

Annual Report  
2005



**Kuwait and Middle East Financial Investment Company K.S.C.C**





**Kuwait and Middle East  
Financial Investment  
Company K.S.C.C**

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah**  
The Amir Of The State Of Kuwait



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



**H.H. Sheikh Nasser Al-Mohamad Al-Ahmad Al-Sabah**  
The Prime Minister Of The State Of Kuwait





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# BOARD OF DIRECTORS



**Hamed S. Al-Saif**

Chairman and Managing Director



**Nasser B. Al-Mutair**

Vice Chairman



**Hamad A. Al- Marzouk**

Board Member



**Nasser A. Al-Jallal**

Board Member



**Hasan Y. Behbahani**

Board Member



# MANAGEMENT



**Hamed H. Al-Sanee**  
Chief Executive Officer



**Osama R. Al-Armaly**  
General Manager  
Local & Arabian Marketable Securities



**Adel F. Al-Humaidhi**  
General Manager  
Local Financial Derivatives



**Abdulmohsen A. Qarooni**  
General Manager  
IT & Online Trading



**Mohammed A. Al-Marzook**  
General Manager  
International Investments



**Christy I. Kulathooran**  
Assistant General Manager  
Financial Control



**Rana Y. Al-Tharban**  
Assistant General Manager  
Marketing / Client Relations



**Mohammed S. Al-Saleh**  
Assistant General Manager  
Treasury



**Maha Sabih Mansour**  
Manager  
Human Resources & Administration



**Hisham K. Hayat**  
Manager  
Brokerage Office



**Vijay Rabindranath**  
Manager  
Research

# CHAIRMAN'S MESSAGE

## **DEAR SHAREHOLDERS,**

The year 2005 was yet another milestone for the investors as the Kuwait Stock Exchange (KSE) entered its fifth year of the bull rally which started in 2001. Over the last five years the KSE Price index has registered a compounded annual growth of 53%. During 2005, the KSE Price index added more than five thousand points and closed at 11,445 marked by an impressive gain of 79% over 2004 while the KSE Weighted index added more than two hundred points and closed at 570; a solid gain of 70% over 2004. Also during 2005, trading activity in KSE witnessed a solid boost. The level of trading activity is considered the highest since the reopening of KSE in 1992. Total value of shares traded in KSE reached KD 28.4 billion (USD 97 billion) in 2005, up by 86% from KD 15.3 billion (USD 52 billion) in the previous year.

## **MACRO-ECONOMIC FUNDAMENTALS**

A budget surplus driven by high oil prices, a vibrant economy and increase in the corporate profits resulted in the Kuwait Stock Exchange (KSE) to touch new highs during 2005

Corporate profits recorded robust growth during the first nine months of 2005 up by close to 90% compared to the same period last year. Growth in the corporate sector's profitability is mainly attributed to strong domestic demand in the economy as well as government spending.

Apart from the macro-economic variables, geo-political stability in the region post Saddam Hussein also has contributed positively to the perception and optimism. Shadowing the US Federal Reserve, the Central Bank of Kuwait (CBK) increased the discount rate from 4.75% at the start of year to 6% towards the end 2005. However, the increase in interest rates, so far has not dampened domestic demand in the economy, as money supply continues to grow owing to huge foreign capital inflows and credit growth in the private sector.

Additionally, the government has been on the path of fulfilling its commitment towards the pacing up of economic reforms in Kuwait. In March 2005, CBK issued a regulation allowing the entry of foreign banks into Kuwait. There is a positive mood in the government to accelerate the pace of reforms, thus taking advantage of post Iraq war developments. It is expected that Project Kuwait will get the approval of National Assembly in 2006. Regional instability had prevented Kuwait from investing and developing its infrastructure.

With the renewed security environment in the region, Kuwait is expected to spend heavily on developing its infrastructure as well as invite the participation of the private sector in developing the infrastructure of the country.

Other regional (GCC) markets also performed well during 2005. Dubai Financial Market (DFM) was the best performing market up by 120%, closely followed by Saudi Arabia (TASI) up by 104%, Qatar (DSM) up by 70%, Abu Dhabi (ADSM) up by 69%, Oman (MSM) up by 44% and Bahrain (All Share) up by 24%. High oil and gas prices, boom in the real estate markets, low interest rates and excessive liquidity contributed positively to these regional economies and their stock market performance.

## **COMPANY'S PERFORMANCE**

Amidst the above backdrop, shareholders of KMEFIC have reasons to cheer. In 2005, the company achieved a total income of KD 17.12 million higher by 26% compared to KD 13.6 million in the previous year.

It is important to note that in 2004, the gain on the sale of interest in subsidiary and the real estate division alone contributed to KD 6.5 million which accounted for more than 47% of the total income. More importantly, despite the absence of such gains in 2005, the company still achieved a robust growth of 26% in total income; mainly from its core operations.

In 2005, the key drivers for the growth in income is attributed to the commission income at KD 5.96 million (higher by 417.6% compared to KD 1.15 million in the previous year) constituted around 35% of the total income. This is followed by the management fees at KD 3.7 million (higher by 36.5% compared to KD 2.71 million in the previous year) constituted around 22% of the total income. Gains on investment at KD 3.0 million (higher by 487.9% compared to KD 0.51 million in the previous year) constituted around 18% of the total income while the performance fee at KD 1.72 million (higher by 1166% compared to KD 0.13 million in the previous year) constituted around 10% of the total income.

Growth in management fees and performance fees is mainly attributed to the substantial increase in the assets under management in 2005 which increased by KD 522 million, up by 77% to reach KD 1.196 billion (USD 4.097 billion) compared to KD 0.674 billion (USD 2.287 billion) in 2004.

A combination of these factors helped the company achieve a net profit of KD 10.16 million which is higher by 6.7% compared to KD 9.52 million in 2004. This translated into earnings per share of 70.04 Fils in 2005 compared to 67.11 Fils in 2004.

The Annual General Assembly of the shareholders held on 12 March 2001 approved a stock option plan for employees. In accordance with the plan, the Board of Directors of the company are authorized to issue up to 6,037,500 shares as stock options to the employees. As of 31 December 2005, the number of stock options outstanding stood at 601,557.

Subject to the Annual general Assembly of the shareholders to be held in 2006 a second share option plan for employees (2006 Plan) proposed by the Board of Directors of the Company. According to the plan 3,773,880 shares will be granted as stock options to the employees. The period over which the employees could exercise the options will be till June 2011.

## **BROKERAGE OPERATIONS**

The commission income which now contributes the highest to the total income was mainly driven by the brokerage operations in Kuwait, Online trading business (Al Awsat.com) and the brokerage operations in the UAE and Oman represented by our subsidiaries Middle East Financial Brokerage Company (MEFBC) and Middle East Brokerage Company (MEBC) respectively. Both MEFBC and MEBC were set up during 2005 and KMEFIC owns a 49% stake in the former while the latter is a wholly owned subsidiary. In line with our strategy as discussed in the annual report last year, the brokerage operations in Kuwait, and the newly set up brokerage operations in UAE and Oman have nicely complemented the Online trading

business and further helped the company to diversify its income stream.

As of the end 2005, KMEFIC's brokerage operations in Kuwait occupied an advanced position with a 11% market share measured by three key parameters – number of trades, volume and value traded.

Also, we have recently obtained a brokerage license to operate in Bahrain and in the process of obtaining brokerage licenses in the Arab Stock Exchange (Egypt) and Lebanon. Moving ahead, these initiatives will further help the company to diversify its income stream.

## **LOCAL AND ARABIAN MARKETABLE SECURITIES**

The divisions discretionary portfolios returned 69% (weighted average portfolio returns) during 2005 compared to 67.4% returns achieved by the KSE weighted index during the same period. Furthermore, the fiduciary assets under management of the division stood at KD 734 million (USD 2,533 million) higher by 75% compared to KD 423 million (USD 1,448 million) in 2004.

Al-Rouyah Fund achieved a return of 65.5% during 2005 and 179.3% return since inception. Furthermore, to diversify its product offerings, the division is also planning to launch a GCC fund to take advantage of the flourishing stock markets of the region.

## **LOCAL FINANCIAL DERIVATIVES**

In 2005, the Local Derivatives - Waad portfolio garnered a 60% share of the futures market and about 80% share of the forward market. The assets managed by the division were higher by 20% at KD 134.7 million (USD 461.4 million) in 2005 compared to KD 112.4 million (USD 385 million) in 2004 and achieved a 33.5% return for the investors during 2005 over the previous year. Currently, the Local Derivatives division has the highest assets under management compared to other market makers.

In 2006, the division will be listing the first "Exchange Traded Fund" (ETF) on the KSE. Also, a local Hedge Fund, first of its kind, is planned for launch in 2006 and the final approval for the documentation is awaited from the Central Bank of Kuwait.

## **INTERNATIONAL INVESTMENTS**

Most of the stock markets around the globe concluded 2005 with reasonable gains despite the violent hurricanes in the United States, the deadly bomb attacks in London or the sharp gains in oil prices – none of these events could deter investor sentiment. Asian, European and Emerging equity markets soared in 2005 while the U.S. markets took a backseat and remained lackluster; chief reasons being – record high oil prices, increase in the Federal-Funds Rate from 2.25% to 4.25% and an overheated housing markets that finally saw some signs of cooling. A combination of all these resulted in the US economic growth slowing down to 3.5% in 2005 compared to around 4.5% in the previous year.

