,883,260
Investments in foreign shares - unquoted	634,977	662,340
Investments in local funds	<u>12,302,944</u>	<u>12,079,790</u>
	<u>31,302,768</u>	<u>28,656,350</u>

5.1 Investments in quoted local shares include investments amounted of KD 1,842,750 represents investment in the Parent Company's shares as of 31 December 2006 (KD 1,760,000 as of 31 December 2005).

5.2 Investments in unquoted local shares include investments amounted of KD 157,500 as of 31 December 2006 (KD 2,529,226 as of 31 December 2005) represents investments by the parent Company's name and there are letters of assignment from the Parent Company to the company by the ownership of these investments.

5.3 Investments in unquoted local shares included investments amounted of KD 4,116,000 evaluated by reference to the latest deals on those investments with others in the investees companies or similar companies (Note 14).

**6. Receivables and other debit balances**

	<u>2006</u>	<u>2005</u>
Accrued commissions for sale and marketing	1,387,667	-
Accrued subscription fees	-	7,544,975
Accrued portfolio and funds management fees	893,832	1,465,711
Kuwait Clearing Company	734,151	2,917,027
Other debit balances	<u>108,180</u>	<u>446,342</u>
	<u>3,123,830</u>	<u>12,374,055</u>

**7. Available for sale investments**

This item represents local quoted shares with an amount of KD 1,925,526 as of 31 December 2006 (KD 2,215,631, as of 31 December 2005).

## Notes to the Financial Statements for the year ended 31 December 2006 (Continued)

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 8. Investment properties

The following is the investment properties movement during the year/ period ended in 31 December

	<u>2006</u>	<u>2005</u>
Balance in the beginning of the year/period	4,561,771	11,568,638
<b>Less</b>		
Sale during the year/ period	-	(8,485,933)
<b>Add</b>		
Change in fair value of investments properties	1,303,353	1,479,126
Balance in the end of the year /period	<u>5,865,124</u>	<u>4,561,771</u>

This balance represents in fair market value of plot of land located in GCC. Which determined by independent valuer as of 31 December 2006.

### 9. Wakala payable

This item represent in amounts received from other to invest it as Wakala investment with right to contract with self. The weighted average rate of return for these Wakala are 8.58% as of 31 December 2006 (8.50% as of 31 December 2005).

### 10. Payables and other credit balances

	<u>2006</u>	<u>2005</u>
Kuwait Foundation for Advancement of Science "KFAS"	197,467	214,311
Board of Directors' remuneration	55,000	110,000
Other credit balances	310,844	639,032
	<u>563,311</u>	<u>963,343</u>

### 11. Share capital

The General Assembly meeting of the shareholders of the Company held on 23 April 2006 approved the proposal of the Board of Directors of the Company to increase the Company's capital by issuing bonus shares 90% from shareholders capital at the date of the General Assembly.

Accordingly, the issued and paid up capital amounted KD 38,000,000 comprising of 380,000,000 shares of 100 fils each as of 31 December 2006 (KD 20,000,000 comprising of 200,000,000 shares 100 fils each as of 31 December 2005).

**12. Statutory reserve**

As required by the Commercial Companies Law and the Company's Articles of Association, 10% of the net profit for the year before Kuwait Foundation for Advancement of Science share and Board of Directors' remuneration is required to be transferred to statutory reserve. The general assembly may resolve to discontinue such annual transfers when the statutory reserve exceed half of the share capital.

This reserve is not available for distribution on the shareholders but may be used to secure appropriation of profit to shareholders up to 5% of paid up capital in such years where the profit of the company do not allow such percentage of appropriation. When the balance of the reserve exceeds half of share capital, the general assembly is permitted to utilise amounts in excess of half of the share capital in aspects seen appropriate for the benefits of the Company and its shareholders.

**13. Voluntary reserve**

In accordance with the Company's Articles of Association, a percentage of Company's net profit for the year as proposed by the Board of Directors and approved by the General Assembly is transferred to voluntary reserve.

Such annual transfer may be discontinued by resolution of the General Assembly based on the proposal from the Board of Directors. The Board of Directors proposed a transfer amount of KD 2,925,072 of net profit for the year ended 31 December 2006 to voluntary reserve.

**14. Income from investments at fair value through profit and loss**

	<u>2006</u>	<u>2005</u>
Realized gain	2,323,887	3,565,100
Changes in fair value	560,669	6,141,579
Cash dividends	397,718	386,927
Stock dividends	61,600	-
	<u>3,343,874</u>	<u>10,093,606</u>

Changes in fair value include amount of KD 1,214,000 represents change in unquoted shares its fair value determined by reference to the latest deals on those investments (note5).

