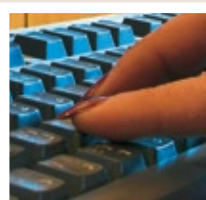
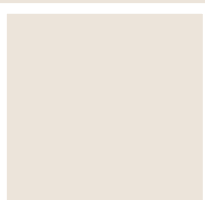
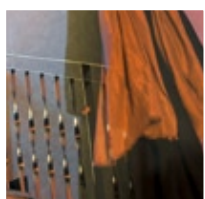
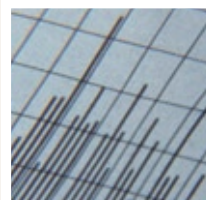
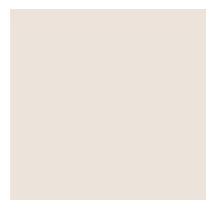
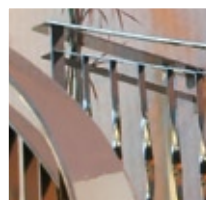
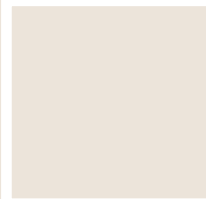
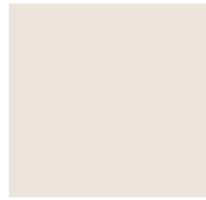


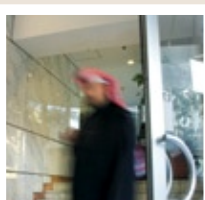


A member of the KIPCO Group



# Experience to Lead

Consolidated Financial Statements 2006



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3	Consolidated Balance Sheet
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# Independent Auditors' Report

To the Shareholders of KIPCO Assets Management Company K.S.C. (Closed)

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

## Management's Responsibility for the consolidated Financial Statements

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

## Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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' judgements, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group'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 reasonable basis for our opinion.

## Opinion

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

## Report on Other Legal and Regulatory Matters

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

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



**Waleed A. Al Osaimi**  
Licence No. 68-a  
of Ernst & Young



**Ali Owaid Rukhaeyes**  
Licence No. 72a  
Member of the International Group of Accounting Firms

27 February 2007, Kuwait



# Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 KD	2005 KD
<b>ASSETS</b>			
Bank balances and cash		3,218,720	3,123,389
Investments at fair value through income statement	3	10,688,141	5,632,237
Investments available for sale	4	66,587,216	65,934,822
Investments in associates	5	46,897,511	38,351,411
Investment property	6	471,368	-
Loans and advances	7	3,303,025	4,843,000
Other assets	8	9,030,606	10,229,954
<b>Total assets</b>		<b>140,196,587</b>	<b>128,184,813</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Loans	9	31,047,960	20,090,700
Bonds	10	20,000,000	20,000,000
Other liabilities	11	4,129,219	5,599,834
<b>Total liabilities</b>		<b>55,177,179</b>	<b>45,690,534</b>
<b>Equity</b>			
Share capital	12	24,727,000	22,235,000
Share premium	13	7,900,945	7,576,500
Treasury shares	14	(1,214,703)	-
Statutory reserve	15	6,709,987	5,130,435
Voluntary reserve	16	6,709,987	5,130,435
Treasury shares reserve	14	1,271,150	1,272,051
Cumulative changes in fair values		5,058,279	10,448,787
Foreign currency translation reserve		(48,369)	(387,619)
Employees share option reserve	17	1,720,758	452,909
Retained earnings		32,047,718	30,521,300
<b>Equity attributable to equity holders of the parent</b>		<b>84,882,752</b>	<b>82,379,798</b>
<b>Minority Interest</b>		<b>136,656</b>	<b>114,481</b>
<b>Total Equity</b>		<b>85,019,408</b>	<b>82,494,279</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>140,196,587</b>	<b>128,184,813</b>



Masaud Hayat  
(Chairman)



Saudoun A. Ali  
(General Manager)

The attached notes 1 to 31 form part of these consolidated financial statements.

# Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 KD	2005 KD
Management fees		5,924,511	9,182,902
Brokerage		296,002	348,328
Advisory fees		6,518,251	2,263,213
Share of results of associates	5	4,559,514	6,209,268
Dividend income		1,602,351	5,194,526
Interest income		1,202,738	1,119,989
Gain on sale of investments available for sale		5,386,951	6,221,167
Gain on sale of investments at fair value through income statement		218,786	2,574,341
Unrealised (loss) gain on investments at fair value through income statement		(160,979)	215,549
Foreign exchange gain (loss)		16,104	(11,662)
Gain on sale of part investment in associates	5	870,045	1,210,967
Other income		297,593	229,018
<b>Total Revenues</b>		<b>26,731,867</b>	<b>34,757,606</b>
Administration expenses		7,488,564	6,167,980
Finance costs		3,005,205	2,576,679
Impairment losses on investments available for sale		-	12,199
(Release of) charge for provision for doubtful debts and loans		(56,661)	285,568
<b>Total Expenses</b>		<b>10,437,108</b>	<b>9,054,088</b>
<b>PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), DIRECTORS' REMUNERATION AND NATIONAL LABOUR SUPPORT TAX</b>		<b>16,294,759</b>	<b>25,715,180</b>
Contribution to KFAS		(108,071)	(176,267)
Directors' remuneration		(50,000)	(50,000)
National Labour Support Tax (NLST)		(318,991)	(447,175)
<b>Profit for the Year</b>	18	<b>15,817,697</b>	<b>25,041,738</b>
<b>Attributable to:</b>			
Equity holders of the parent		15,795,522	25,040,257
Minority interest		22,175	1,481
<b>PROFIT FOR THE YEAR</b>		<b>15,817,697</b>	<b>25,041,738</b>
<b>BASIC EARNINGS PER SHARE</b>	19	<b>64.2 fils</b>	<b>103.6 fils</b>
<b>DILUTED EARNINGS PER SHARE</b>	19	<b>63.8 fils</b>	<b>103.1 fils</b>

The attached notes 1 to 31 form part of these consolidated financial statements.