Asia as region witnessed a flurry of investors pouring vast amounts of liquidity into its markets and early concerns over rising U.S. interest rates, lofty oil prices and the fear that bird flu might break out in humans were shrugged off. Moreover, the continuing fear that China's over heated economy would suddenly falter causing economies around the world to slow didn't materialize. In Japan, equities got a strong boost after Prime Minister Koizumi's re-

election victory which renewed investor confidence in the country's economic recovery and sparked domestic demand. The Nikkei 225 index soared over 40 percent for the year. Other big winners in the region were South Korea and India where economic growth was robust and huge foreign investment flows continued.

In Europe, investors paid little attention to sluggish economic growth, an election stalemate in Germany, and the French & Dutch rejection of the European Union constitution. European companies nevertheless continued to restructure, squeeze out bigger profits and boosted their share prices. Collectively, the MSCI World Index (in local currency) advanced almost 14 percent for the year.

Given the above backdrop the International Investments Division's investment portfolio has done well mainly attributed to a cautiously optimistic stance, coupled with dynamic asset allocation designed to enhance the returns and contain volatility during the market cycles.

Among the successful investments decisions over the year was an over weighting in the emerging markets of Asia which considerably out performed the developed markets. IMS sees further potential in these and other emerging markets for the year to come and intends on taking full advantage of them while being cognizant of the associated risk. International Investments Division also managed to grow the assets under management by over 50 percent.

International Investments Division continues to maintain its cautious optimism for the year 2006 as well. On a global basis prospects for growth appear to be good. Weakness in the U.S. should be offset by the strength in China and other emerging economies. Furthermore, Japan and possibly even Germany, two of the largest economies globally, are starting to show better growth prospects. International Investments Division looks forward to further grow the assets under management and expand the client base by offering timely investment products and advise. Included in the new product launches is an India centric fund offering our clients access to the vast opportunities associated with an economy forecasted to grow at over 8 percent per annum in the coming years.

## **INFORMATION TECHNOLOGY (IT) AND ONLINE TRADING (OLT)**

This division's long term objective is to achieve profitability through diversity and innovation. Online Trading has been consistently generating substantial revenues with its flagship product, [alawsat.com](http://alawsat.com).

Going forward the division aims to transform itself from a service unit to a profit centre. This will be achieved through varied services such as Web designing, networking and developing and marketing of software to manage investment activities, General Ledger, Payroll etc.

Year 2005 has been a very successful year for the Division. Online Trading achieved a net profit of KD 0.8 million and was successful on the business development front as well. OLT established connectivity with the Dubai Financial Market, Abu Dhabi Securities Market and Saudi Stock Exchange. Also during the year, The Bank of Kuwait and Middle East (BKME) Online was launched through the OLT and in another key development OLT entered into an agreement with Kuwait Finance House (KFH) for the launch of Online trading for their customers.

Going forward, OLT has planned to establish connectivity with Egypt, Qatar, Bahrain and

Beirut Stock exchanges in 2006 as well as to launch trading on ARABEX in Egypt. The Online trading product base will be further strengthened by introducing margin and short selling on the US Markets. Furthermore, discussions are underway to launch derivative products on the Abu Dhabi Stock Exchange which can be made available to the investors online.

## **TREASURY**

KMEFIC's Treasury launched the Al Awsat KD Money Market Fund during the year in the local Market. This fund was ranked number one compared to other similar funds in Kuwait. Focused treasury operations helped to maximize the interest income and noticeably reduce the company's cost of funds during the year. Furthermore, the treasury also effectively managed the company's cash flows and foreign exchange transactions.

Going forward, the treasury plans to launch a USD money market fund, AMWAL Islamic money market fund and a Fixed Income Fund.

## **RESEARCH**

Research is at the core of our decision making process. The division with its advisory expertise continues to be a nucleus support function to the other divisions within the company. The division's main focus is on the 'buy-side' research advising the in-house fund managers and the senior management with an investment strategy that will create sustainable shareholder value in the long-term. Additionally, Research also communicates with our clients and the investor fraternity – through the 'sell-side' reports that are published after extensive research efforts that stand out in the market place for their comprehensiveness, incisive analysis, investment insight and presentation.

As a pro-active strategy, we further expanded the research team during the year in view of our brokerage expansion and planned product launches in the region during 2006.

Finally, I would like to express my deepest gratitude and appreciation to KMEFIC's management and staff for their continued commitment and dedication that enabled the company to achieve its goals and objectives and to maintain its status as one of the leading Investment companies in Kuwait.

Peace and Mercy of God be upon you.

Yours Sincerely,



Hamed Saleh Al-Saif  
Chairman and Managing Director





**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C.(CLOSED)**  
**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**  
**For the year ended 31 December 2005**

# Independent auditors' report

## Dear Shareholders

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

We have audited the accompanying consolidated balance sheet of Kuwait and Middle East Financial Investment Company K.S.C. (Closed) ("the Company") and its subsidiaries ("the Group") as at 31 December 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended.

## Respective responsibilities of the management and auditors

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

## Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, the results of its operations 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.

## Other regulatory matters

Furthermore, in our opinion, proper books of accounts have been kept by the 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 that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Company's Articles of Association; that an inventory was duly carried out; and that to the best of our knowledge and belief, no violation of the Commercial Companies Law of 1960 as amended, or of the Articles of Association of the Company have occurred during the year ended 31 December 2005 that might have had a material effect on the business of the Company or on its financial position.

We further report, 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 2005.



**Qais M. Al Nisf**

License No.38-'A'

Of Moore Stephens Al Nisf & Partners  
Member firm of Moore Stephens International



**Bader A. Al Wazzan**

License No. 62 – A  
PricewaterhouseCoopers

## CONSOLIDATED BALANCE SHEET

As of 31 December 2005

|   | Note | 2005 (KD)         | 2004 (KD)         |
|---|------|-------------------|-------------------|
| <b>Assets</b>   |      |                   |                   |
| Cash and cash equivalents                                   | 3    | 3,499,994         | 1,267,580         |
| Investments at fair value through profit or loss            | 4    | 15,406,037        | 9,556,697         |
| Investments available for sale                              | 5    | 14,182,441        | 9,366,720         |
| Loans and receivables                                       | 6    | 12,710,182        | 4,361,325         |
| Investment in an associate                                  | 7    | 3,136,190         | 2,610,025         |
| Investment in unconsolidated subsidiaries                   | 9    | 36,546            | 112,691           |
| Other assets  | 10   | 2,488,951         | 1,625,804         |
| Intangible assets   | 11   | 12,613,766        | 12,500,000        |
| Equipment   | 12   | 992,730           | 598,025           |
| <b>Total assets</b>   |      | <b>65,066,837</b> | <b>41,998,867</b> |
| <b>Liabilities and equity / Liabilities</b>                 |      |                   |                   |
| Loans from banks  | 13   | 17,471,275        | 8,860,386         |
| Accounts payable and other liabilities                      |      | 4,449,724         | 1,494,754         |
| <b>Total liabilities</b>                                    |      | <b>21,920,999</b> | <b>10,355,140</b> |
| <b>Equity</b>   |      |                   |                   |
|   | 14   |                   |                   |
| Share capital   |      | 14,643,956        | 13,946,625        |
| Treasury shares   |      | (1,925,212)       | (182,988)         |
| Share premium   |      | 237,841           | 206,585           |
| Statutory reserve   |      | 4,003,979         | 2,948,792         |
| General reserve   |      | 3,571,873         | 2,516,686         |
| Retained earnings   |      | 14,552,803        | 8,570,377         |
| Fair valuation reserve                                      |      | 6,250,171         | 1,888,889         |
| Foreign currency translation reserve                        |      | 11,754            | 14,078            |
| Treasury shares reserve                                     |      | 1,734,683         | 1,734,683         |
| Share options reserve                                       |      | 7,810             | -                 |
| <b>Equity attributable to equity holders of the company</b> |      | <b>43,089,658</b> | <b>31,643,727</b> |
| Minority interest   |      | 56,180            | -                 |
| <b>Total equity</b>   |      | <b>43,145,838</b> | <b>31,643,727</b> |
| <b>Total liabilities and equity</b>                         |      | <b>65,066,837</b> | <b>41,998,867</b> |

These consolidated financial statements have been approved for issue by the Board of Directors on:  
05 February 2006



