نـــور
NOOR

Noor Financial Investment Co. شركة نـــور للإستثمار المالي

2006 Annual Report

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Annual Report 2006

NOOR
نـــور

Noor Financial Investment Co. شركة نـــور للإستثمار المالي

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

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

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

" Noor's management team has successfully carried out the objectives of the company. This has been accomplished, in part, by investing in variety of geographies and sectors. Noor's assets under management have more than tripled from KD 22.6 million in 2005 to KD 72 million. Additionally, the Company's total assets have grown by 47 % over 2005, to KD 168.5 million. "

Achievements

Contents

Board Members

Hussam Fawzi Al Kharafi
Chairman

Naser A. Al Marri
Vice Chairman & Managing Director

Sheikh Khalifa A. Al Sabah
Board Member

Abdullatif A. Al Asfour
Board Member

Abdulghani M. Behbehani
Board Member

Executive Management

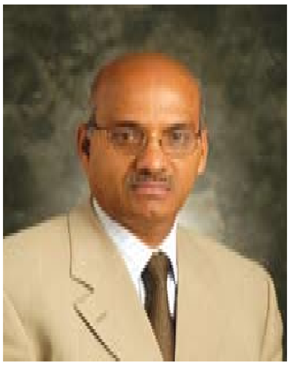
Catherine Pfeiffer
General Manager Corporate Finance

Nawal Ahmed
Chief Investment Officer

Sharfuddin Manzoor
Chief Financial Officer

Omar Samara, CMC
Asst. Deputy Chairman
Corporate Finance

Ruba Anwar Al Ateeqi
Head of Human Resources
and Administration



Babu Thomas
Treasurer

Chairman's Address

Dear Shareholders,

On behalf of myself and my fellow Board Members, it gives me great pleasure to present the 2006 annual accounts of Noor Financial Investment Company. Since its inception, Noor has been a strong performer and despite a difficult year in the Kuwait stock Market during 2006, it was another successful year for Noor, with the Company generating a net profit of KD 15.57 million. We continue to fulfill our vision of becoming the premier investment banking institution in the region.

While 2006 local and GCC market conditions were not favorable, our global emerging market investment strategy enabled us not only to maintain last year's earning levels but also to increase our earnings per share, from 59 fils to 62 fils. In addition to diversifying geographically, a major contributing factor was a significant increase in fee-based earnings. The total revenue generated from fee based activities in 2006 was KD 4.26 million. This represents a substantial increase over the fee-based earnings in 2005 of KD 50,486.

Noor's management team has successfully carried out the objectives of the company. This has been accomplished, in part, by investing in variety of geographies and sectors. Noor's assets under management have more than tripled from KD 22.6 million in 2005 to KD 72 million. Additionally, the Company's total assets have grown by 47 % over 2005, to KD 168.5 million.

Business Overview

Corporate Finance Department:

2006 in Review

In 2006, we formed regional and country teams covering the Middle East and North Africa (MENA), Pakistan, China, India and Turkey/Central and Eastern Europe (CEE), as well as a team dedicated to establishing private equity funds. Through these teams, we have successfully executed our strategy of diversifying our sources of income. This was accomplished by providing advisory and capital-raising services, as well as establishing new companies and investment vehicles across our focus regions. Transactions completed over this year and in the pipeline are additionally spread across sectors with high growth potential including financial services, telecommunications, oil & gas, infrastructure, education and real estate development.

Vision for 2007

In the coming year, we intend to expand our revenue base through an increased number of transactions and variety of products and services. We will focus on the execution of our existing and robust pipeline of projects across MENA and Asia, including privatizations, private placements, direct investments, greenfield development projects and pre-IPO opportunities. We seek to advance the successful strategic partnerships that we have developed in our target countries to provide attractive investment opportunities for our clients and our proprietary book. We will continue to build our team and our capabilities to provide superior service to our clients in the provision of advisory services and access to the equity and debt capital markets through innovative offerings, both conventional and Sharia-compliant.

Asset Management Department:

Local Investments

2006 in Review

We had an excellent year in terms of relative market performance and product development. Our internal local portfolio outperformed the Kuwait indices considerably. We also launched futures trading which is performing above expectations.

Vision for 2007

Our local portfolio management department looks to increase investment revenues by outperforming the benchmarks. At the same time, we intend to increase investment fee income by growing assets under management. We believe by consistently outperforming the benchmarks we should be able to attract additional assets from our institutional and high net worth client base. There are a number of new products in the pipeline for 2007 for our clients, including a variety of different funds that invest in the Kuwait market. We continue to add talented staff to our portfolio management team in order to enhance our performance in the local market.