# Consolidated Cash Flow Statement

Year ended 31 December 2006

	2006 KD	2005 KD
<b>OPERATING ACTIVITIES</b>		
Profit for the year attributable to equity holders of the parent	15,795,522	25,040,257
Adjustments for:		
Share of results of associates	(4,559,514)	(6,209,268)
Unrealised loss (gain) on investments at fair value through statement of income	160,979	(215,549)
Gain on sale of part investment in an associate	(870,045)	(1,210,967)
Gain on sale of investments available for sale	(5,386,951)	(6,221,167)
Impairment losses on investments available for sale	-	12,199
(Release of) charge for provision for doubtful debts and loans	(56,661)	285,568
Provision for employee stock option plan (ESOP)	1,267,849	452,909
Provision for employees' end of service benefits	435,534	501,123
Dividend income	(1,602,351)	(5,194,526)
Interest income	(1,202,738)	(1,119,989)
Finance costs	3,005,205	2,576,679
	6,999,657	8,697,269
Change in operating assets and liabilities:		
Investments at fair value through income statement	(5,216,883)	1,807,556
Loans and advances	1,535,765	(1,937,400)
Other assets	1,322,467	(1,094,462)
Other liabilities	(1,111,469)	1,198,593
Cash from operations	3,529,537	8,671,556
Employees' end of service benefits paid	(768,601)	(105,835)
Net cash from operating activities	2,760,936	8,565,721
<b>INVESTING ACTIVITIES</b>		
Purchase of investments available for sale	(33,186,868)	(31,266,781)
Investment in associates	(7,402,714)	(9,358,194)
Purchase of Investment property	(471,368)	-
Proceeds from sale of investment available for sale	31,672,741	25,209,530
Proceeds from sale of part investment in an associate	5,445,791	2,512,605
Dividend received from associates	37,808	1,648,979
Dividend received	1,602,351	5,194,526
Interest income received	1,197,662	1,414,221
Net cash used in investing activities	(1,104,597)	(4,645,114)
<b>FINANCING ACTIVITIES</b>		
Issue of share capital	594,445	167,500
Proceeds from sale of treasury shares	182,244	4,961,045
Purchase of treasury shares	(1,397,848)	(410,517)
New loans	10,957,260	964,576
Dividends paid	(8,888,000)	(5,350,500)
Finance costs paid	(3,031,284)	(2,461,572)
Minority Interest	22,175	110,481
Net cash used in financing activities	(1,561,008)	(2,018,987)
<b>INCREASE IN BANK BALANCES AND CASH</b>	<b>95,331</b>	<b>1,901,620</b>
Bank balances and cash at the beginning of the year	3,123,389	1,221,769
<b>BANK BALANCES AND CASH AT THE END OF THE YEAR</b>	<b>3,218,720</b>	<b>3,123,389</b>

The attached notes 1 to 31 form part of these consolidated financial statements.

# Statement of Changes in Equity

Year ended 31 December 2006

	Attributable to equity holders of the parent										Minority Interest	Total Equity	
	Share capital	Share premium	Treasury Shares	Statutory reserve	Voluntary reserve	Treasury Shares reserve	Cumulative changes in fair values	Foreign currency translation reserve	Employees share option reserve	Retained earnings			Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	
Balance at 31 December 2005	22,235,000	7,576,500	-	5,130,435	5,130,435	1,272,051	10,448,787	(387,619)	452,909	30,521,300	82,379,798	114,481	82,494,279
Change in equity of associates (Note 5)	-	-	-	-	-	-	858,176	-	-	-	858,176	-	858,176
Change in fair value of investments available for sale	-	-	-	-	-	-	(1,933,689)	-	-	-	(1,933,689)	-	(1,933,689)
Effect of sale of investments available for sale	-	-	-	-	-	-	(4,314,995)	-	-	-	(4,314,995)	-	(4,314,995)
Foreign currency translation adjustments (Note 5)	-	-	-	-	-	-	339,250	-	-	-	339,250	-	339,250
Loss on sale of treasury shares	-	-	-	-	-	(901)	-	-	-	-	(901)	-	(901)
Employees' share based payment (Note 17)	-	-	-	-	-	-	-	-	1,267,849	-	1,267,849	-	1,267,849
(Expenses) income recognised directly in equity	-	-	-	-	-	(901)	(5,390,508)	339,250	1,267,849	(3,784,350)	(3,784,350)	-	(3,784,350)
Profit for the year	-	-	-	-	-	-	-	-	-	15,795,522	15,795,522	22,175	15,817,697
Total (expenses) income for the year	-	-	-	-	-	(901)	(5,390,508)	339,250	1,267,849	15,795,522	12,011,212	22,175	12,033,387
Issue of share capital (Note 12)	270,000	324,445	-	-	-	-	-	-	-	-	594,445	-	594,445
Transfer to reserves	-	-	-	1,579,552	1,579,552	-	-	-	-	(3,163,112)	-	-	-
Issue of Bonus Shares (Note 12&20)	2,222,000	-	-	-	-	-	-	-	-	(2,222,000)	-	-	-
Dividends paid for 2005 (Note 20)	-	-	-	-	-	-	-	-	-	(8,888,000)	(8,888,000)	-	(8,888,000)
Purchase of treasury shares	-	-	(1,397,848)	-	-	-	-	-	-	-	(1,397,848)	-	(1,397,848)
Sale of treasury shares	-	-	183,145	-	-	-	-	-	-	-	183,145	-	183,145
<b>Balance at 31 December 2006</b>	<b>24,727,000</b>	<b>7,900,945</b>	<b>(1,214,703)</b>	<b>6,709,987</b>	<b>6,709,987</b>	<b>1,271,150</b>	<b>5,058,279</b>	<b>(48,369)</b>	<b>1,720,758</b>	<b>32,047,718</b>	<b>84,882,752</b>	<b>136,656</b>	<b>85,019,408</b>