**Hamed Saleh Al-Saif**  
Chairman & Managing Director



**Nasser Barak Al Mutair**  
Vice Chairman

**CONSOLIDATED STATEMENT OF INCOME**

For the year ended 31 December 2005

|   | Note | 2005 (KD)         | 2004 (KD)         |
|---|------|-------------------|-------------------|
| <b>Income</b>   |      |                   |                   |
| Management fees   |      | 3,700,820         | 2,712,080         |
| Performance fees  |      | 1,724,665         | 136,248           |
| Interest and similar income                                       | 15   | 856,851           | 1,053,337         |
| Commission income   |      | 5,963,018         | 1,151,946         |
| Placement fees  |      | 111,204           | 1,047,665         |
| Gains on investments at fair value through profit or loss         |      | 3,011,683         | 512,292           |
| Gains on disposal of investments available for sale               |      | 762,270           | 54,182            |
| Dividends   |      | 341,461           | 207,196           |
| Share of income from an associate                                 |      | 526,165           | 65,843            |
| Gains/(losses) from unconsolidated subsidiaries                   |      | 336               | (12,980)          |
| Gain on sale of interest in subsidiary                            |      | -                 | 3,688,460         |
| Gain on sale of real estate division                              |      | -                 | 2,790,663         |
| Foreign exchange gains  |      | 118,905           | 175,004           |
| Other income  |      | 9,590             | 20,326            |
| <b>Total income</b>   |      | <b>17,126,968</b> | <b>13,602,262</b> |
| <b>Operating expenses and other charges</b>                       |      |                   |                   |
| Staff expenses  |      | 3,198,421         | 1,713,215         |
| Other operating expenses  |      | 2,231,741         | 746,753           |
| Management fees   |      | -                 | 24,618            |
| Depreciation  |      | 264,370           | 220,743           |
| Interest expense  | 15   | 591,100           | 658,413           |
| Provision for impairment of loans and receivables                 |      | 170,385           | 27,596            |
| Impairment loss on investments available for sale                 |      | 122,902           | 313,574           |
| <b>Total operating expenses and other charges</b>                 |      | <b>6,578,919</b>  | <b>3,704,912</b>  |
| <b>Profit from operations</b>                                     |      | <b>10,548,049</b> | <b>9,897,350</b>  |
| Contribution to kuwait foundation for the advancement of sciences |      | (89,705)          | (89,076)          |
| National labour support tax                                       |      | (233,674)         | (218,863)         |
| Directors' fees   |      | (60,000)          | (64,000)          |
| <b>Profit for the year</b>  |      | <b>10,164,670</b> | <b>9,525,411</b>  |
| <b>Attributable to:</b>   |      |                   |                   |
| Company's equity shareholders                                     |      | 10,168,490        | 9,525,411         |
| Minority interest   |      | (3,820)           | -                 |
|   |      | 10,164,670        | 9,525,411         |
| <b>Earnings per share (fils)</b>                                  |      | <b>70.04</b>      | <b>67.11</b>      |

The attached notes form an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

### Attributable to the equity shareholders of the company

|  | Share capital (KD) | Treasury shares (KD) | Share premium (KD) | Statutory reserve (KD) | General reserve (KD) | Retained earnings (KD) | Fair valuation reserve (KD) | Foreign currency translation reserve (KD) | Treasury shares reserve (KD) | Share options reserve (KD) | Minority interest (KD) | Total (KD)        |
|--|--------------------|----------------------|--------------------|------------------------|----------------------|------------------------|-----------------------------|---|------------------------------|----------------------------|------------------------|-------------------|
| <b>Balance at 31 December 2003</b>                     | 12,965,171         | (1,230,316)          | 101,407            | 1,959,057              | 1,526,951            | 2,308,361              | (32,109)                    | 13,965                                    | 158,948                      | -                          | -                      | 17,771,435        |
| <b>Change in equity for the year ended 31 Dec 2004</b> |                    |                      |                    |                        |                      |                        |                             |   |                              |                            |                        |                   |
| Available for sale investments:                        |                    |                      |                    |                        |                      |                        |                             |   |                              |                            |                        |                   |
| Valuation gains taken to equity statement              | -                  | -                    | -                  | -                      | -                    | -                      | 1,607,424                   | -   | -                            | -                          | -                      | 1,607,424         |
| Impairment losses transferred to income statement      | -                  | -                    | -                  | -                      | -                    | -                      | 313,574                     | -   | -                            | -                          | -                      | 313,574           |
| Exchange differences on translating foreign operations | -                  | -                    | -                  | -                      | -                    | -                      | -                           | 113                                       | -                            | -                          | -                      | 113               |
| Net income recognised directly in equity               | -                  | -                    | -                  | -                      | -                    | -                      | 1,920,998                   | 113                                       | -                            | -                          | -                      | 1,921,111         |
| Profit for the year                                    | -                  | -                    | -                  | -                      | -                    | 9,525,411              | -                           | -   | -                            | -                          | -                      | 9,525,411         |
| Total recognised income and expenses for the year      | -                  | -                    | -                  | -                      | -                    | 9,525,411              | 1,920,998                   | 113                                       | -                            | -                          | -                      | 1,446,522         |
| Dividends  | -                  | -                    | -                  | -                      | -                    | (619,800)              | -                           | -   | -                            | -                          | -                      | (619,800)         |
| Bonus shares   | 664,125            | -                    | -                  | -                      | -                    | (664,125)              | -                           | -   | -                            | -                          | -                      | -                 |
| Transfer to Reserve                                    | -                  | -                    | -                  | 989,735                | 989,735              | (1,979,470)            | -                           | -   | -                            | -                          | -                      | -                 |
| Issues of share capital-share options                  | 317,329            | -                    | 105,178            | -                      | -                    | -                      | -                           | -   | -                            | -                          | -                      | 422,507           |
| Sale of treasury shares                                | -                  | 1,047,328            | -                  | -                      | -                    | -                      | -                           | -   | 1,575,735                    | -                          | -                      | 2,623,063         |
| <b>Balance at 31 December 2004</b>                     | <b>13,946,625</b>  | <b>(182,988)</b>     | <b>206,585</b>     | <b>2,948,792</b>       | <b>2,516,686</b>     | <b>8,570,377</b>       | <b>1,888,889</b>            | <b>14,078</b>                             | <b>1,734,683</b>             | -                          | -                      | <b>1,643,727</b>  |
| <b>Change in equity for the year ended 31 Dec 2005</b> |                    |                      |                    |                        |                      |                        |                             |   |                              |                            |                        |                   |
| Available for sale investments:                        |                    |                      |                    |                        |                      |                        |                             |   |                              |                            |                        |                   |
| Valuation gains taken to equity                        | -                  | -                    | -                  | -                      | -                    | -                      | 4,773,987                   | -   | -                            | -                          | -                      | 4,773,987         |
| Transferred to profit or loss on sale                  | -                  | -                    | -                  | -                      | -                    | -                      | (535,607)                   | -   | -                            | -                          | -                      | (535,607)         |
| Impairment losses transferred to income statement      | -                  | -                    | -                  | -                      | -                    | -                      | 122,902                     | -   | -                            | -                          | -                      | 122,902           |
| Exchange differences on translating foreign operations | -                  | -                    | -                  | -                      | -                    | -                      | -                           | (2,324)                                   | -                            | -                          | -                      | (2,324)           |
| Net income recognised directly in equity               | -                  | -                    | -                  | -                      | -                    | -                      | 4,361,282                   | (2,324)                                   | -                            | -                          | -                      | 4,358,958         |
| Profit for the year                                    | -                  | -                    | -                  | -                      | -                    | 10,168,490             | -                           | -   | -                            | -                          | (3,820)                | 10,164,670        |
| Total recognised income and expenses for the year      | -                  | -                    | -                  | -                      | -                    | 10,168,490             | 4,361,282                   | (2,324)                                   | -                            | -                          | (3,820)                | 14,523,628        |
| Dividends  | -                  | -                    | -                  | -                      | -                    | (1,378,359)            | -                           | -   | -                            | -                          | -                      | (1,378,359)       |
| Bonus shares   | 697,331            | -                    | -                  | -                      | -                    | (697,331)              | -                           | -   | -                            | -                          | -                      | -                 |
| Transfer to reserves                                   | -                  | -                    | -                  | 1,055,187              | 1,055,187            | (2,110,374)            | -                           | -   | -                            | -                          | -                      | -                 |
| Equity share options issued                            | -                  | -                    | 31,256             | -                      | -                    | -                      | -                           | -   | 7,810                        | -                          | -                      | 39,066            |
| Purchase of Treasury Shares                            | -                  | (1,742,224)          | -                  | -                      | -                    | -                      | -                           | -   | -                            | -                          | -                      | (1,742,224)       |
| <b>Balance at 31 December 2005</b>                     | <b>14,643,956</b>  | <b>(1,925,212)</b>   | <b>237,841</b>     | <b>4,003,979</b>       | <b>3,571,873</b>     | <b>14,552,803</b>      | <b>6,250,171</b>            | <b>11,754</b>                             | <b>1,734,683</b>             | <b>7,810</b>               | <b>(3,820)</b>         | <b>43,085,838</b> |
| Minority Interest                                      | -                  | -                    | -                  | -                      | -                    | -                      | -                           | -   | -                            | -                          | 60,000                 | 60,000            |
| <b>Balance at 31 December 2005</b>                     | <b>14,643,956</b>  | <b>(1,925,212)</b>   | <b>237,841</b>     | <b>4,003,979</b>       | <b>3,571,873</b>     | <b>14,552,803</b>      | <b>6,250,171</b>            | <b>11,754</b>                             | <b>1,734,683</b>             | <b>7,810</b>               | <b>56,180</b>          | <b>43,145,838</b> |