International Investments:

2006 in Review

In 2006 we have made very good investment decisions globally, both, in the developed and in developing markets. We have also outperformed international benchmarks in the respective countries where we have invested. These investments have yielded superior investment returns for our shareholders. Our key to success has been well-timed strategies globally in developed US and European markets and emerging markets, such as China, India GCC, Eastern Europe and Pakistan.

Vision for 2007

In order to build upon our success in the coming year, we plan to continue our focus both in the developed and emerging markets to seek out alpha generating opportunities. Additionally, we seek to continue to diversify our asset base globally in order to reduce overall volatility while providing higher returns. We are also seeking to diversify our revenue base by launching a variety of value added, differentiated and globally diverse investment products to our institutional and high net worth client base. These products will include funds managed by highly experienced international managers in the areas of equities, real estate, commodities and other performance enhancing themes. These products will serve to enhance both our investment returns as well as our fee income.

Finally, we will continue to add talented staff and make considerable investments in systems to execute our international strategic vision.

Our main objective is to provide superior results for our clients and shareholders.

Hussam Fawzi Al Kharafi
Chairman of the Board

2007 Vision

" Our local portfolio management department looks to increase investment revenues by outperforming the benchmarks. At the same time, we intend to increase investment fee income by growing assets under management. We believe by consistently outperforming the benchmarks we should be able to attract additional assets from our institutional and high net worth client base. There are a number of new products in the pipeline for 2007 for our clients, including a variety of different funds that invest in the Kuwait market. We continue to add talented staff to our portfolio management team in order to enhance our performance in the local market."

Consolidated Financial Statements And Independent Auditor's Report

Noor Financial Investment Co. K.S.C (Closed) & Subsidiaries
Kuwait
31 December 2006

Contents

Independent Auditors' Report

To the shareholders of
Noor Financial Investment Company – KSC (Closed)
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Noor Financial Investment Company (A Kuwaiti Closed Shareholding Company) ("the parent company") and Subsidiaries ("the group") which comprise the consolidated balance sheet as at 31 December 2006, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the group and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of Commercial Companies Law, as amended, or of the parent company's articles of association have occurred during the year that might have had a material effect on the business of the group or on its financial position.

We further report that, during the course of our audit we have not become aware of any material violations of the provisions of Law 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2006.

Anwar Y. Al-Qatami, F.C.C.A.	Bader A. Al Wazzan
(Licence No. 50-A)	Licence No. 62-A
Grant Thornton – Anwar Al-Qatami & Co.	PricewaterhouseCoopers

Kuwait
6 February 2007

Noor Financial Investment Co. K.S.C (Closed)
and Subsidiaries
Kuwait

Consolidated statement of income
31 December 2006

	Note	**Year ended 31 Dec. 2006 KD**	Year ended 31 Dec. 2005 KD
Income			
Realised gain on investments at fair value through statement of income		2,629,985	6,517,393
Unrealised (loss)/gain on investments at fair value through statement of income		(9,046,782)	9,019,577
Realised gain on sale of available for sale investments		25,143,516	1,704,240
Dividend income		4,976,252	1,336,182
Management and placement fees		4,261,660	50,486
Interest income		566,437	31,673
Other income		65,497	54,374
Foreign exchange loss		(130,106)	(2,157)
		28,466,459	18,711,768
Expenses and other charges			
General, administrative and other expenses	4	5,626,190	2,762,242
Finance costs		6,791,098	910,698
		12,417,288	3,672,940
Profit before KFAS, NLST and directors' remuneration		16,049,171	15,038,828
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(147,143)	(135,349)
National Labour Support Tax (NLST)		(281,638)	-
Directors' remuneration		(50,000)	(50,000)
Profit for the year		15,570,390	14,853,479
EARNINGS PER SHARE	5	**Fils 62**	Fils 59

The notes set out on pages 7 to 19 form an integral part of these consolidated financial statements.