**15. Income from available for sale investments**

	<u>2006</u>	<u>2005</u>
Gain on sale	45,859	242,486
Cash dividends	76,162	126,737
	<u>122,021</u>	<u>369,223</u>

## Notes to the Financial Statements for the year ended 31 December 2006 (Continued)

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 16. Investment services revenue

	<u>2006</u>	<u>2005</u>
Consultancies services and establishment fees	496,005	165,203
Commission from sale of investments	15,433,417	-
Underwriting fees	-	8,265,975
Funds management, real estate and financial portfolios fees	2,827,696	4,090,180
Subscription Fees	95,265	64,685
	<u>18,852,383</u>	<u>12,586,043</u>

### 17. Investment properties revenue

	<u>2006</u>	<u>2005</u>
Change in fair value	1,303,353	1,479,126
Gain on sale	-	293,398
	<u>1,303,353</u>	<u>1,772,524</u>

### 18. Earnings per share

Earning per share is calculated based on the net profit for the year/ period and the weighted average number of ordinary outstanding shares during the year/ period. The calculation of earning per share is as follows:

	<u>2006</u>	<u>2005</u>
Net profit for the year/ period	21,688,301	23,488,060
Number of shares (share)	380,000,000	380,000,000
Earnings per share (Fils)	<u>57</u>	<u>62</u>

Issued bonus shares take in consideration (note 11) when calculate weighted average number of outstanding and issued shares for the year ended 31 December 2006 and the comparative period 31 December 2005.

### 19. Dividends

On 28 February 2007, the Board of Directors proposed the dividends of bonus share with an amount of 120,000,000 shares with a face value of 100 fils per share with an amount of KD 12,000,000 for the profit of year 2006 with a percentage of 31.58% approximately of the capital.

This proposed subject to General Assembly meeting approved. (Shareholders' General Assembly meeting has approved the dividends of bonus shares with 90% of the paid up share capital for the profit of the period ended 31 December 2005).



## 20. Related parties' transactions

Related parties represent company's shareholders who have represented in the board, members of the Board of Directors and Senior Management.

In the normal course of business and by the approval of Company's management, the Company entered into transactions with related parties during the year ended 31 December 2006.

The related parties transactions and balances are as follows:

	<b>31 December 2006</b>	<b>Period from 6 April 2005 till 31 December 2005</b>
Purchase of associate company	-	785,129
Purchase of available for sale investments	-	2,387,800
Purchase of investment properties	-	9,947,213
Purchase of land under development	-	2,279,437
Sale of land under development	8,294,067	-
Wakala investments	15,986,368	35,171,150
Income from Wakala investments	838,185	505,946
Establishment fees	184,500	-
Subscription fees	-	550,000
Commissions for sale investments	15,433,417	-
Investment management fees	575,059	189,015
Purchase investments at fair value	-	5,586,881
Wakala and Murabaha payable	3,226,962	4,300,000
Finance cost	27,515	48,060
Board of Directors remuneration	55,000	110,000
Key management compensation	121,322	97,531

The balance due to the Parent Company KD 6,596,872 as of 31 December 2006 (KD 3,553,519 as of 31 December 2005 – credit balance).

Also, the company manage investment portfolios (note 25) for related parties amounted of KD 567,315,167 as of 31 December 2006 (KD 429,184,084 as of 31 December 2005).

## Notes to the Financial Statements for the year ended 31 December 2006 (Continued)

(All amounts in Kuwaiti Dinars unless otherwise stated)

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### 21. Financial Risk Management

In the ordinary course of business, the Company is exposed to several financial risks. These risks are managed based on the approved policies from the Board of Directors.

#### 21.1 Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation on maturity date and cause the other party to incur a financial loss. Wakala, cash & cash equivalents are considered the most of the assets exposed to credit risk. The company mitigate this risk by dealing with strong credit rating banks & financial institutions.

#### 21.2 Liquidity risk

Liquidity risk is the risk that the Company may unable to meet its financial commitments when they fall due. The management mitigates this risk by diversifying its finance sources and assets managements while taking into consideration the retention of sufficient balance of cash and other high liquid items.

The following table, summarize the maturities of assets and liabilities for the company. The maturities of assets and liabilities were determined based on the period from the balance sheet date to the contractual maturity date.

The maturity analysis of financial assets and liabilities as of 31 December 2006 is as follows:

	Kuwaiti Dinars				Total
	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	
<b>Assets</b>					
Cash and cash equivalent	2,987,175	-	-	-	2,987,175
Wakala investments	13,847,530	3,458,512	-	-	17,306,042
Investments at fair value through profit and loss	-	5,073,360	26,229,408	-	31,302,768
Receivables and other debit balances	734,152	2,389,678	-	-	3,123,830
Due from parent company	-	6,596,872	-	-	6,596,872
Investments available for sale	-	1,925,526	-	-	1,925,526
Investment properties	-	5,865,124	-	-	5,865,124
Other assets	-	-	90,267	-	90,267
	<u>17,568,857</u>	<u>25,309,072</u>	<u>26,319,675</u>	<u>-</u>	<u>69,197,604</u>
<b>Liabilities</b>					
Payables and other credit balances	9,269	554,042	-	-	563,311
Wakala payables	-	3,785,289	-	-	3,785,289
Employee's end of service indemnity	-	-	-	75,039	75,039
	<u>9,269</u>	<u>4,339,331</u>	<u>-</u>	<u>75,039</u>	<u>4,423,639</u>
Net liquidity gap	<u>17,559,586</u>	<u>20,969,741</u>	<u>26,319,675</u>	<u>(75,039)</u>	<u>64,773,963</u>