# Statement of Changes in Equity Continued

Year ended 31 December 2006

Balance at 31 December 2004	22,110,000	7,534,000	(3,278,477)	2,558,917	2,558,917	2,558,917	2,558,917	(318,017)	2,234,150	48,906,921	48,906,921	4,000	48,910,921
Change in equity of associates (Note 5)	-	-	-	-	-	-	-	-	1,924,785	1,924,785	1,924,785	-	1,924,785
Change in fair value of investments available for sale	-	-	-	-	-	-	-	-	6,564,364	6,564,364	6,564,364	-	6,564,364
Effect of sale of investments available for sale	-	-	-	-	-	-	-	-	(274,512)	192,636	192,636	-	192,636
Foreign currency translation adjustments (Note 5)	-	-	-	-	-	-	-	(69,602)	-	(69,602)	(69,602)	-	(69,602)
Gain on sale of treasury shares	-	-	-	-	-	-	-	-	1,272,051	1,272,051	1,272,051	-	1,272,051
Employees' share based payment (Note 17)	-	-	-	-	-	-	-	-	-	452,909	452,909	-	452,909
Income (expenses) recognised directly in equity	-	-	-	-	-	-	-	(69,602)	8,214,637	10,337,143	10,337,143	-	10,337,143
Profit for the year	-	-	-	-	-	-	-	-	-	25,040,257	25,040,257	1,481	25,041,738
Total income (expenses) for the year	-	-	-	-	-	-	-	(69,602)	8,214,637	35,377,400	35,377,400	1,481	35,378,881
Issue of share capital	125,000	42,500	-	-	-	-	-	-	-	167,500	167,500	-	167,500
Net movement in minority interest	-	-	-	-	-	-	-	-	-	-	-	109,000	109,000
Transfer to reserves	-	-	-	-	-	-	-	-	-	(5,143,036)	(5,143,036)	-	(5,143,036)
Dividends paid for 2004	-	-	-	-	-	-	-	-	-	(5,350,500)	(5,350,500)	-	(5,350,500)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(410,517)	(410,517)	-	(410,517)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	3,688,994	3,688,994	-	3,688,994
Balance at 31 December 2005	22,235,000	7,576,500	-	5,130,435	5,130,435	5,130,435	5,130,435	(387,619)	10,448,787	82,379,798	82,379,798	114,481	82,494,279

The attached notes 1 to 31 form part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

31 December 2006

## 1 INCORPORATION AND ACTIVITIES

These consolidated financial statements of Kipco Asset Management Company K.S.C. (Closed) (the “parent company”) and its subsidiaries (the “group”) were authorised for issue by the Board of Directors on 27 February 2007 and are issued subject to approval of the ordinary general assembly of the parent company’s shareholders.

The parent company is a Kuwaiti closed shareholding company registered and incorporated in Kuwait on 28 September 1998 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The parent company is registered with the Central Bank of Kuwait as an investment company and is listed on the Kuwait Stock Exchange.

The parent company’s registered head office is at Sharq, Al Shaheed Tower, Khalid Bin Al-Waleed Street, Kuwait City, P.O. Box 28873, Safat 13149, Kuwait.

The parent company’s main activities are to invest in real estate, industrial and agricultural and other sectors, to establish specialized companies and manage third parties funds and real estate portfolios, to act as underwriters, subscription agents and investment trustees, to finance and intermediate in international trade, to provide loans and trade in foreign exchange and precious metal markets, to provide consultancy and undertake technical and economic feasibility studies, to establish and manage funds, and to do all activities that help to develop and advance the capabilities of the financial market.

The major shareholder of the parent company is United Gulf Bank B.S.C. (E.C.) and the ultimate parent company is Kuwait Projects Company Holding K.S.C. which is listed on the Kuwait Stock Exchange.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation

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

The consolidated financial statements are presented in Kuwaiti Dinars.

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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year.

### International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee Interpretation (IFRIC) Interpretations issued but not adopted

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

IFRS 7 Financial Instruments: Disclosures

IFRIC Interpretation 11 IFRS 2 - Group and Treasury Share Transactions

IFRS 8 Operating Segments

The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended additional disclosures relating to financial instruments and associated risks. The application of IFRIC 11 and IFRS 8, which will be effective for the year ending 31 December 2007 and 31 December 2009 respectively, is not expected to have material impact on the consolidated financial statements of the group.

### Principles of consolidation

These consolidated financial statements comprise the financial statements of the parent company and its subsidiaries (the “group”) as at 31 December each year. Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

# Notes to the Consolidated Financial Statements Continued

31 December 2006

## 2 SIGNIFICANT ACCOUNTING POLICIES continued

### Principles of consolidation continued

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using uniform accounting policies for like transactions and other events in similar circumstances. Subsidiaries are fully consolidated from the date of acquisition, being the date on the group obtains control, and continues until the date that such control ceases.

Minority interest represents the portion of profit and loss and net assets not held by the group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet separately from equity attributable to the equity holders of the parent company. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognised directly in the income statement in the year of acquisition.

Significant inter-company balances and transactions, including inter-company profits and unrealised profits and losses are eliminated on consolidation.