Noor Financial Investment Co. K.S.C (Closed)
and Subsidiaries
Kuwait

Consolidated balance sheet
31 December 2006

	Note	31 Dec. 2006 KD	31 Dec. 2005 KD
Assets			
Cash and bank balances		**4,553,291**	934,686
Short term deposits		**4,188,211**	-
Investments at fair value through statement of income	6	**110,291,856**	78,556,752
Accounts receivable and other assets	7	**10,258,508**	1,210,448
Available for sale investments	8	**38,749,089**	33,805,424
Investment in unconsolidated subsidiary		**306,000**	-
Equipment		**159,139**	143,912
Total assets		**168,506,094**	114,651,222
Liabilities and equity			
Liabilities			
Due to banks	13	**8,218,953**	1,453,425
Accounts payable and other liabilities	9	**22,606,020**	3,024,085
Borrowings	10	**77,485,418**	46,200,000
Provision for end of service indemnity		**69,749**	22,624
Total liabilities		**108,380,140**	50,700,134
Equity			
Share capital	11	**25,000,000**	25,000,000
Legal reserve	12	**3,594,433**	2,259,683
Voluntary reserve	12	**2,838,633**	1,503,883
Cumulative changes in fair value		**(2,831,732)**	16,563,792
Retained earnings		**31,524,620**	18,623,730
Total equity		**60,125,954**	63,951,088
Total liabilities and equity		**168,506,094**	114,651,222

Hussam F. Al-Kharafi
Chairman

Naser A. Al-Marri
Deputy Chairman & Managing Director

The notes set out on pages 7 to 19 form an integral part of these consolidated financial statements.

Noor Financial Investment Co. K.S.C (Closed)
and Subsidiaries
Kuwait

Consolidated statement of changes in equity
31 December 2006

	Share capital	Legal reserve	Voluntary reserve	Cumulative changes in fair value	Retained earnings	Total
	KD	KD	KD	KD	KD	KD
Balance as at 31 December 2004	25,000,000	755,800	-	-	6,778,017	32,533,817
Change in fair value of available for sale investments	-	-	-	16,563,792	-	16,563,792
Net income recognised directly in equity	-	-	-	16,563,792	-	16,563,792
Profit for the year	-	-	-	-	14,853,479	14,853,479
Total recognised income for the year	-	-	-	16,563,792	14,853,479	31,417,271
Transfer to reserves	-	1,503,883	1,503,883	-	(3,007,766)	-
Balance as at 31 December 2005	25,000,000	2,259,683	1,503,883	16,563,792	18,623,730	63,951,088
Change in fair value of available for sale investments	-	-	-	(9,978,116)	-	(9,978,116)
Net gain realised on sale of available for sale investments	-	-	-	(9,417,408)	-	(9,417,408)
Net expense recognised directly in equity	-	-	-	(19,395,524)	-	(19,395,524)
Profit for the year	-	-	-	-	15,570,390	15,570,390
Total recognised (expense)/income for the year	-	-	-	(19,395,524)	15,570,390	(3,825,134)
Transfer to reserves	-	1,334,750	1,334,750	-	(2,669,500)	-
Balance as at 31 December 2006	**25,000,000**	**3,594,433**	**2,838,633**	**(2,831,732)**	**31,524,620**	**60,125,954**

The notes set out on pages 7 to 19 form an integral part of these consolidated financial statements.

Noor Financial Investment Co. K.S.C (Closed)
and Subsidiaries
Kuwait

Consolidated statement of cash flows
31 December 2006

	Note	**Year ended 31 Dec. 2006 KD**	Year ended 31 Dec. 2005 KD
OPERATING ACTIVITIES			
Profit before KFAS, NLST and directors' remuneration		**16,049,171**	15,038,828
Adjustments:			
Realised gain on sale of available for sale investments		**(25,143,516)**	(1,704,240)
Dividend income		**(4,976,252)**	(1,336,182)
Interest income		**(566,437)**	(31,673)
Depreciation		**58,584**	23,130
Provision for end of service indemnity		**47,125**	22,624
Finance costs		**6,791,098**	910,698
		(7,740,227)	12,923,185
Changes in operating assets and liabilities:			
Investments at fair value through statement of income		**(31,735,104)**	(59,646,106)
Accounts receivable and other assets		**(9,002,530)**	3,027,754
Accounts payable and other liabilities		**19,044,412**	2,567,984
Net cash used in operating activities		**(29,433,449)**	(41,127,183)
INVESTING ACTIVITIES			
Increase in blocked deposits		**(2,165,000)**	-
Purchase of available for sale investments		**(46,933,382)**	(8,687,858)
Proceeds from sale of available for sale investments		**47,737,707**	2,558,086
Investment in unconsolidated subsidiary		**(306,000)**	-
Purchase of equipment		**(73,811)**	(167,042)
Dividend income received		**4,930,722**	1,336,182
Interest income received		**566,437**	31,673
Net cash from/(used in) investing activities		**3,756,673**	(4,928,959)
FINANCING ACTIVITIES			
Borrowings		**31,285,418**	46,200,000
Finance costs paid		**(6,732,354)**	(691,035)
Net cash from financing activities		**24,553,064**	45,508,965
Net decrease in cash and cash equivalents		**(1,123,712)**	(547,177)
Cash and cash equivalents at beginning of the year		**(518,739)**	28,438
Cash and cash equivalents at end of the year	14	**(1,642,451)**	(518,739)

The notes set out on pages 7 to 19 form an integral part of these consolidated financial statements.