The attached notes form an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the period from 1 January 2005 to 31 December 2005

|  | Note     | 2005 (KD)          | 2004 (KD)           |
|--|----------|--------------------|---------------------|
| <b>Cash flows from operating activities</b>                                |          |                    |                     |
| Profit for the year  |          | 10,168,490         | 9,525,411           |
| Adjustments:   |          |                    |                     |
| Equity share options granted   |          | 7,810              | -                   |
| Change in minority interest  |          | 56,180             | -                   |
| Unrealised gains on investments at fair value through profit or loss       |          | (2,748,398)        | (875,724)           |
| Gains on disposal of investments available for sale                        |          | (762,270)          | (54,182)            |
| Dividends  |          | (341,461)          | (207,196)           |
| Share of income from an associate  |          | (526,165)          | (65,843)            |
| (Gains)/losses from unconsolidated subsidiaries                            |          | (336)              | 12,980              |
| Gain on sale of interest in subsidiary                                     |          | -                  | (3,688,460)         |
| Gain on sale of real estate division                                       |          | -                  | (2,790,663)         |
| Depreciation   |          | 264,371            | 220,743             |
| Provision for impairment of loans and receivables                          |          | 170,385            | 27,596              |
| Provision for investments available for sale                               |          | 122,902            | 313,574             |
| <b>Net cash (used in)/from operating activities</b>                        |          | <b>6,411,508</b>   | <b>2,418,236</b>    |
| <b>Operating income before changes in operating assets and liabilities</b> |          |                    |                     |
| Investments at fair value through profit or loss                           |          | (3,100,942)        | (871,715)           |
| Loans and receivables  |          | (8,519,242)        | (1,379,787)         |
| Other assets   |          | (863,147)          | (318,704)           |
| Accounts payable and other liabilities                                     |          | 2,954,970          | 399,544             |
| <b>Net cash (used in)/from operating activities</b>                        |          | <b>(3,116,853)</b> | <b>247,574</b>      |
| <b>Cash flows from investing activities</b>                                |          |                    |                     |
| Acquisition of investments available for sale                              |          | (2,677,944)        | (3,971,907)         |
| Proceeds from disposal of investments available for sale                   |          | 2,862,873          | 544,227             |
| Investment in an associate   |          | -                  | (1,273,387)         |
| Capital distribution from unconsolidated subsidiaries                      |          | 74,157             | 168,416             |
| Investment in subsidiaries   |          | -                  | (9,875,000)         |
| Sale proceeds of interest in subsidiary                                    |          | -                  | 11,708,600          |
| Sale proceeds of real estate division                                      |          | -                  | 3,559,610           |
| Acquisition of intangible asset  |          | (113,766)          | (12,500,000)        |
| Acquisition of equipment   |          | (659,076)          | (158,182)           |
| Dividends  |          | 341,461            | 207,196             |
| <b>Net cash used in investing activities</b>                               |          | <b>(172,295)</b>   | <b>(11,590,427)</b> |
| <b>Cash flows from financing activities</b>                                |          |                    |                     |
| Loans from banks   |          | 8,610,889          | 7,800,427           |
| Loans to subsidiaries  |          | -                  | (125,000)           |
| Sale of treasury shares  |          | -                  | 2,623,063           |
| Purchase of treasury shares  |          | (1,742,224)        | -                   |
| Proceeds from employee share option plan                                   |          | 31,256             | 353,920             |
| Dividends paid   |          | (1,378,359)        | (619,800)           |
| <b>Net cash from financing activities</b>                                  |          | <b>5,521,562</b>   | <b>10,032,610</b>   |
| Increase/(decrease) in cash and cash equivalents                           |          | 2,232,414          | (1,310,243)         |
| Cash and cash equivalents at beginning of the year                         |          | 1,267,580          | 2,577,823           |
| <b>Cash and cash equivalents at end of the year</b>                        | <b>3</b> | <b>3,499,994</b>   | <b>1,267,580</b>    |

The attached notes form an integral part of the consolidated financial statements.

## **1. INCORPORATION AND PRINCIPAL ACTIVITIES**

Kuwait and Middle East Financial Investment Company KSC (the "Company") is a Kuwaiti Shareholding Company incorporated on 1 January 1984. The Company is engaged in carrying out investment and portfolio management activities for its own account and for clients.

The consolidated financial statements of the Company for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Company's interest in an associate.

The Company's registered office is at 13<sup>th</sup> floor, Kuwait Real Estate Bank Building, Joint Banking Center, Kuwait city, Kuwait.

The Company's shares are listed on the Kuwait Stock Exchange. The Company is a subsidiary of The Bank of Kuwait and the Middle East (the parent company), which is listed on the Kuwait Stock Exchange. In 2004 The Bank of Kuwait and the Middle East became the subsidiary of Ahli United Bank B.S.C., a Bahraini bank (ultimate parent), listed on Bahrain Stock Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 5 February 2006 and will be submitted to the shareholders of the Company for approval at the forthcoming Annual General Assembly.

## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

### **a) Basis of preparation**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as modified for use by the Government of Kuwait for financial institutions regulated by the Central Bank of Kuwait.

These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for 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.

These consolidated financial statements are prepared under the historical cost convention as modified by revaluation of financial assets classified as 'at fair value through profit or loss' and 'available for sale'.

The Group has adopted all applicable revisions to International Financial Reporting Standards ("IFRS's") and new IFRSs that came into effect from 1 January 2005.

There was no significant financial effect on the consolidated statement of income or opening retained earnings from the adoption of above standards, except for the following :

In accordance with the revised IAS 38: Intangible Assets, the Group does not amortise its intangible assets with an indefinite life. As a result, the Group did not charge amortisation amounting to KD 630,688 during the year.

### **b) Consolidation**

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries, other than those which are held with a view to disposal within twelve months and subsidiaries which are considered as not material to



the financial statements, are consolidated from the date control effectively commences until the date control effectively ceases.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All material intra-group balances and transactions including material unrealised gains and losses arising from intra-group transactions have been eliminated on consolidation.

Minority interest represents the portion of profit or loss and net assets in consolidated subsidiaries not held by the Group. Minority interest is presented separately in the consolidated statement of income and within equity in the consolidated balance sheet.

The financial statements of Future E-Trade Company (K.S.C.C), a subsidiary is consolidated based on management accounts for the year. Investments in subsidiaries Safat Ltd, KME Fund Managers Ltd and KME Cayman Ltd are not considered material to the financial statements of the Group and are equity accounted based on management accounts for the year.

### **c) Cash and cash equivalents**

Cash and cash equivalents comprise cash and bank balances, short-term deposits and investments in money market funds with original maturity of three months or less.

### **d) Financial instruments – recognition and de-recognition, classification and measurement**

#### **Recognition and de-recognition**

All financial assets and liabilities are initially recognised at cost including transaction costs except for financial assets classified as fair value through profit or loss.

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset is de-recognised either when the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset.

#### **Classification and measurement**

##### ***Fair value through Profit or loss***

This category has two sub- categories: financial assets held for trading and those designated as fair value through profit or loss at the time of acquisition. Financial assets classified as fair value through profit or loss are subsequently measured and carried at fair value. Resultant unrealised gains and losses arising from changes in fair value are included in the statement of income. This includes all derivative financial instruments other than those held for hedging.

##### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are carried at amortized cost using effective interest method, less any provision for impairment.

##### ***Available for sale***

These are non derivative financial assets not included in any of the above classifications and are principally those acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate or equity prices. These are subsequently measured and carried at fair value and any resultant unrealised gains or losses are recognised in equity. When the

“available for sale” asset is disposed off or impaired, the related accumulated fair value adjustments in equity are transferred to the statement of income as realised gains or losses.

### ***Financial liabilities***

Financial liabilities other than liabilities classified as at fair value through profit or loss are carried at amortised cost using the effective yield method.

### **Trade and settlement date accounting**

All regular way purchases and sales of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in the statement of income. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

### ***Fair values***

For financial instruments traded in organised financial markets, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of interest –bearing financial instruments is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of forward exchange contract is calculated by reference to forward exchange rates with similar maturities.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, on the expected discounted cash flows, other appropriate valuation models or brokers’ quotes.

### ***Impairment of financial assets***

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset, or a group of financial assets, may be impaired. In the case of financial asset classified as available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets 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 the statement of income, is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on available for sale financial asset are not reversed through the statement of income.

Loans and receivables are subject to credit risk provision for loan impairment if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the original effective interest rate and current interest rate for fixed and floating rate loans respectively. The amount of loss arising from impairment is taken to the statement of income.

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

#### **e) Investments in an associate**

Associated companies are those entities in which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associates is accounted for by equity method of accounting. Any impairment in value is recognised in statement of income.

#### **f) Intangible assets**

Identifiable non-monetary assets acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets with an indefinite life are carried at cost less accumulated impairment losses and such intangible assets are systematically tested for impairment at each balance sheet date. Other intangible assets are carried at cost less amortisation and impairment losses, if any. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

#### **g) Equipment**

Equipments are stated at cost less accumulated depreciation and impairment losses if any. Equipment are impaired if the carrying amount of the asset or its cash generating unit exceeds its recoverable amount. The impairment losses are recognised in the income statement.

Depreciation is calculated based on the estimated useful lives of the applicable assets using the straight-line method. The estimated useful lives of equipment are 4 to 7 years.

#### **h) Provisions**

Provisions are recognised when, as a result of past events, it is probable that an out flow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **i) Employees' end of service indemnity**

Provision is made for employees' end of service indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of involuntary termination of staff at the balance sheet date. This basis is considered to be an approximation of the present value of final obligation.