The principal subsidiaries of the group are as follows:

<b>Name of company</b>	<b>Country of incorporation</b>	<b>Effective equity interest as at 31 December 2006</b>	<b>Effective equity interest as at 31 December 2005</b>
Al-Ahlia Arabian Markets Company K.S.C. (Closed) <i>(Its principal activity is managing supermarkets)</i>	Kuwait	96%	96%
First Arabian Markets Company K.S.C. (Closed) <i>(Its principal activity in managing super markets and related activities)</i>	Kuwait	96%	96%
KAMCO Real Estate Company SPC <i>(Its principal activity is Investment in real estates)</i>	Bahrain	100%	100%
Advantage Management Consulting Company K.S.C. (Closed) <i>(Its principal activity is management &amp; business consulting services)</i>	Kuwait	58%	58%

### Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

### Financial assets and liabilities

The group classifies its financial assets and liabilities as investments at fair value through income statement, investments held to maturity, loans and receivables, investments available for sale or financial liabilities.

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

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

# Notes to the Consolidated Financial Statements Continued

31 December 2006

## 2 SIGNIFICANT ACCOUNTING POLICIES continued

### Financial assets and liabilities continued

#### *Investments at fair value through income statement*

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

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

#### *Investments available for sale*

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

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

#### *Investments held to maturity*

The group classifies investments as held to maturity if the requirements of IAS 39 are met and in particular the group has the intention and ability to hold these investments to maturity.

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

#### *Loans and receivables*

Debt instruments which do not meet the definition of held to maturity and which have fixed or determinable payments but are not quoted in an active market are classified as loans and receivables.

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

#### *Financial liabilities*

Financial liabilities are stated at amortised cost using effective interest rate method. "Loans from related parties", and "Bonds" are classified as financial liabilities.

#### *Fair value*

The fair value of investments traded in recognised financial markets is their quoted market price, based on the current bid price. For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the recent arm's length market transactions or current fair value of another instrument that is substantially the same or is based on discounted cash flow analysis.

#### *Derecognition*

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

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

# Notes to the Consolidated Financial Statements Continued

31 December 2006

## 2 SIGNIFICANT ACCOUNTING POLICIES continued

### Financial assets and liabilities continued

#### *Offsetting*

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

#### **Investments in associates**

The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the group's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the group are identical and in case of different reporting date of associate, which are not more than three months, from that of the group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the group's consolidated financial statements. The associate's accounting policies confirm to those used by the group for the like transactions and events in similar circumstances.

#### **Investment properties**

Investment properties are initially measured at cost. Subsequently, all investment properties are carried at fair value that is determined based on valuation performed by independent valuers at the end of each year using valuation methods consistent with the nature and usage of the investment properties. Gains or losses from change in the fair value are recognised in the consolidated statement of income. Land under development is valued at cost less impairment losses.

#### **Business Combinations and Goodwill**

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

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

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

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

# Notes to the Consolidated Financial Statements Continued

31 December 2006

## 2 SIGNIFICANT ACCOUNTING POLICIES continued

### Business Combinations and Goodwill continued

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

### Accounts payable and accruals

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not.

### Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

### Share based payment transactions

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

The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

### Treasury shares

Treasury shares consist of the parent company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of stock dividend increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

### Foreign currency

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

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

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

### Revenue recognition

Revenues and expenses are recognised on the accrual basis.

Interest income and related fees are recognised using the effective yield method.

Management fees, advisory fees and commission income are recognised when earned.

Dividend income is recognised when the right to receive payment is established.

## 2 SIGNIFICANT ACCOUNTING POLICIES continued

### Impairment of assets

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

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

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

### Contingencies

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

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

### Fiduciary assets

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

### Segment information

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

### Estimation uncertainty

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

#### *Impairment losses on loans and advances*

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

#### *Impairment of available for sale investments*

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

# Notes to the Consolidated Financial Statements Continued

31 December 2006

## 2 SIGNIFICANT ACCOUNTING POLICIES continued

### Estimation uncertainty continued

#### Impairment of goodwill

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

#### 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; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;

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

## 3 INVESTMENTS AT FAIR VALUE THROUGH INCOME STATEMENT

	2006 KD	2005 KD
Quoted securities – local	8,759,012	3,493,136
Quoted securities – international	1,929,129	2,139,101
	<b>10,688,141</b>	<b>5,632,237</b>

## 4 INVESTMENTS AVAILABLE FOR SALE

	2006 KD	2005 KD
Quoted securities	9,605,571	7,803,865
Unquoted securities	28,532,290	23,965,641
Managed funds	27,432,503	32,508,076
Unquoted bonds	1,016,852	1,657,240
	<b>66,587,216</b>	<b>65,934,822</b>

At 31 December 2006, certain unquoted investments amounting to KD 22,292,640 (2005: KD 9,429,075) were carried at cost due to the non availability of quoted market prices or other reliable measures of their fair values. The management believes there is no impairment in value.

## 5 INVESTMENT IN ASSOCIATES

	2006 KD	2005 KD
Opening balances	38,011,254	23,524,926
Fair value of net tangible assets acquired	7,333,686	9,358,194
Share of results of associates	4,559,514	6,209,268
Post-acquisition cumulative changes in fair value recognised in equity	858,176	1,924,785
Foreign currency translation adjustment	339,250	(69,602)
Dividend received	(37,808)	(1,648,979)
Disposal	(4,313,739)	(1,287,338)
	<b>46,750,333</b>	<b>38,011,254</b>
<b>Goodwill:</b>		
Opening balances	340,157	354,457
Addition	69,028	-
Disposal	(262,007)	(14,300)
	<b>147,178</b>	<b>340,157</b>
	<b>46,897,511</b>	<b>38,351,411</b>

Investments in associates include quoted investments with a carrying value of KD 30,728,954 (2005: KD 22,469,736) having a fair value of KD 63,703,125 (2005: KD 40,092,250).