Noor Financial Investment Co. K.S.C (Closed)
and Subsidiaries
Kuwait

Notes to the consolidated financial statements
31 December 2006

1 Incorporation and activities

Noor Financial Investment Company – KSC (Closed) ("the parent company") was incorporated in Kuwait on 1 February 1997 and during May 2006 its shares were listed on the Kuwait Stock Exchange. The parent company and its subsidiaries (listed in Note 3) are together referred to as "the group". The parent company is regulated by the Central Bank of Kuwait as an investment company. The parent company is a subsidiary of National Industries Group Holding – SAK, "ultimate parent company", and its principal objectives are as follows:

- Investment in various economic sectors through participating in establishing specialised companies or purchasing securities or shares in those companies;
- Act as investment trustees and manage different investment portfolios for others; and
- Act as intermediary in borrowing operations in return for commission.

Further, the parent company has the right to participate and subscribe, in any way with other firms which operate in the same field or those which would assist in achieving its objectives in Kuwait and abroad and to purchase those firms or participate in their equity.

The address of the parent company's registered office is 10th and 11th Floor, Mohammed Abdul Mohsin Al-Kharafi Complex, Building 6, Block – 14, Qibla, Kuwait (PO Box 3311, Safat 13034, State of Kuwait).

The board of directors of the parent company approved these consolidated financial statements for issuance on 6 February 2007. The general assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements are prepared under the historical cost convention, except for the measurement at fair value of "investments at fair value through statement of income" and "available for sale investments".

The accounting policies are consistent with those used in the previous year.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is the functional currency of the parent company.

2 Significant accounting policies (continued)

IASB Standard issued but not yet effective

The following IASB Standard has been issued but not yet effective, and has not yet been adopted by the group.

IFRS 7 Financial Instruments: Disclosures

The application of IFRS 7, which will be effective for the year ending 31 December 2007, will result in amended and additional disclosures relating to financial instruments and associated risks.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2006, and the financial statements of its subsidiaries prepared to that date, or to a date not earlier than three months of the parent company's year end using consistent accounting policies.

Subsidiaries are those enterprises controlled by the group and are fully consolidated from the date on which control is transferred to the group. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

All significant inter-company balances and transactions are eliminated on consolidation.

Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Dividend income

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

Interest income

Interest income is recognised using the effective interest method.

Fee income

Management fees relating to portfolio management services and other fee income are recognised as revenue as the services are provided.

2 Significant accounting policies (continued)

Finance cost

Finance costs are calculated and recognised on a time proportionate basis taking into account the principal loan balance outstanding and the interest rate applicable.

Financial instruments

Classification

The group classifies financial assets upon initial recognition into the following categories:

i. Investments at fair value through statement of income

ii. Loans and receivables

iii. Available for sale investments

Financial liabilities are classified as "non trading financial liabilities".

Investments at fair value through statement of income are either "held for trading" or "designated" as such on initial recognition.

The group classifies investments as trading if they are acquired principally for the purpose of selling or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Investments are classified as designated at fair value through statement of income at inception if they have readily available reliable fair values and the changes in fair values are reported as part of the statement of income in the management accounts, according to a documented investment strategy.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are classified as receivables and other assets in the balance sheet.

Financial assets which are not classified as above are classified as available for sale investments.

Management determines the classification of these financial instruments at the time of acquisition.

Measurement

Investments at fair value through statement of income

Investments at fair value through statement of income are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs.

Subsequent to initial recognition, investments at fair value through statement of income are re-measured at fair value and changes in fair value are recognised in the consolidated statement of income.

Loans and receivables

Loans and receivables are stated at amortised cost using the effective interest method.

2 Significant accounting policies (continued)

Available for sale investments

Available for sale investments are initially recognised at cost, being the fair value of the consideration given, plus transaction costs that are directly attributable to the acquisition.

Subsequent to initial recognition, available for sale investments are re-measured at fair value unless fair value cannot be reliably measured, in which case they are measured at cost less impairment.

Changes in fair value of available for sale investments are recognised as a separate component in equity under "cumulative changes in fair value" account until the investment is either derecognised or determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income.

Financial liabilities

Non-trading financial liabilities are stated at amortised cost using the effective interest method.