#### **j) Treasury shares**

The cost of the Company's own shares purchased, including directly attributable costs is recognised in equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and in accordance with the instructions of Central Bank of Kuwait, these amounts are not available for distribution. No cash dividend is paid on treasury shares held by the Company. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

### **k) Revenue recognition**

Management fees, performance fees and placement fees are accounted on an accrual basis as soon as the fees are earned. Commission incomes are recognised when earned. Interest incomes are recognised on accrual basis. Dividend incomes are recognised when the right to receive payment is established. Share of income from an associate are the Company's share of the total recognized gains and losses of an associate. Realised gains or losses on dealing in securities represent differences between sale proceeds and cost of securities on a weighted average basis.

### **l) Foreign currency translation**

Foreign currency transactions are recorded at rates of exchange ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies, outstanding at the year end are translated into Kuwaiti Dinars at rates of exchange ruling at the balance sheet date. Any resultant gains or losses are taken to the income statement. Translation difference on non-monetary assets classified as 'fair value through profit or loss' are reported as part of the fair value gain or loss in the statement of income and 'available for sale' assets are included in the cumulative changes in fair value, in equity.

Foreign subsidiaries are treated as independent foreign units. The balance sheets of foreign subsidiaries are translated at the year end exchange rate and their profit and loss accounts are translated at the rates of exchange prevailing at the date of transaction. The exchange differences are taken to equity.

### **m) Fiduciary assets**

Third party assets managed by the Group and assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

### **n) Share-based payments**

The share option programme allows employees to acquire shares of the Company. Prior to adoption of IFRS 2: Share-based Payments, expenses in respect of share option granted to employees were not measured and recognised in the financial statements. Effective 1 January 2005 the Company applied the requirements of IFRS 2. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005. The fair value of options granted is recognised as an employee expense with corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest during the period.

### **o) Estimates and judgement**

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and judgements also affect the revenues and expenses and the resultant provisions as well as the fair value changes reported in the equity.

### **Estimation uncertainty**

#### ***Provision for loan losses***

Considerable judgement by management is required in estimation of the amount and timing of future cash flows when determining the level of provisions required for non-performing credit facilities. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ resulting in future changes in such provisions.

#### ***Unquoted investment securities***

The valuation techniques for unquoted investment securities make use of estimates such as future cash flows, discount factors, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

Any changes in these estimates and assumptions as well as the use of different but equally reasonable estimates and assumptions may have an impact on the carrying values of the provision for investment securities and fair value of unquoted investment securities.

### **Judgements**

#### ***Classification of investments***

Management decides on acquisition of an investment whether it should be classified as at fair value through profit and loss or available for sale. The Group classifies investments as at fair value through profit and loss if they are acquired for the purpose of making short term gains. All other investments are classified as available for sale.

#### ***Impairment of investments***

The Company treats available for sale unquoted investment securities as impaired when there is objective evidence that impairment exists. The determination of what is objective evidence of impairment requires considerable judgement and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

### **p) Segment reporting**

The company is organized in to functional business divisions in order to manage its various lines of business. Segment results include revenue and expenses directly attributable to a segment and an allocation of cost of funds to segments based on the daily weighted average balance of segment assets. Segment revenue and segment expenses do not include adjustment for inter segment transfers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 3. CASH AND CASH EQUIVALENTS

|                        | 2005 (KD)        | 2004 (KD)        |
|------------------------|------------------|------------------|
| Cash and bank balances | 2,562,772        | 767,580          |
| Fixed deposits         | 937,222          | 500,000          |
| <b>Total</b>           | <b>3,499,994</b> | <b>1,267,580</b> |

At 31 December 2005, the Company placed KD 275,845 with a local bank on behalf of its consolidated subsidiary. This amount is not included in the Company cash balances, but included in consolidated financial statements through consolidation. The effective interest rate on fixed deposits was 6% per annum for the year ended 31 December 2005 (2004: 3%)

### 4. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|                 | 2005 (KD)         | 2004 (KD)        |
|-----------------|-------------------|------------------|
| Quoted equities | 2,884,022         | 1,855,885        |
| Quoted funds    | 12,522,015        | 7,700,812        |
| <b>Total</b>    | <b>15,406,037</b> | <b>9,556,697</b> |

### 5. INVESTMENTS-AVAILABLE FOR SALE

|                             | 2005 (KD)         | 2004 (KD)        |
|-----------------------------|-------------------|------------------|
| Quoted equities             | 6,767,799         | 5,258,593        |
| Unquoted equities and funds | 7,537,544         | 4,421,701        |
| Impairment                  | (122,902)         | (313,574)        |
| <b>Total</b>                | <b>14,182,441</b> | <b>9,366,720</b> |

Investments available for sale include unquoted equities with original cost of KD 153,968 (2004: KD 1,535,088) carried at cost less impairment losses since it was not possible for the management to reliably estimate its fair value using other bases of measurements.

During the year 2005, the Company pledged its quoted available for sale investments amounting to KD 4.73 million with a foreign bank for issuance of a guarantee of AED 50,000,000 to Dubai Financial Market (DFM) on behalf of its subsidiary Middle East Financial Brokerage Company L.L.C, UAE.

### 6. LOANS AND RECEIVABLES

|                                | 2005 (KD)         | 2004 (KD)        |
|--------------------------------|-------------------|------------------|
| Loans to staff                 | 49,089            | 41,340           |
| Loans to others                | 12,920,484        | 4,408,991        |
|                                | 12,969,573        | 4,450,331        |
| General provision (see note 2) | (259,391)         | (89,006)         |
| <b>Total</b>                   | <b>12,710,182</b> | <b>4,361,325</b> |

The effective interest rates on loans and receivables are stated in note no 24.

## 7. INVESTMENT IN AN ASSOCIATE

At 31 December 2005, the Company is holding 21.60% (2004: 21.60%) interest in Strategia Investment Company K.S.C.C.

Summarised financial information in respect of the Group's associate is set out below:

|  | 2005 (KD)      | 2004 (KD)     |
|--|----------------|---------------|
| Total assets                                     | 21,341,036     | 15,522,724    |
| Total liabilities                                | 3,411,688      | 30,994        |
| Net assets                                       | 17,929,348     | 15,491,730    |
| Group's share of associate's net assets          | 3,136,190      | 2,610,025     |
| Revenue  | 3,184,720      | 640,858       |
| Profit for the year                              | 2,459,025      | 221,345       |
| Group's share of associate's profit for the year | <b>526,165</b> | <b>65,843</b> |

## 8. CONSOLIDATED SUBSIDIARIES

The following are the consolidated subsidiaries of the Company.

| Name of Entity                                    | Country | Activity         | Capital        | % of holding |
|---|---------|------------------|----------------|--------------|
| <b>Subsidiaries</b>                               |         |                  |                |              |
| 1. Online Soft Computer Systems Company (K.S.C.C) | Kuwait  | Online brokerage | KD 500,000     | 100%         |
| 2. Al Awsat First Holding Company (K.S.C.C.)      | Kuwait  | Holding company  | KD 1,000,000   | 100%         |
| 3. Middle East Financial Brokerage Company L.L.C. | U.A.E.  | Brokerage        | AED 10,000,000 | 49%          |
| 4. Middle East Brokerage Company L.L.C.           | Oman    | Brokerage        | OMR 1,000,000  | 100%         |
| 5. Future E-Trade Company (K.S.C.C)               | Kuwait  | Electronic trade | KD 150,000     | 60%          |

All the above consolidated subsidiaries were incorporated during the year 2005.

## 9. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

|                                | Country of incorporation | % of holding | Year of incorporation | 2005 (KD)     | 2004 (KD)      |
|--------------------------------|--------------------------|--------------|-----------------------|---------------|----------------|
| Safat Limited                  | Antigua & Barbuda        | 100          | 1986                  | 15,937        | 99,327         |
| KME Fund Managers Limited      | Guernsey                 | 100          | 1988                  | 13,309        | 13,040         |
| KME Cayman Limited             | Cayman Islands           | 100          | 2005                  | 7,300         | -              |
| KME Investors Services Limited | Antigua & Barbuda        | 100          | 1987                  | -             | 324            |
| <b>Total</b>                   |                          |              |                       | <b>36,546</b> | <b>112,691</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 10. OTHER ASSETS

|  | 2005 (KD)        | 2004 (KD)        |
|--|------------------|------------------|
| Accrued management fee                 | 507,263          | 862,247          |
| Employee share option plan receivables | 507,263          | 69,065           |
| Due from unsettled trades              | 1,200,679        | 294,700          |
| Others                                 | 735,948          | 399,792          |
| <b>Total</b>                           | <b>2,488,951</b> | <b>1,625,804</b> |

### 11. INTANGIBLE ASSETS

During 2004, the Group acquired a broking licence from the Kuwait Stock Exchange for KD 12,500,000 and started brokerage operations. During 2005, the Group obtained another brokerage licence in Sultanate of Oman from Muscat Securities Market at a cost of KD 113,766 (Omani Riyals 150,000). The management believes that these licences have indefinite life.