## Notes to the Consolidated Financial Statements Continued

31 December 2006

### 5 INVESTMENT IN ASSOCIATES continued

Details of associates are as follows:

Name of company	Effective Interest in equity		2006 KD	2005 KD
	2006	2005		
United Industries Co. K.S.C. (Closed) <i>(Registered in Kuwait and its principal activity is investing in manufacturing companies).</i>	44.71%	43.83%	31,280,188	22,469,737
United Gulf Bank Securities Co. B.S.C. <i>(Registered in Bahrain and its principal activity is investment services).</i>	30.00%	30.00%	136,025	144,464
United Medical Service Co. K.S.C. (Closed) <i>(Registered in Kuwait and its principal activity is Health care).</i>	29.91%	27.45%	3,789,446	2,096,080
Salem Al-Marzouk & Sabah Abi Hana W.L.L. <i>(Registered in Kuwait and its principal activity is architecture consulting services).</i>	30.00%	30.00%	428,580	330,449
United Warehousing and Refrigerating Company K.S.C. (Closed) <i>(Registered in Kuwait and its principal activity is management and maintenance of warehouses, and maintaining the inventories stored in the warehouses).</i>	25.00%	25.00%	1,180,640	1,197,900
Manafae Investment Company K.S.C. (Closed) <i>(Registered in Kuwait and its principal activity is Islamic asset management, financial services, investment services, real estate investment and financing &amp; advisory services).</i>	24.80%	24.80%	5,184,557	4,960,000
Kuwait Private Equity Opportunities Fund <i>(Registered in Kuwait and its principal activity is investment in private equity funds).</i>	30.15%	30.59%	4,189,069	3,223,206
Al Dhiyafa Holding Company K.S.C. (Closed) <i>(Registered in Kuwait and its principal activity is investment in and management of companies specialised in hospitality industry).</i>	-	20.00%	-	200,000
Gulf Egypt for Hotels and Tourism S.A.E. <i>(Registered in Egypt and its principal activity is Hotel construction and management).</i>	-	16.26%	-	3,729,575
United Universal Real Estate Consulting Company W.L.L. <i>(Registered in Kuwait and its principal activity is investment in real estate).</i>	20.00%	-	19,500	-
Dhow Development Company <i>(Registered in London and its principal activity is real estate development)</i>	20.00%	-	108,789	-
United Gulf Financial Services Company LLC <i>(Registered in Qatar and its principal activity is financial services).</i>	40.00%	-	580,717	-
			<b>46,897,511</b>	<b>38,351,411</b>

During the year, the parent company has bought and sold 0.98% of the investment in United Industries Co. K.S.C. (Closed) realising a loss of KD 40,539 on sale. The parent company also participated in the 20% increase in the share capital of United Industries Co. K.S.C. (Closed) by paying KD 5,134,765. The group's entire holding of 16.26% in Gulf Egypt for Hotels and Tourism S.A.E. was sold to a related party for KD 4,989,895 realising a net gain of KD 910,584.

Share of results of associates amounting to KD 1,215,390 (31 December 2005: 515,854) is based on management accounts.

# Notes to the Consolidated Financial Statements Continued

31 December 2006

## 5 INVESTMENT IN ASSOCIATES continued

	2006 KD	2005 KD
<b>Share of associates' balance sheet:</b>		
Total assets	81,650,522	64,145,380
Total liabilities	34,900,189	26,134,126
Net Assets	46,750,333	38,011,254

### Share of associates' revenue and profit:

Revenue	15,967,414	21,659,162
Profit for the Year	4,559,514	6,209,268

## 6 INVESTMENT PROPERTY

During the year the parent company has acquired a free hold land for KD 471,368 (31 December 2005: Nil). As this is a recent acquisition, the cost represents the fair value.

## 7 LOANS AND ADVANCES

	2006 KD	2005 KD
Gross amount	4,235,586	4,809,598
Less: Provision for credit losses	(932,561)	(96,192)
	3,303,025	4,843,000

Loans are secured against investments in the funds and securities held in fiduciary portfolios, on behalf of the borrowers, managed by the group.

According to the Central Bank of Kuwait instructions, a general provision of minimum 2% on all credit facilities (net of certain categories of collateral) to which CBK instructions are applicable and not subject to specific provision, is made.

## 8 OTHER ASSETS

	2006 KD	2005 KD
Due from related parties (Note 22)	2,790,259	3,984,811
Due from portfolio clients	2,342,737	3,619,339
Fixed assets (net)	202,767	175,768
Others	3,694,843	2,649,630
	9,030,606	10,229,954

# Notes to the Consolidated Financial Statements Continued

31 December 2006

## 9 LOANS

	2006 KD	2005 KD
• Due in full on 30 June 2009 bearing floating interest of 2% per annum over Central Bank of Kuwait discount rate	15,000,000	15,000,000
• Due in full on 30 June 2009 bearing interest of 2% per annum over the three month LIBOR rate (US\$ loan)	3,758,820	3,796,000
• Due in full on 21 June 2007 bearing fixed interest of 6.16% per annum (US\$ loan)	289,140	294,700
• Due in full on 20 September 2007 bearing floating interest of 1.25% per annum over Central Bank of Kuwait discount rate	4,000,000	-
• Due in full on 20 September 2009 bearing floating interest of 1.25% per annum over Central Bank of Kuwait discount rate	8,000,000	-
• Due in full on 4 January 2006 bearing fixed interest of 6.50% per annum	-	1,000,000
	<b>31,047,960</b>	<b>20,090,700</b>

Loans from related parties is KD 19,047,960 (2005: KD 20,090,700) (Note 22).

All loans are unsecured.

## 10 BONDS

During 2004, the parent company issued floating rate bonds with a principal of KD 10,000,000 and fixed rate bonds with a principal of KD 10,000,000. The issue price of bonds is 100% of their principal amount. The floating rate bonds bear interest at the rate of 1.5% per annum above the three month KIBOR rate in effect on the rate fixing date. The fixed rate bonds bear fixed interest at the rate of 5.5% per annum. Interest is payable quarterly in arrears. The bonds will be redeemed at their principal amount on 21 June 2009.