## Notes to the Financial Statements for the year ended 31 December 2006 (Continued)

(All amounts in Kuwaiti Dinars unless otherwise stated)

The maturity analysis of financial assets and liabilities as of 31 December 2005 is as follows:

	Kuwaiti Dinars				Total
	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	
<b>Assets</b>					
Cash and cash equivalent	97,096	-	-	-	97,096
Wakala investments	-	3,928,778	8,503,496	-	12,432,274
Investments at fair value through profit and loss	6,909,281	-	21,747,069	-	28,656,350
Receivables and other debit balances	11,893,468	480,587	-	-	12,374,055
Investments available for sale	-	-	2,215,632	-	2,215,632
Investment properties	-	-	4,561,771	-	4,561,771
Advance payment to purchase real estate	-	-	4,533,506	-	4,533,506
Other assets	-	-	139,608	-	139,608
	<u>18,899,845</u>	<u>4,409,365</u>	<u>41,701,082</u>	<u>-</u>	<u>65,010,292</u>
<b>Liabilities</b>					
Payables & other credit balances	-	963,343	-	-	963,343
Wakala payables	-	5,065,404	11,505,539	-	16,570,943
Due to the parent company	-	3,553,519	-	-	3,553,519
Employee's end of service indemnity	-	-	-	18,995	18,995
	<u>-</u>	<u>9,582,266</u>	<u>11,505,539</u>	<u>18,995</u>	<u>21,106,800</u>
Net liquidity gap	<u>18,899,845</u>	<u>(5,172,901)</u>	<u>30,195,543</u>	<u>(18,995)</u>	<u>43,903,492</u>

### 21.3 Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to a financial instrument, or the Company issuing such instrument or by other factor affecting the market.

#### 21.3.1 Foreign currency risk

Represented in the risk of fluctuations in foreign exchange rates that may adversely affect the cash flows of the company or values of assets and liabilities in foreign currencies. Most of the company's transaction in local currency, so it's not exposed to this risk.

The company manages this risk through concentration of its business transactions in the local currency & monitoring on a periodic basis the exchange rate.

### 21.3.2 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. The estimated fair value of financial instruments carried at amortised cost approximates their book values.

## 22. Significant estimates and judgments

In the process of applying the company's accounting policies, management has made the following judgements, apart from those involving estimations, which have most significant in the amounts of assets and liabilities.

### Judgements

#### *Classification of financial instruments*

Management has to decide on acquisition of a financial instrument whether it should be classified as carried at fair value through profit and loss and available for sale.

In making that judgment the Company considers the primary purpose for which it is acquired and how it intends to manage and report its performance.

Such judgments determines whether it is subsequently measured at cost or at fair value and if the change in fair value of instruments are reported in the income statement or directly in equity. The company classified investments as trading investments when it acquired principally for the purpose of selling in the short term.

All other investments are classified as available for sale investments.

#### *Evidence of impairment in investments*

The company treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

At each balance sheet date, management determines whether there is an impairment of available for sale investments values and property and equipment.

The determination of the impairment requires considerable judgement and involves evaluating factors including inventory and market conditions.

### Estimation uncertainty

#### *Fair value of unquoted equity investments*

Valuation techniques of unquoted equity investments is in which estimates are used representing the expected cash flows discount rates, return trades, adjusted local market prices, credit risks, related cost and other valuation techniques leased by the practices generally.

The company calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

## Notes to the Financial Statements for the year ended 31 December 2006 (Continued)

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 23. Geographical distribution of assets and liabilities

	31 December 2006		31 December 2005	
	Assets	Liabilities	Assets	Liabilities
Kuwait	62,697,499	4,423,639	55,509,789	21,106,800
GCC	6,119,860		9,095,277	-
USA	-	-	59,002	-
Europe	380,245	-	346,224	-
	<u>69,197,604</u>	<u>4,423,639</u>	<u>65,010,292</u>	<u>21,106,800</u>

### 24. Contingent liabilities and commitments

	31 December 2006	31 December 2005
Unpaid capital commitments for contracts to develop lands	-	10,517,656

### 25. Off balance sheet items

The Company manages portfolios and financial funds for others and the balances of these portfolios are not included in the balance sheet of the Company. The net assets of these managed portfolios amounted to KD 853,320,836 as of 31 December 2006 (KD 567,037,829 as of 31 December 2005). Included amounted to KD 567,315,167 to related parties (KD 429,184,084 as of 31 December 2005).

### 26. Zakat

Based on the Board of Directors, the Company deducts the Zakat from voluntary reserve for the year ended 31 December 2006.

This proposal is subject to the approval of the General Assembly of the shareholders (The General Assembly has approved an amount of KD 730,995 for the period ended 31 December 2005).