### 12. EQUIPMENT

|                                 | Furniture & Equipment | Computers      | Software       | Total            |
|---------------------------------|-----------------------|----------------|----------------|------------------|
| <b>Cost</b>                     |                       |                |                |                  |
| At 1 January 2005               | 578,127               | 352,091        | 429,154        | 1,359,372        |
| Additions                       | 181,468               | 320,329        | 157,279        | 659,076          |
| Disposals                       |                       |                |                |                  |
| At 1 December 2005              | <u>759,595</u>        | <u>672,420</u> | <u>586,433</u> | <u>2,018,448</u> |
| <b>Accumulated depreciation</b> |                       |                |                |                  |
| At 1 January 2005               | 429,484               | 210,147        | 121,716        | 761,347          |
| Depreciation                    | 115,310               | 82,824         | 66,237         | 264,371          |
| Disposals                       |                       |                |                |                  |
| At 1 December 2005              | <u>544,794</u>        | <u>292,971</u> | <u>187,953</u> | <u>1,025,718</u> |
| <b>Net book value</b>           |                       |                |                |                  |
| At 1 December 2005              | <u>214,801</u>        | <u>379,449</u> | <u>398,480</u> | <u>992,730</u>   |
| At 1 December 2004              | <u>148,643</u>        | <u>141,944</u> | <u>307,438</u> | <u>598,025</u>   |
| Depreciation rates              | <u>20%-25%</u>        | <u>25%</u>     | <u>14.34%</u>  |                  |

### 13. LOANS FROM BANKS

|                      | 2005 (KD)         | 2004 (KD)        |
|----------------------|-------------------|------------------|
| Unsecured bank loans | 16,736,200        | 8,252,475        |
| Secured bank loans   | 735,075           | 607,911          |
| <b>Total</b>         | <b>17,471,275</b> | <b>8,860,386</b> |

Secured loans amounting to US\$ 2.52 million (2004: US\$ 2.05 million) represents margin loan taken from a foreign bank by mortgaging shares. These loans have been taken at existing LIBOR rates and have indefinite maturity period. Unsecured loans represent money market loans and revolving loans taken from banks. Effective interest rates of loans from banks are stated in note no 24.



## 14. SHAREHOLDERS' EQUITY

### a) Share capital

At 31 December 2005, the authorised issued and fully paid share capital consists of 146,439,563 shares of 100 fils each (2004: 139,466,250 shares of 100 fils each) which includes 6,037,500 shares (2004: 6,037,500 shares) on account of share option plan for employees (see note 17).

### b) Share premium

The share premiums are premiums collected upon issuing new shares to employees under employee stock option plan. These amounts are not available for distribution.

### c) Statutory reserve

In accordance with the Commercial Company Law and the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of up to 5% of share capital in years when retained earnings are not sufficient for payment of dividend.

### d) General reserve

In accordance with the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to the general reserve. The transfer to this reserve can be discontinued by a resolution adopted by the Board of Directors. The general reserve includes dividends received on the treasury shares prior to Central Bank of Kuwait circular no. 2/RS/75/99 dated 14 December 1999, amounting to KD 36,500 (2004: KD 36,500) which are non-distributable.

### e) Treasury shares

At 31 December 2005 the Company held 3,200,365 shares (2004: 1,009,872 shares) of its own share capital, equivalent to 2.19% (2004: 0.72%) of the total issued share capital at that date. The market value of the Company's own shares as at 31 December 2005 was KD 2,528,288 (2004: KD 459,492).

### f) Treasury share reserves are non-distributable.

## 15. INTEREST INCOME AND EXPENSES

|                               | 2005 (KD)      | 2004 (KD)        |
|-------------------------------|----------------|------------------|
| <b>Interest income:</b>       |                |                  |
| Term deposits                 | 58,648         | 734,260          |
| Loans and advances            | 793,373        | 254,808          |
| Others                        | 4,830          | 64,269           |
| <b>Total interest income</b>  | <b>856,851</b> | <b>1,053,337</b> |
| <b>Interest expenses:</b>     |                |                  |
| Bank borrowings               | 518,756        | 652,540          |
| Others                        | 72,344         | 5,873            |
| <b>Total interest expense</b> | <b>591,100</b> | <b>658,413</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 16. EARNINGS PER SHARE

|   | 2005        | 2004        |
|---|-------------|-------------|
| Net income for the year (KD)  | 10,168,490  | 9,525,411   |
| Weighted average number of issued shares                              | 139,466,250 | 136,292,957 |
| Issue of Bonus shares for 2005  | 6,973,313   | 6,973,313   |
| Weighted average number of Company's treasury shares                  | (1,268,502) | (3,995,549) |
| Weighted average number of shares issued – employee share option plan | -           | 2,666,542   |
| Adjusted weighted average number of shares                            | 145,171,061 | 141,937,263 |
| Earnings per share (Fils)   | 70.04       | 67.11       |

### 17. EMPLOYEE SHARE OPTION PLAN

The Annual General Assembly of the shareholders held on 12 March 2001 approved a stock option plan for employees. In accordance with the plan, the Board of Directors of the Company are authorised to issue up to 6,037,500 shares as stock options to the employees.

The Option will be vested to only those employees who are employed with the Company as on the vesting date. The Board of Directors are authorised to allocate unexercised share options relating to employees who resign or are terminated from services, to new employees of the Company.

The current option plan granted to employees 595,226 shares on 28 January 2004, which will vest over a three year period starting from 28 January 2005. The option can be exercised starting from 28 January 2005, as per the following criteria:

- Not more than 40% after the expiry of first year from the option grant;
- Not more than 80% after the expiry of second year from the option grant;
- 100% after the expiry of third year from the option grant.

The option plan will expire in March 2010.

During the year, the Company has accounted for stock options granted after 7 November 2002 that were invested as at 31 December 2004, amounting to KD 7,810. This amount has been recognised as staff expenses with a corresponding credit to stock options reserve in equity.

The fair value of the options granted to employees during 2004 has been determined on the date of the respective grant using the Chicago Board of Exchange option-pricing model by applying European Option Style.

The following are the summary of the options exercised and cancelled during the year.

|  | Options Outstanding | Weighted exercise price | Weighted average share price |
|--|---------------------|-------------------------|------------------------------|
| Balance as at 31 December 2004             | 810,576             |                         |                              |
| Options granted during the year            | -                   |                         |                              |
| Options Exercised during 2005              | (240,045)           | 230 fils                | 432 fils                     |
| Options Cancelled during the year          | (39,000)            |                         |                              |
| Add : Bonus shares issued during 2005      | 31,026              |                         |                              |
| Add : Cancelled options during the year    | 39,000              |                         |                              |
| Outstanding Options as at 31 December 2005 | 601,557             |                         |                              |

Granted options outstanding as at 31 December 2005 was 343,181 (2004 : 622,226)

## 18. PROPOSED DIVIDEND AND ISSUE OF BONUS SHARES

The Board of Directors have proposed a cash dividend of 30% amounting to 30 fils per share (2004: 10% amounting to 10 fils per share).

The Board of Directors have also proposed an issue of 20 bonus shares for every 100 shares held (2004: 5 bonus shares for every 100 shares held). The financial statements have not been adjusted to reflect the dividend or the issue of bonus shares as they are subject to the approval of the shareholders in the Annual General Assembly meeting.

## 19. RELATED PARTY TRANSACTIONS

Related parties primarily comprise subsidiaries, associates, significant shareholders, directors and key management personnel of the Group, their families and entities of which they are principal owners. All related party transactions are carried at terms approved by the Group's management.

The year-end balances included in the consolidated financial statements are as follows:

| Amounts due to/from related parties                   | Number of directors and executive officers |      | Number of parties related to directors and executive officers |      | Amount           |                  |
|---|--|------|---|------|------------------|------------------|
|   | 2005                                       | 2004 | 2005  | 2004 | 2005 (KD)        | 2004 (KD)        |
| <b>Directors</b>                                      |  |      |   |      |                  |                  |
| Loans and advances                                    | 2  | -    | -   | -    | 620,935          | -                |
| <i>Key Management Personnel</i>                       |  |      |   |      |                  |                  |
| Loans and advances                                    | 1  | 1    | -   | -    | 109,266          | 11,710           |
|   |  |      |   |      | <b>2005 (KD)</b> | <b>2004 (KD)</b> |
| <b>Other related party balances</b>                   |  |      |   |      |                  |                  |
| Deposits placed with parent company                   |  |      |   |      | 1,571,686        | 1,241,347        |
| Loan from parent company                              |  |      |   |      | 15,247,000       | 8,252,475        |
| Loan from subsidiary company                          |  |      |   |      | 153,237          | -                |
| Receivable from parent company                        |  |      |   |      | 20,303           | 7,200            |
| Investments and funds managed in a fiduciary capacity |  |      |   |      | 85,613,707       | 44,171,998       |
| Commitments and contingent liabilities                |  |      |   |      | 8,200,460        | 200,000          |
| Foreign exchange contracts                            |  |      |   |      | -                | 201,125          |

Transactions with related parties are as follows:

|   | 2005 (KD)      | 2004 (KD)      |
|---|----------------|----------------|
| <b>Directors and key management personnel</b> |                |                |
| Directors' fees                               | 60,000         | 64,000         |
| Salaries and other short term benefits        | 263,636        | 209,836        |
| Management fees earned                        | 33,988         | 56,353         |
| <b>Total</b>                                  | <b>357,624</b> | <b>330,189</b> |
| <b>Other related party transactions</b>       |                |                |
| Management fees earned                        | 460,122        | 244,154        |

## 20. COMMITMENTS AND CONTINGENCIES

|  | 2005 (KD)  | 2004 (KD) |
|--|------------|-----------|
| Bank guarantees  | 12,175,690 | 200,000   |
| Uncalled capital contributions relating to investments | 413,441    | 438,968   |
| Outstanding foreign exchange commitments               | 375,585    | 7,585,525 |

## 21. FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the Company on behalf of clients. These are not assets of the Company and accordingly are not included in the financial statements. As at the balance sheet date total fiduciary assets managed by the Company amounted to KD 1,196 million equivalent to US\$ 4,097 million (2004: KD 674 million equivalent to US\$ 2,287 million).