## 11 OTHER LIABILITIES

	2006 KD	2005 KD
Accrued expenses and provisions	1,291,122	2,206,242
Due to related parties (Note 22)	703,563	884,030
Other payables	650,636	484,447
Kuwait Foundation for the Advancement of Sciences	108,071	188,035
National Labour Support Tax	318,991	447,175
Employees' end of service benefits	1,056,838	1,389,905
	<b>4,129,219</b>	<b>5,599,834</b>

## 12 SHARE CAPITAL

On 27 March 2006, the extraordinary General Meeting of the shareholders of the parent company approved the increase of authorized share capital from KD 22,235,000 to KD 24,727,000 as following:

- Issuance of 22,220,000 bonus shares of 100 fils each for the year ended 31 December 2005. Bonus shares were issued during the period after the Annual General Meeting of the shareholders.
- Issuance of 1,255,000 shares for cash at 134 fils each including a share premium of 34 fils under an employees' share purchase scheme, which has been fully paid during the period (Note 17).
- Issuance of 1,445,000 shares for cash at 295 fils each including a share premium of 195 fils under an employees' share purchase scheme, which has been fully paid during the period (Note 17).

## 13 SHARE PREMIUM

The share premium account is not available for distribution.

# Notes to the Consolidated Financial Statements Continued

31 December 2006

## 14 TREASURY SHARES AND TREASURY SHARES RESERVE

	2006	2005
Number of treasury shares	2,260,000	-
Percentage of capital	0.92%	-
Market value - KD	1,220,400	-

The balance of treasury shares reserve is not available for distribution.

## 15 STATUTORY RESERVE

In accordance with the Commercial Companies Law and the parent company's Articles of Association, 10% of the profit for the year attributable to equity holders of the parent company before contribution to KFAS, NLST and Board of Directors' remuneration has been transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up capital. The statutory reserve is not available for distribution except in certain circumstances stipulated by law.

## 16 VOLUNTARY RESERVE

In accordance with the parent company's Articles of Association, 10% of the profit for the year attributable to equity holders of the parent company before Contribution to KFAS, NLST and Board of Directors' remuneration has been transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the parent company's shareholders' general assembly upon a recommendation by the Board of Directors. Voluntary reserve is available for distribution.

## 17 SHARE BASED PAYMENTS

The parent company has a stock option plan for all of its employees. Options are exercisable at a price approved by Board of Directors at the date of grant. The weighted average vesting period is zero to three years. The options expire if they are not exercised within the period specified in the grant. If an employee leaves the group before the options vest they are forfeited.

Share options totalling 3,725,000 shares were granted on 19 July 2003 with a vesting period of one to three years and share options totalling 1,255,000 shares were outstanding at the beginning of the year and were exercised during the current year at weighted average price of 134 fils per share.

Share options totalling 3,970,000 shares were granted on 24 January 2006 with a vesting period of zero to two years and share options totalling 2,525,000 shares are outstanding at the year end. Shares options totalling 1,445,000 shares were exercised during the year at weighted average price of 295 fils per share.

The group recognised an expense of KD 1,267,849 (31 December 2005: KD 452,909) related to equity-settled share-based payment transactions during the year.

## 18 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	2006 KD	2005 KD
Staff costs:		
Salaries	1,594,099	1,408,279
Leave and end of service benefits	686,391	721,215
Bonus	1,660,850	1,000,000
Share based payment	1,267,849	452,909
Other benefits	327,185	271,676
	<b>5,536,374</b>	<b>3,854,079</b>
Depreciation	94,047	80,005
Rent-Operating leases	354,652	310,423

# Notes to the Consolidated Financial Statements Continued

31 December 2006

## 19 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the year, less treasury shares, is as follows:

	2006 KD	2005 KD
Earnings:		
Profit for the year attributable to the equity holders of the parent company	15,795,522	25,040,257
	<b>Shares</b>	Shares
Weighted average number of shares, less treasury shares, outstanding during the year for basic earnings per share	245,954,260	241,680,603
Effect of dilution:		
Due to employee share option plan	1,604,600	1,119,481
Weighted average number of shares, less treasury shares, outstanding during the year adjusted for the effect of dilution	247,558,861	242,800,084
Basic earnings per share	64.2 fils	103.6 fils
Diluted earnings per share	63.8 fils	103.1 fils

The earnings per share for the previous periods have been restated for bonus shares issued in 2006 (Note 12).

## 20 PROPOSED ISSUE OF BONUS SHARES, CASH DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

The board of directors of the parent company have proposed cash dividends of KD 12,250,000 for the year ended 31 December 2006, representing 50 fils per share to the parent company's shareholders on records as of the date of the general assembly. This proposal is subject to the approval of the ordinary general assembly of the shareholders of the parent company.

At the annual general meeting held on 27 March 2006, cash dividend of 40 fils per share amounting to KD 8,888,000, bonus shares of 10 fils per share amounting to KD 2,222,000 and directors' remuneration of KD 50,000 for the year 2005 were approved and paid subsequent to that.

## 21 CONTINGENCIES

At 31 December 2006, the group had contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 2,106,678 (2005: KD 2,624,090).