Fair values

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset. 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 concerned.

Recognition and derecognition of financial assets and liabilities

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 (in whole or in part) is de-recognised when the contractual rights to receive cash flows from the financial asset has expired or the group has transferred substantially all risks and rewards of ownership and has not retained control. If the group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

2 Significant accounting policies (continued)

(a) For financial assets carried at fair value, impairment is the difference between carrying value and fair value; and

(b) For financial assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for reversal of impairment losses related to equity instruments classified as available for sale, all other impairment reversals are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Impairment reversals in respect of equity instruments classified as available for sale are recognised in the cumulative changes in fair value.

Equipment and depreciation

Equipment are stated at cost less accumulated depreciation and any impairment in value. The group depreciates its equipment using the straight-line method at rates sufficient to write off the assets over their estimated useful economic lives.

Provisions

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

Employees' end of service benefits

End of service benefits are calculated on the basis of accumulated periods of service of employees as at the balance sheet date in accordance with the Kuwait labour law for the private sector.

Fiduciary assets

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

Foreign currencies

Transactions in foreign currencies are translated into Kuwaiti Dinars at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rate of exchange ruling at the balance sheet date. The resultant exchange differences are taken to the consolidated statement of income. Translation difference on non-monetary asset classified as "fair value through statement of income" are reported as part of the fair value gain or loss in the statement of income and "available for sale" are included in the cumulative changes in fair value, in equity.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances and short-term deposits maturing within three months from the date of inception net of balances due to banks.

2 Significant accounting policies (continued)

Judgements

In the process of applying the group's accounting polices, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets

Management decides on acquisition of an investment whether it should be classified as held for trading, designated at fair value through statement of income, loans and receivables or available for sale. In making that judgement the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgement determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the statement of income or directly in equity.

Impairment of investments

The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty

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

Valuation of unquoted equity investments

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are certain investments where this estimation cannot be reliably determined, and as a result available for sale investments with a carrying amount of KD2,663,953 (2005: KD2,689,996) are carried at cost.

3 Subsidiary companies

During the year, the parent company incorporated the following wholly owned subsidiaries which have been consolidated:

Subsidiary	Activities
D&B Kuwait for Economic & Management Consulting KSC (Closed)	Administrative & Economic Consulting & Related Activities
National Drilling & Petroleum Services Company KSC (Closed)	Maintenance & Improvement of Petroleum Services & Related Activities
Kuwait India Holding Company – KSC (Closed)	Investment & Related Activities
National Warehousing Company – KSC (Closed)	Warehousing
5th Company for Managing Projects – WLL	Project Management
7th Company for Managing Projects – WLL	Project Management
India Asia Financial & Management Consulting – KSC (Closed)	Financial & Management Consulting
Plexus Information Systems & Computers – KSC (Closed)	Information Technology

The parent company also acquired 51% interest in the following subsidiary during the year which has been classified as "investment in unconsolidated subsidiary" representing its capital contribution for its acquisition:

Subsidiary	Activities
Financial Commitment Group Company – KSC (Closed)	Brokerage

The management is of the opinion that the total assets and results of the above subsidiary is not significant to the group's consolidated financial statements, accordingly the subsidiary has not been consolidated. Further, the subsidiary did not have significant operations during the year.

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4 General, administrative and other expenses

General, administrative and other expenses include the following:

	2006 KD	2005 KD
Staff costs	**2,132,365**	1,860,766
Depreciation	**58,584**	23,130
Unrealised fee payable on managed portfolios for clients	**2,280,360**	449,044

Unrealised fee payable on managed portfolios for clients

In 2005, the parent company entered into local portfolio management contracts with a related party and another company. This unrealised fee is payable in accordance with the terms of the contracts dependent on the market value of the shares in the portfolio and the clause in the contract that guarantees the capital and a minimum return.

5 Earnings per share

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2006	2005
Profit for the year (KD)	**15,570,390**	14,853,479
Weighted average number of shares outstanding during the year	**250,000,000**	250,000,000
Earnings per share	**62 Fils**	59 Fils

6 Investments at fair value through statement of income

	2006 KD	2005 KD
Held for trading:		
Quoted shares	**101,196,820**	69,470,024
Designated on initial recognition:		
Local funds	**9,095,036**	9,086,728
	110,291,856	78,556,752

Quoted shares with a fair value of KD23,361,203 (2005: Nil) are secured against bank loans (see note 10).

Certain quoted shares are held in the name of the ultimate parent company with letters of assignment in the parent company's favour.