## 22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group in the normal course of business uses various types of financial instruments. Information on financial risks and fair value of these financial instruments is set out below.

### Credit risk

The Group is exposed to credit risk if counterparties fail to perform as contracted. Financial assets which potentially subject the Group to credit risk consist principally of cash equivalents and loans and receivables. The Group's maximum exposure to credit risk is equal to the carrying amount of the above assets disclosed in the balance sheet. Credit risk inherent in outstanding foreign exchange commitments disclosed in note 20, if the counterparty is unable to settle, is limited to the difference between the contracted value of the transaction and the cost of completing it with another party.

The Group seeks to manage its credit risk by monitoring credit exposures and assessing the creditworthiness of counterparties. The Group also obtains security when appropriate. The geographical concentration of assets and liabilities is given in note 23.

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Financial instruments, which potentially subject the Group to interest rate risk, consist principally of cash equivalents, loans and receivables and loans from banks and financial institutions. The Group manages this risk by matching the repricing of related assets and liabilities. The effective interest rates of assets and liabilities are given in note 24.

### Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can also be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents, and readily marketable securities. The maturities of assets and liabilities are given in note 25.

### Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Financial instruments, which potentially subject the Group to market risk, consist principally of investments at fair value through profit and loss and investments available for sale. The Group manages this risk by diversifying its investments and monitoring market movements.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2005

### **Foreign exchange risk**

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to currency risk is equal to the carrying amount of net assets denominated in foreign currencies (note 27). A significant portion of exposure to foreign currencies is in US Dollars which is pegged to Kuwaiti Dinars.

### **Operational risk**

The Group has a set of policies and procedures which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the investment and portfolio management activities of the Group. The Company complies in all material respects with the Central Bank of Kuwait instructions dated 14 November 1996 regarding general guidelines for internal control systems and directives issued on 13 October 2003 regarding "Sound Practices for the Management and Control of Operational Risks".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 23. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

|  | Kuwait (KD)       |                   | North America (KD) |                  | Europe (KD)      |                  | Far East (KD)    |                  | Other (KD)       |                  | Total (KD)        |                   |
|--|-------------------|-------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
|  | 31 December 2005  | 31 December 2004  | 31 December 2005   | 31 December 2004 | 31 December 2005 | 31 December 2004 | 31 December 2005 | 31 December 2004 | 31 December 2005 | 31 December 2004 | 31 December 2005  | 31 December 2004  |
| <b>Assets</b>                                    |                   |                   |                    |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| Cash and cash equivalents                        | 1,153,102         | 1,257,430         | -                  | -                | 1,920            | 2,892            | -                | -                | 2,344,972        | 7,258            | 3,499,994         | 1,267,580         |
| Investments at fair value through profit or loss | 7,668,632         | 2,996,583         | 5,500,378          | 4,758,310        | 1,184,296        | 1,322,323        | 402,299          | 479,481          | 650,432          | -                | 15,406,037        | 9,556,697         |
| Investments available for sale                   | 12,961,780        | 7,063,937         | 524,708            | 578,575          | 359,843          | 189,827          | -                | 86,353           | 336,110          | 1,448,028        | 14,182,441        | 9,366,720         |
| Loans and receivables                            | 12,328,635        | 4,361,325         | -                  | -                | -                | -                | -                | -                | 381,547          | -                | 12,710,182        | 4,361,325         |
| Investment in associate                          | 3,136,190         | 2,610,025         | -                  | -                | -                | -                | -                | -                | -                | -                | 3,136,190         | 2,610,025         |
| Investment in unconsolidated subsidiaries        | -                 | -                 | 36,546             | 112,691          | -                | -                | -                | -                | -                | -                | 36,546            | 112,691           |
| Other assets                                     | 1,296,776         | 1,486,775         | 213,615            | 139,029          | -                | -                | -                | -                | 978,560          | -                | 2,488,951         | 1,625,804         |
| Intangible asset                                 | 12,500,000        | 12,500,000        | -                  | -                | -                | -                | -                | -                | 113,766          | -                | 12,613,766        | 12,500,000        |
| Equipment  | 806,560           | 598,025           | -                  | -                | -                | -                | -                | -                | 186,170          | -                | 992,730           | 598,025           |
| <b>Total</b>                                     | <b>51,851,675</b> | <b>32,874,100</b> | <b>6,275,247</b>   | <b>5,588,605</b> | <b>1,546,059</b> | <b>1,515,042</b> | <b>402,299</b>   | <b>565,834</b>   | <b>4,991,557</b> | <b>1,455,286</b> | <b>65,066,837</b> | <b>41,998,867</b> |
| <b>Liabilities and equity</b>                    |                   |                   |                    |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| Loans from banks and financial institutions      | 16,736,200        | 8,252,475         | 735,075            | 607,911          | -                | -                | -                | -                | -                | -                | 17,471,275        | 8,860,386         |
| Accounts payable and other liabilities           | 2,826,995         | 1,494,754         | -                  | -                | -                | -                | -                | -                | 1,622,729        | -                | 4,449,724         | 1,494,754         |
| <b>Total</b>                                     | <b>19,563,195</b> | <b>9,747,229</b>  | <b>735,075</b>     | <b>607,911</b>   | -                | -                | -                | -                | <b>1,622,729</b> | -                | <b>21,920,999</b> | <b>10,355,140</b> |

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For the year ended 31 December 2005

## 24. INTEREST RATE RISK

|  | Upto 1 Month      |                  | 3 to 12 Months |                  | Non-interest sensitive |                   | Total             |                   | Effective Interest rate % |       |             |       |             |       |
|--|-------------------|------------------|----------------|------------------|------------------------|-------------------|-------------------|-------------------|---------------------------|-------|-------------|-------|-------------|-------|
|  | 31 December       |                  | 31 December    |                  | 31 December            |                   | 31 December       |                   | 31 December               |       | 31 December |       | 31 December |       |
|  | 2004              | 2005             | 2004           | 2005             | 2004                   | 2005              | 2004              | 2005              | 2004                      | 2005  | 2004        | 2005  | From        | To    |
|  | KD                | KD               | KD             | KD               | KD                     | KD                | KD                | KD                | KD                        | KD    | KD          | KD    | From        | To    |
| <b>Assets</b>                                    |                   |                  |                |                  |                        |                   |                   |                   |                           |       |             |       |             |       |
| Cash and cash equivalents                        | 2,849,994         | 1,267,580        | 650,000        | -                | -                      | 3,499,994         | 1,267,580         | 1,50%             | 6.00%                     | 1.44% | 1.44%       | 0.75% | 3.00%       | 1.25% |
| Investments at fair value through profit or loss | -                 | -                | -              | 15,406,037       | 9,556,697              | 15,406,037        | 9,556,697         | -                 | -                         | -     | -           | -     | -           | -     |
| Investments available for sale                   | -                 | -                | -              | 14,182,441       | 9,366,720              | 14,182,441        | 9,366,720         | -                 | -                         | -     | -           | -     | -           | -     |
| Loans and receivables                            | 12,662,075        | 4,320,811        | 48,107         | 40,514           | -                      | 12,710,182        | 4,361,325         | 5.00%             | 8.50%                     | 5.42% | 9.16%       | 5.00% | 7.25%       | 3.44% |
| Investment in associate                          | -                 | -                | -              | 3,136,190        | 2,610,025              | 3,136,190         | 2,610,025         | -                 | -                         | -     | -           | -     | -           | 7.00% |
| Investment in unconsolidated subsidiaries        | -                 | -                | -              | 36,546           | 112,691                | 36,546            | 112,691           | -                 | -                         | -     | -           | -     | -           | -     |
| Other assets                                     | -                 | -                | -              | 2,488,951        | 1,625,804              | 2,488,951         | 1,625,804         | -                 | -                         | -     | -           | -     | -           | -     |
| Intangible asset                                 | -                 | -                | -              | 12,613,766       | 12,500,000             | 12,613,766        | 12,500,000        | -                 | -                         | -     | -           | -     | -           | -     |
| Property and equipment                           | -                 | -                | -              | 992,730          | 598,025                | 992,730           | 598,025           | -                 | -                         | -     | -           | -     | -           | -     |
| <b>Total</b>                                     | <b>15,512,069</b> | <b>5,588,391</b> | <b>698,107</b> | <b>40,514</b>    | <b>48,856,661</b>      | <b>36,369,962</b> | <b>65,066,837</b> | <b>41,998,867</b> |                           |       |             |       |             |       |
| <b>Liabilities and equity</b>                    |                   |                  |                |                  |                        |                   |                   |                   |                           |       |             |       |             |       |
| Loans from banks and financial institutions      | 17,471,275        | 8,860,386        | -              | -                | -                      | 17,471,275        | 8,860,386         | 6.00%             | 6.00%                     | 3.22% | 5.08%       | 5.00% | 5.00%       | 2.63% |
| Accounts payable and other liabilities           | -                 | -                | -              | 4,449,724        | 1,494,754              | 4,449,724         | 1,494,754         | -                 | -                         | -     | -           | -     | -           | -     |
| <b>Total</b>                                     | <b>17,471,275</b> | <b>8,860,386</b> | <b>-</b>       | <b>4,449,724</b> | <b>1,494,754</b>       | <b>21,920,999</b> | <b>10,355,140</b> |                   |                           |       |             |       |             |       |
| On-balance sheet interest rate sensitivity gap   | (1,959,206)       | (3,271,995)      | 698,107        | 40,514           | 44,406,937             | 34,875,208        | 43,145,838        | 31,643,727        |                           |       |             |       |             |       |