## Notes to the Consolidated Financial Statements Continued

31 December 2006

### 22 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, 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 are as follows:

	Parent / ultimate parent KD	Associates KD	Directors and key management KD	Other related parties KD	Total 2006 KD	Total 2005 KD
<b>Balance sheet</b>						
Bank balances and cash	1,299,948	-	-	1,749,431	<b>3,049,379</b>	2,633,975
Investments at fair value through income statement	208,950	-	-	3,080,662	<b>3,289,612</b>	2,885,898
Investments available for sale	376,807	350,000	-	37,974,701	<b>38,701,508</b>	35,005,463
Loans and advances				40,775	<b>40,775</b>	129,594
Other assets	476,331	263,538	-	2,050,390	<b>2,790,259</b>	3,855,217
Other liabilities	495	-	50,000	653,068	<b>703,563</b>	884,030
Loans from related parties	289,140	-		18,758,820	<b>19,047,960</b>	20,090,700
<b>Consolidated income statement</b>						
Management fees	967,674	40,306	-	1,485,751	<b>2,493,731</b>	6,189,231
Advisory fees	491,000	-	-	1,577,251	<b>2,068,251</b>	1,427,802
Dividend income	56,212	-	-	469,945	<b>526,157</b>	4,421,738
Interest income	83,400	5,684	-	480,696	<b>569,780</b>	821,391
Gain on sale of part invest- ment in an associate	-	-	-	870,045	<b>870,045</b>	1,210,970
Gain on sale of shares of parent / ultimate parent company	692,992	-	-	-	<b>692,992</b>	2,985,367
Finance costs	34,616	-	-	1,695,911	<b>1,730,527</b>	1,464,941
Provision for doubtful debts	-	-	-	-	<b>-</b>	219,984
					<b>2006 KD</b>	<b>2005 KD</b>
<b>Transactions</b>						
Proceeds from sale of associate to related parties					<b>4,732,015</b>	2,498,305
Proceeds from sale of shares of parent / ultimate parent company to related parties					<b>2,819,385</b>	6,388,580
Key management personnel compensation:						
					<b>2006 KD</b>	<b>2005 KD</b>
Short-term employee benefits					<b>336,161</b>	376,104
Termination benefits					<b>106,826</b>	242,419
Share based payment					<b>233,557</b>	34,976
					<b>676,543</b>	653,499

# Notes to the Consolidated Financial Statements Continued

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## 23 SEGMENTAL INFORMATION

### Primary segment information

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

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

	Proprietary investment management KD	Investment management and advisory services KD	Others KD	Total KD
<b>Year ended 31 December 2006</b>				
Segment operating revenues	13,695,510	12,738,764	297,593	26,731,867
Segment results	7,908,599	8,088,567	297,593	16,294,759
Unallocated expenses				477,062
Profit for the year				15,817,697
<b>As at 31 December 2006</b>				
<b>Assets and liabilities</b>				
Segment assets	137,689,835	2,342,737	164,015	140,196,587
Segment liabilities	51,047,960	-	3,652,157	54,700,117
Unallocated liabilities				477,062
Total liabilities				55,177,179

	Proprietary investment management KD	Investment management and advisory services KD	Others KD	Total KD
<b>Year ended 31 December 2005</b>				
Segment operating revenues	22,734,145	11,794,443	229,018	34,757,606
Segment results	15,993,284	8,819,436	229,018	25,715,180
Unallocated expenses				673,442
Profit for the year				25,041,738
<b>As at 31 December 2005</b>				
<b>Assets and liabilities</b>				
Segment assets	121,409,675	6,229,070	546,068	128,184,813
Segment liabilities	40,090,700	-	4,926,392	45,017,092
Unallocated liabilities				673,442
Total liabilities				45,690,534

## Notes to the Consolidated Financial Statements Continued

31 December 2006

### 23 SEGMENTAL INFORMATION continued

#### Secondary segment information

The group's segment assets in different geographical regions are as:

	Kuwait KD	Gulf and the Rest of the Middle East KD	International KD	Total KD
<b>As at 31 December 2006</b>				
Segment operating revenues	25,014,247	(48,047)	1,778,495	26,731,867
Segment assets	130,739,642	7,844,158	815,397	140,196,587

	Kuwait KD	Gulf and the Rest of the Middle East KD	International KD	Total KD
<b>As at 31 December 2005</b>				
Segment operating revenues	34,221,274	85,669	450,663	34,757,606
Segment assets	111,105,629	9,011,797	8,067,387	128,184,813

### 24 CREDIT RISK CONCENTRATION OF ASSETS AND LIABILITIES

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets which potentially subject to credit risk consist principally of bank balances, loans and advances. The group's bank balances are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to loans and advances is limited due to the large number of customers and their dispersion across different industries. The group also 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.

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 distribution of assets and liabilities by industry sector was as follows:

	2006		2005	
	Assets KD	Liabilities KD	Assets KD	Liabilities KD
Trading and manufacturing	32,384,521	-	24,087,574	-
Banks and financial institutions	47,324,802	32,303,332	47,041,221	20,090,700
Construction and real estate	8,492,841	-	6,703,060	-
Other	51,994,423	22,873,847	50,352,958	25,599,834
	140,196,587	55,177,179	128,184,813	45,690,534

## Notes to the Consolidated Financial Statements Continued

31 December 2006

### 25 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realisable.

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. Except for investments at fair value through income statement and investments available for sale, the maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements. The maturity profile for investments at fair value through income statement and investments available for sale is determined based on management's estimate of liquidation of those investments.