7 Accounts receivable and other assets

	2006 KD	2005 KD
Due from ultimate parent company	**18,836**	310,427
Due from related parties	**129,435**	19,362
Due from investment brokerage companies	**1,566,238**	187,587
Due from Kuwait Clearing Company	**4,454,886**	416,360
Advance payments to acquire investments	**3,806,180**	219,683
Accrued income	**225,328**	-
Other assets	**57,605**	57,029
	10,258,508	1,210,448

8 Available for sale investments

	2006 KD	2005 KD
Quoted shares	**27,041,391**	27,730,504
Unquoted shares	**11,707,698**	6,074,920
	38,749,089	33,805,424

Certain quoted and unquoted shares are held in the name of the ultimate parent company with letters of assignment in the parent company's favour.

On 6 March 2006 the parent company entered into a "share sale agreement" with its ultimate parent company and sold one of its foreign unquoted investments, which was carried at cost, for a sales consideration of KD19,325,547 which resulted in a profit of KD15,726,108.

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9 Accounts payable and other liabilities

	2006	2005
	KD	KD
Unrealised fee payable on managed portfolios :		
- Related parties	**959,761**	210,615
- Others	**1,769,643**	238,429
Due to key management personnel	**1,178,459**	1,169,687
Due to other related parties	**16,266,419**	388,015
Due to investment brokerage companies	**1,059,647**	-
Accrued interest	**278,406**	219,663
Accrued expenses	**518,607**	592,900
Other payables	**575,078**	204,776
	22,606,020	3,024,085

Due to other related parties includes a short term loan of KD16,000,000 (2005: Nil) availed by the parent company with an effective interest rate of 7.75% per annum maturing in January 2007.

10 Borrowings

	Effective interest/cost rate p.a.	**Security**	**2006**	2005
	%		**KD**	KD
Loans from local banks and financial institutions				
Loans payable – Kuwaiti Dinar	7.12 – 8.25	Unsecured	**28,529,918**	44,200,000
Loans payable – Kuwaiti Dinar	8.25	Secured	**20,000,000**	-
Loans payable – US Dollars	7.12	Unsecured	**28,955,500**	-
Wakala payable – Kuwaiti Dinar	6.25	Unsecured	**-**	2,000,000
			77,485,418	46,200,000

Loans amounting to KD 20,000,000 are secured by investments at fair value through statement of income (see note 6). All loans are repayable within one year.

11 Share capital

At 31 December 2006, the authorised, issued and paid-up capital of the parent company comprised of 250,000,000 (2005: 250,000,000) shares of 100 fils each.

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the parent company's board of directors propose to increase the paid up share capital by 250,000,000 shares (100%) by way of an issue of shares during the year 2007, at par value of 100 fils per share and premium of 200 fils per share.

12 Legal and voluntary reserves

In accordance with the Commercial Companies Law and the parent company's articles of association, 10% of the parent company's profit before KFAS, NLST and board of directors' remuneration for the year is to be transferred to legal reserve. The parent company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital.

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

In accordance with parent company's articles of association, a certain percentage of the parent company's profit before KFAS, NLST and board of directors' remuneration, is to be transferred to the voluntary reserve at the discretion of the board of directors which is to be approved at the general assembly. For the year 2006 the board of directors propose to transfer 10% of the above mentioned profit to the voluntary reserve and this is subject to approval at the general assembly.

13 Proposed dividend

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the parent company's board of directors propose a cash dividend of 50 fils (2005: Nil) per share amounting to KD12,500,000 for the year ending 31 December 2006.

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14 Cash and cash equivalents

	2006	2005
	KD	KD
Cash and bank balances	**4,553,291**	934,686
Short term deposits	**4,188,211**	-
Due to banks	**(8,218,953)**	(1,453,425)
	522,549	(518,739)
Blocked balances	**(2,165,000)**	-
	(1,642,451)	(518,739)

Due to banks represent bank overdraft facilities obtained and utilized by the group.

15 Segment analysis

The group primarily operates in one area of business activity, investments and therefore, its primary basis for segmental reporting is by geographical segment.