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For the year ended 31 December 2005

### 25. LIQUIDITY RISK

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

|  | Upto 1 Month (KD)   |                   | 1 to 3 Months (KD)  |                  | 3 to 12 Months (KD) |                  | Over one year (KD)  |                   | Total (KD)          |                   |
|--|---------------------|-------------------|---------------------|------------------|---------------------|------------------|---------------------|-------------------|---------------------|-------------------|
|  | 31 December<br>2005 | 2004              | 31 December<br>2005 | 2004             | 31 December<br>2005 | 2004             | 31 December<br>2005 | 2004              | 31 December<br>2005 | 2004              |
| <b>Assets</b>                                    |                     |                   |                     |                  |                     |                  |                     |                   |                     |                   |
| Cash and cash equivalents                        | 2,849,994           | 1,267,580         | -                   | -                | 650,000             | -                | -                   | -                 | 3,499,994           | 1,267,580         |
| Investments at fair value through profit or loss | 15,406,037          | 9,556,697         | -                   | -                | -                   | -                | -                   | -                 | 15,406,037          | 9,556,697         |
| Investments available for sale                   | 6,767,799           | 5,258,953         | -                   | -                | -                   | -                | 7,414,642           | 4,107,767         | 14,182,441          | 9,366,720         |
| Loans and receivables                            | 711,804             | 338,116           | 3,861,584           | 2,128,477        | 8,136,794           | 1,894,732        | -                   | -                 | 12,710,182          | 4,361,325         |
| Investment in associate                          | -                   | -                 | -                   | -                | -                   | -                | 3,136,190           | 2,610,025         | 3,136,190           | 2,610,025         |
| Investment in unconsolidated subsidiaries        | -                   | -                 | -                   | -                | -                   | -                | 36,546              | 112,691           | 36,546              | 112,691           |
| Other assets                                     | 2,488,951           | 1,625,804         | -                   | -                | -                   | -                | -                   | -                 | 2,488,951           | 1,625,804         |
| Intangible asset                                 | -                   | -                 | -                   | -                | -                   | -                | 12,613,766          | 12,500,000        | 12,613,766          | 12,500,000        |
| Property and equipment                           | -                   | -                 | -                   | -                | 992,730             | -                | 992,730             | 598,025           | 992,730             | 598,025           |
| <b>Total</b>                                     | <b>28,224,585</b>   | <b>18,047,150</b> | <b>3,861,584</b>    | <b>2,128,477</b> | <b>8,786,794</b>    | <b>1,894,732</b> | <b>24,193,874</b>   | <b>19,928,508</b> | <b>65,066,837</b>   | <b>41,998,867</b> |
| <b>Liabilities and equity</b>                    |                     |                   |                     |                  |                     |                  |                     |                   |                     |                   |
| Loans from banks and financial institutions      | 17,471,275          | 8,860,386         | -                   | -                | -                   | -                | -                   | -                 | 17,471,275          | 8,860,386         |
| Accounts payable and other liabilities           | -                   | -                 | -                   | -                | 3,727,037           | 954,515          | 722,687             | 540,239           | 4,449,724           | 1,494,754         |
| <b>Total</b>                                     | <b>17,471,275</b>   | <b>8,860,386</b>  | <b>-</b>            | <b>-</b>         | <b>3,727,037</b>    | <b>954,515</b>   | <b>722,687</b>      | <b>540,239</b>    | <b>21,920,999</b>   | <b>10,355,140</b> |
| <b>Net liquidity gap</b>                         | <b>10,753,310</b>   | <b>9,186,764</b>  | <b>3,861,584</b>    | <b>2,128,477</b> | <b>5,059,757</b>    | <b>940,217</b>   | <b>23,471,187</b>   | <b>19,388,269</b> | <b>43,145,838</b>   | <b>31,643,727</b> |



## 26. SEGMENT REPORTING

### Business segments

The Company operates in the following distinguishable business segments. These business segments form the basis on which the Company reports its primary segmental information.

- International Investments, which is engaged in carrying out investment activities for own account and for clients, in international markets;
- Real Estate Investments, which is engaged in investing in real estate;
- GCC Market Investments, which is engaged in carrying out investment activities for own account and for clients, in the Kuwaiti and GCC markets; and
- Broking, which is engaged in broking and on-line trading for own account and for clients in International and Local market.

Financial information about business segments for the year ended 31 December 2005 and 31 December 2004 are set out below:

|   | International Investments (KD) |           | Real Estate (KD) |         | GCC Markets (KD) |            | Broking (KD) |            | Total (KD)        |                   |
|---|--------------------------------|-----------|------------------|---------|------------------|------------|--------------|------------|-------------------|-------------------|
|   | 2005                           | 2004      | 2005             | 2004    | 2005             | 2004       | 2005         | 2004       | 2005              | 2004              |
| Segment revenue                                   | 1,147,428                      | 523,430   | -                | 206,397 | 8,802,670        | 4,081,748  | 6,227,074    | 1,157,827  | 16,177,172        | 5,969,402         |
| Segment expenses                                  | 835,157                        | 793,066   | -                | 95,968  | 1,617,228        | 903,421    | 3,214,720    | 736,051    | 5,667,105         | 2,528,506         |
| Segment result                                    | 312,271                        | (269,636) | -                | 110,429 | 7,185,442        | 3,178,327  | 3,012,354    | 421,776    | 10,510,067        | 3,440,896         |
| Unallocated Revenues                              |                                |           |                  |         |                  |            |              |            | 949,796           | 6,974,447         |
| Unallocated Expenses                              |                                |           |                  |         |                  |            |              |            | 1,291,373         | 889,932           |
| <b>Profit for the period</b>                      |                                |           |                  |         |                  |            |              |            | <b>10,168,490</b> | <b>9,525,411</b>  |
| Segment assets                                    | 9,157,956                      | 7,653,225 | -                | -       | 24,155,958       | 14,864,777 | 16,626,652   | 12,893,120 | 49,900,566        | 35,411,122        |
| Unallocated assets                                |                                |           |                  |         |                  |            |              |            | 15,166,271        | 6,587,745         |
| <b>Total assets</b>                               |                                |           |                  |         |                  |            |              |            | <b>65,066,837</b> | <b>41,998,867</b> |
| Segment liabilities                               | -                              | -         | -                | -       | -                | -          | 1,469,493    | -          | 1,469,493         | -                 |
| Unallocated liabilities                           |                                |           |                  |         |                  |            |              |            | 20,451,506        | 10,355,140        |
| <b>Total liabilities</b>                          |                                |           |                  |         |                  |            |              |            | <b>21,920,999</b> | <b>10,355,140</b> |
| Capital expenditure                               | -                              | -         | -                | -       | -                | -          | 548,443      | 92,137     | 548,443           | 92,137            |
| Unallocated capital expenditure                   |                                |           |                  |         |                  |            |              |            | 224,398           | 66,045            |
| <b>Total capital expenditure</b>                  |                                |           |                  |         |                  |            |              |            | <b>772,841</b>    | <b>158,182</b>    |
| Depreciation                                      | -                              | -         | -                | -       | -                | -          | 141,358      | 61,025     | 141,358           | 61,025            |
| Unallocated depreciation                          |                                |           |                  |         |                  |            |              |            | 123,012           | 144,400           |
| <b>Total depreciation</b>                         |                                |           |                  |         |                  |            |              |            | <b>264,370</b>    | <b>205,425</b>    |
| Impairment loss recognised in statement of income | 122,902                        | 313,574   | -                | -       | -                | -          | -            | -          | 122,902           | 313,574           |
| Gain/(loss) from unconsolidated subsidiaries      | 336                            | (12,980)  | -                | -       | -                | -          | -            | -          | 336               | (12,980)          |

### Geographical segment

Apart from its main operations in Kuwait, the Company also operates through its foreign subsidiaries in UAE and Oman. The Company's assets relate to different geographical areas of the world. The carrying amount of the Company's assets and liabilities by geographical area are presented in note 23 to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 27. ASSETS DENOMINATED IN FOREIGN CURRENCIES

As at the balance sheet date the Group had the following significant net asset exposures denominated in foreign currencies:

|                | 2005 (KD)         | 2004 (KD)        |
|----------------|-------------------|------------------|
| US Dollars     | 11,470,870        | 780,110          |
| GCC Currencies | 2,711,297         | 651,000          |
| Other          | 184,459           | 45,875           |
| <b>Total</b>   | <b>14,366,626</b> | <b>1,476,985</b> |

### 28. COMPARATIVES

Certain comparative figures have been regrouped to confirm with current year classification.