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

	Within 3 months KD	3 to 12 months KD	1 to 5 years KD	Over five years KD	Total KD
<b>31 December 2006</b>					
<b>ASSETS</b>					
Bank balances and cash	3,218,720	-	-	-	3,218,720
Investments at fair value through income statement	10,688,141	-	-	-	10,688,141
Investments available for sale	-	-	66,587,216	-	66,587,216
Investments in associates	-	-	-	46,897,511	46,897,511
Investment Property	-	-	471,368	-	471,368
Loans and advances	735,000	2,527,250	40,775	-	3,303,025
Other assets	6,460,142	2,244,458	326,006	-	9,030,606
<b>TOTAL ASSETS</b>	<b>21,102,003</b>	<b>4,771,708</b>	<b>67,425,365</b>	<b>46,897,511</b>	<b>140,196,587</b>
<b>LIABILITIES</b>					
Loans	-	289,140	30,758,820	-	31,047,960
Bonds	-	-	20,000,000	-	20,000,000
Other liabilities	322,340	35,750	3,771,129	-	4,129,219
<b>TOTAL LIABILITIES</b>	<b>322,340</b>	<b>324,890</b>	<b>54,529,949</b>	<b>-</b>	<b>55,177,179</b>
	Within 3 months KD	3 to 12 months KD	1 to 5 years KD	Over five years KD	Total KD
<b>31 December 2005</b>					
<b>ASSETS</b>					
Bank balances and cash	3,123,389	-	-	-	3,123,389
Investments at fair value through income statement	5,632,237	-	-	-	5,632,237
Investments available for sale	-	-	65,934,822	-	65,934,822
Investments in associates	-	-	-	38,351,411	38,351,411
Loans and advances	1,225,000	3,488,406	129,594	-	4,843,000
Other assets	6,525,188	3,107,435	667,331	-	10,299,594
<b>TOTAL ASSETS</b>	<b>16,505,814</b>	<b>6,595,841</b>	<b>66,731,747</b>	<b>38,351,411</b>	<b>128,184,813</b>
<b>LIABILITIES</b>					
Loans	19,796,000	294,700	-	-	20,090,700
Bonds	-	-	20,000,000	-	20,000,000
Other liabilities	2,725,348	886,466	1,988,020	-	5,599,834
<b>TOTAL LIABILITIES</b>	<b>22,521,348</b>	<b>1,181,166</b>	<b>21,988,020</b>	<b>-</b>	<b>45,690,534</b>

## Notes to the Consolidated Financial Statements Continued

31 December 2006

### 26 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The group has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

The group's interest rate sensitivity position based on earlier of contractual repricing arrangements and maturity at 31 December was as follows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Over 1 year KD	Non interest bearing items KD	Total KD	Effective interest rate %
<b>31 December 2006</b>							
Bank balances and cash	3,205,375	-	-	-	13,345	3,218,720	1.0 - 2.0
Investments at fair value through income statement	-	-	-	-	10,688,141	10,688,141	-
Investments available for sale	-	-	-	1,016,853	65,570,363	66,587,216	6.2 - 8.3
Investments in associates	-	-	-	-	46,897,511	46,897,511	-
Investment in Properties	-	-	-	-	471,368	471,368	-
Loans and advances	735,000	490,000	2,037,250	-	40,775	3,303,025	8.5 - 8.8
Other assets	-	-	-	-	9,030,606	9,030,606	-
<b>TOTAL ASSETS</b>	<b>3,940,375</b>	<b>490,000</b>	<b>2,037,250</b>	<b>1,016,853</b>	<b>132,712,109</b>	<b>140,196,587</b>	
Loans	-	-	289,140	30,758,820	-	31,047,960	5.2 - 8.0
Bonds	-	-	-	20,000,000	-	20,000,000	5.5 - 7.5
Other liabilities	-	-	-	-	4,129,219	4,129,219	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>289,140</b>	<b>50,758,820</b>	<b>4,129,219</b>	<b>55,177,179</b>	

	Up to 1 month KD	1-3 months KD	3-12 months KD	Over 1 year KD	Non interest bearing items KD	Total KD	Effective interest rate %
<b>31 December 2005</b>							
Bank balances and cash	3,116,889	-	-	-	6,500	3,123,389	1-2
Investments at fair value through income statement	-	-	-	-	5,632,237	5,632,237	-
Investments available for sale	-	-	-	1,510,000	64,424,822	65,934,822	4.25-7
Investments in associates	-	-	-	-	38,351,411	38,351,411	-
Loans and advances	1,225,000	1,185,406	2,303,000	-	129,594	4,843,000	6.5-7
Other assets	-	-	285,553	-	10,014,401	10,014,401	-
<b>TOTAL ASSETS</b>	<b>4,341,889</b>	<b>1,185,406</b>	<b>2,588,553</b>	<b>1,510,000</b>	<b>118,558,965</b>	<b>128,184,813</b>	
Loans	1,000,000	18,796,000	294,700	-	-	20,090,700	2.94-7.5
Bonds	-	-	20,000,000	-	-	20,000,000	3.5-5.5
Other liabilities	-	-	-	-	5,599,834	5,599,834	-
<b>TOTAL LIABILITIES</b>	<b>1,000,000</b>	<b>18,796,000</b>	<b>20,294,700</b>	<b>-</b>	<b>5,599,834</b>	<b>45,690,534</b>	

# Notes to the Consolidated Financial Statements Continued

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## 27 FOREIGN CURRENCY RISK

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

Currency risk is managed on the basis of limits determined by the group's Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposures.

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

	<b>2006</b>	<b>2005</b>
	<b>KD</b>	<b>KD</b>
	<b>Long / (short)</b>	<b>Long / (short)</b>
US Dollar	<b>4,801,951</b>	3,991,903
Other GCC currencies	<b>2,035,473</b>	14,363,655
Euro	<b>212,436</b>	242,363
Others	<b>1,142,904</b>	3,797,150

## 28 EQUITY PRICE RISK

Equity price risk arises from changes in the fair values of equity investments. The group manages this through diversification of investments in terms of geographical distribution and industry concentration. The majority of the group's quoted investments are listed on the Kuwait Stock Exchange.

## 29 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

## 30 FIDUCIARY ASSETS

The aggregate value of the assets held in a trust or fiduciary capacity by the group at 31 December 2006 amounted to KD 1,923,323,284 (2005: KD 1,753,505,844).

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

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

Fair values of all financial instruments are not materially different from their carrying values except for what is noted under Note 4.



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