The group operates in two geographical markets: Domestic (Kuwait) and International (Middle East, East and South East Asia & Europe). The geographical analysis is as follows:

	Domestic	**International**	**Total**
	KD	**KD**	**KD**
31 December 2006			
Income	**7,304,245**	**21,162,214**	**28,466,459**
Profit for the year	**(5,028,900)**	**20,599,290**	**15,570,390**
Total assets	**112,736,952**	**55,769,142**	**168,506,094**
Total liabilities	**(107,320,415)**	**(1,059,725)**	**(108,380,140)**
Net assets	**5,416,537**	**54,709,417**	**60,125,954**
31 December 2005			
Income	17,982,312	729,456	18,711,768
Profit for the year	14,263,924	589,555	14,853,479
Total assets	99,980,630	14,670,592	114,651,222
Total liabilities	(50,601,254)	(98,880)	(50,700,134)
Net assets	49,379,376	14,571,712	63,951,088

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16 Related party transactions

Related parties represent, major shareholders, directors and key management personnel of the group, and companies of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the group's management.

Details of significant related party transactions and balances are as follows:

	2006	2005
	KD	KD
Consolidated balance sheet		
Due from related parties included in accounts receivable and other assets	**148,271**	329,789
Due to related parties included in accounts payable and other liabilities	**18,404,639**	1,768,317
Consolidated statement of income		
Management and placement fees	**3,588,073**	43,654
Unrealised fee payable on managed portfolios for clients included in general, administrative and other expenses	**749,146**	210,615
Realised gain on sale of available for sale investment	**15,726,108**	-
Interest income	**258,904**	-
Finance costs	**656,830**	80,153
Compensation of key management personnel of the group		
Short term employee benefits	**1,360,254**	1,273,577
End of service benefits	**8,500**	4,285

17 Risk management

A. Credit risk

Financial assets, which potentially subject the group to concentrations of credit risk, consist principally of bank balances and accounts receivable and other assets. The group's bank balances are placed with high credit quality financial institutions and accounts receivable and other assets are presented net of appropriate provisions.

B. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The group's interest rate risk sensitivity position, based on the contractual re-pricing or maturity dates of assets and liabilities, whichever dates are earlier, is as follows:

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17 Risk management (continued)

	Up to 1 month	1-3 months	3-12 months	Non interest bearing items	Total	Effective interest rate
	KD	KD	KD	KD	KD	%
At 31 December 2006						
ASSETS						
Cash and bank balances	**-**	**-**	**-**	**4,553,291**	**4,553,291**	
Short term deposits	**4,188,211**	**-**	**-**	**-**	**4,188,211**	**Upto 5.6%**
Investments at fair value through statement of income	**-**	**-**	**-**	**110,291,856**	**110,291,856**	
Accounts receivable and other assets	**-**	**-**	**-**	**10,258,508**	**10,258,508**	
Available for sale investments	**-**	**-**	**-**	**38,749,089**	**38,749,089**	
Investment in unconsolidated subsidiary	**-**	**-**	**-**	**306,000**	**306,000**	
Equipment	**-**	**-**	**-**	**159,139**	**159,139**	
	4,188,211	**-**	**-**	**164,317,883**	**168,506,094**	
LIABILITIES						
Due to banks	**-**	**-**	**8,218,953**	**-**	**8,218,953**	**8.25% - 8.75%**
Accounts payable and other liabilities	**16,000,000**	**-**	**-**	**6,606,020**	**22,606,020**	**7.75%**
Borrowings	**-**	**77,485,418**	**-**	**-**	**77,485,418**	**7.12% -8.25%**
Provision for end of service indemnity	**-**	**-**	**-**	**69,749**	**69,749**	
	16,000,000	**77,485,418**	**8,218,953**	**6,675,769**	**108,380,140**	
Total interest rate sensitivity gap	**(11,811,789)**	**(77,485,418)**	**(8,218,953)**			
Cumulative interest rate sensitivity gap	**(11,811,789)**	**(89,297,207)**	**(97,516,160)**			
At 31 December 2005						
ASSETS						
Cash and bank balances	360,000	-	-	574,686	934,686	Upto 2%
Investments at fair value through statement of income	-	-	-	78,556,752	78,556,752	-
Accounts receivable and other assets	-	-	-	1,210,448	1,210,448	-
Available for sale investments	-	-	-	33,805,424	33,805,424	-
Equipment	-	-	-	143,912	143,912	-
	360,000	-	-	114,291,222	114,651,222	-
LIABILITIES						
Due to banks	-	1,453,425	-	-	1,453,425	8%-8.5%
Accounts payable and other liabilities	-	-	-	3,024,085	3,024,085	-
Borrowings	4,000,000	21,200,000	21,000,000	-	46,200,000	5.69%-8.5%
Provision for end of service indemnity	-	-	-	22,624	22,624	-
	4,000,000	22,653,425	21,000,000	3,046,709	50,700,134	-
Total interest rate sensitivity gap	(3,640,000)	(22,653,425)	(21,000,000)	-	-	-
Cumulative interest rate sensitivity gap	(3,640,000)	(26,293,425)	(47,293,425)	-	-	-

The group does not have any off balance sheet financial instrument which are used to manage the interest rate risk.

17 Risk Management (continued)

C. Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The group views itself as a Kuwaiti entity, with the Kuwaiti Dinar as its functional currency. The group's management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposure.

At 31 December the net open foreign exchange positions were as follows:

	2006 Equivalent KD	2005 Equivalent KD
US Dollars	**(8,813,261)**	3,768,515
Pakistani Rupees	**7,938,198**	3,022,918
UAE Dirhams	**9,982,399**	5,939,057
Hong Kong Dollars	**1,596,233**	1,936,977
Jordanian Dinars	**4,647,180**	-
Bahraini Dinars	**6,811,354**	-
Thai Baht	**1,418,410**	-
Other currencies	**2,174,190**	247,652

D. Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarises the maturity profile of the group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile of available for sale investments is based on planned exit dates.

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Maturity profile of assets and liabilities at 31 December 2006 and 2005:

	Up to 1 month KD	1-3 months KD	3-12 months KD	1 -5 years KD	Over 5 years KD	Total KD
At 31 December 2006						
ASSETS						
Cash and bank balances	**2,388,291**	**2,165,000**	**-**	**-**	**-**	**4,553,291**
Short term deposits	**4,188,211**	**-**	**-**	**-**	**-**	**4,188,211**
Investments at fair value through statement of income	**-**	**110,291,856**	**-**	**-**	**-**	**110,291,856**
Accounts receivable and other assets	**3,095,349**	**3,806,180**	**3,356,979**	**-**	**-**	**10,258,508**
Available for sale investments	**-**	**-**	**-**	**38,749,089**	**-**	**38,749,089**
Investment in unconsolidated subsidiary	**-**	**-**	**-**	**-**	**306,000**	**306,000**
Equipment	**-**	**-**	**-**	**159,139**	**-**	**159,139**
	9,671,851	**116,263,036**	**3,356,979**	**38,908,228**	**306,000**	**168,506,094**
LIABILITIES						
Due to banks	**-**	**-**	**8,218,953**	**-**	**-**	**8,218,953**
Accounts payable and other liabilities	**21,864,008**	**313,230**	**428,782**	**-**	**-**	**22,606,020**
Borrowings	**-**	**77,485,418**	**-**	**-**	**-**	**77,485,418**
Provision for end of service indemnity	**-**	**-**	**-**	**69,749**	**-**	**69,749**
	21,864,008	**77,798,648**	**8,647,735**	**69,749**	**-**	**108,380,140**
At 31 December 2005						
ASSETS						
Cash and bank balances	934,686	-	-	-	-	934,686
Investments at fair value through statement of income	-	78,556,752	-	-	-	78,556,752
Accounts receivable and other assets	910,641	296,807	-	3,000	-	1,210,448
Available for sale investments	-	-	-	33,805,424	-	33,805,424
Equipment	-	-	-	143,912	-	143,912
	1,845,327	78,853,559	-	33,952,336	-	114,651,222
LIABILITIES						
Due to banks	-	1,453,425	-	-	-	1,453,425
Accounts payable and other liabilities	2,297,085	727,000	-	-	-	3,024,085
Borrowings	4,000,000	21,200,000	21,000,000	-	-	46,200,000
Provision for end of service indemnity	-	-	-	22,624	-	22,624
	6,297,085	23,380,425	21,000,000	22,624	-	50,700,134

17 Risk Management (continued)

E. Market risk

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

The group is exposed to market risk with respect to its investments securities.

The group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international and local equity markets. In addition, the group actively monitors the key factors that affect stock market movements, including analysis of the operational and financial performance of investees.

18 Fiduciary assets

The group manages portfolios on behalf of its ultimate parent company, other related parties and outsiders, and maintains securities in fiduciary accounts which are not reflected in the group's balance sheet. Assets under management at 31 December 2006 amounted to KD72,119,237 (31 December 2005: KD22,646,701) of which assets managed on behalf of its ultimate parent company and other related parties amounted to KD 63,339,094 (31 December 2005 : KD16,446,361).

19 Capital commitments

At the balance sheet date the group had capital commitments of KD1,295,752 towards available for sale investments (2005: KD858,460).

20 Fair value of financial instruments

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the group's management, except for certain available for sale investments which are carried at cost less impairment for reasons specified in Note 2 to the financial statements (under the heading "Estimation uncertainty") the carrying amounts of financial assets and liabilities as at 31 December 2006 and 2005 approximate their fair values.