

**THE SECURITIES HOUSE K.S.C. (CLOSED)  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2011**



**Ernst & Young**  
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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE SECURITIES HOUSE K.S.C. (CLOSED)**

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

We have audited the accompanying consolidated financial statements of The Securities House K.S.C. (Closed) (the “parent company”) and its subsidiaries (collectively, the “group”), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
THE SECURITIES HOUSE K.S.C. (CLOSED) (continued)***Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

**Emphasis of a Matter**

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which states that the group's current liabilities exceed its current assets by KD 59,836,068 (2010: KD 41,956,416). The ability of the group to continue as a going concern is dependent on availability of the continued support from its creditors (i.e. rescheduling of the profit bearing murabaha payables from short term to medium/long term) and shareholders, and the ability of the group to improve profitability and cash flows. However, the consolidated financial statements have been prepared on a going concern basis.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the Articles of Association have occurred during the year ended 31 December 2011 that might have had a material effect on the parent company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2011.



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LICENCE NO. 30 A  
RÖDL MIDDLE EAST  
BURGAN - INTERNATIONAL ACCOUNTANTS

10 May 2012  
Kuwait

# The Securities House K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
<b>CONTINUING OPERATIONS:</b>			
<b>INCOME</b>			
<b>From investment activities</b>			
Realised loss on sale of financial assets at fair value through income statement		(9,378,019)	(683,019)
Realised gain on sale of financial assets available for sale		48,670	3,184,868
Dividends and return on murabaha receivables		260,067	465,328
Share of results of associates	14	(757,303)	(1,738,719)
Realised gain on sale of investment in subsidiary	14	9,371,254	-
Dilution gain on loss of control of a subsidiary	14	2,384,893	-
Realised gain on sale of investment in an associate	14	-	493,048
Realised loss on sale of investment properties	15	-	(4,600,705)
Advance payment written off	10	(1,318,778)	-
Management fee income	31	1,216,298	952,679
Realised gain on sale of priority rights of investment in a former subsidiary	14	13,341,944	-
Investment services income	5	2,063,584	2,107,465
<b>Total income from investment activities</b>		<b>17,232,610</b>	<b>180,945</b>
<b>From commercial activities</b>			
Sale of goods and services		9,333,269	7,622,784
Cost of sales		(6,013,366)	(4,772,757)
<b>Gross profit from commercial activities</b>		<b>3,319,903</b>	<b>2,850,027</b>
Other income	6	295,323	223,902
<b>TOTAL INCOME</b>		<b>20,847,836</b>	<b>3,254,874</b>
<b>EXPENSES</b>			
Staff costs		3,135,076	3,721,131
Selling and distribution expenses		991,895	773,551
General and administrative expenses		3,050,529	3,925,082
<b>TOTAL EXPENSES</b>		<b>7,177,500</b>	<b>8,419,764</b>
<b>PROFIT (LOSS) BEFORE IMPAIRMENT LOSSES, FAIR VALUE ADJUSTMENTS AND MURABAHA PAYABLE COSTS, TAXATION AND DIRECTOR'S REMUNERATION</b>			
		13,670,336	(5,164,890)
Unrealised loss on financial assets at fair value through income statement		(1,697,580)	(10,160,807)
Impairment loss on financial assets available for sale	13	(1,103,703)	(757,640)
Unrealised gain on fair valuation of investment retained in a former subsidiary	14	53,005,981	-
Recycled foreign currency translation reserve on sale in a former subsidiary	14	(2,611,394)	-
Impairment loss on investment in an associate	14	(4,765,994)	-
Unrealised loss on investment properties	15	(3,905)	(84,196)
Impairment loss on property, plant and equipment	16	-	(5,919)
Murabaha payable costs		(5,717,224)	(11,068,394)
Taxation	24	(1,670,009)	-
<b>Profit (loss) from continued operations</b>		<b>49,106,508</b>	<b>(27,241,846)</b>
<b>DISCONTINUED OPERATIONS:</b>			
Loss from discontinued operations	7	-	(3,737,180)
<b>PROFIT (LOSS) FOR THE YEAR</b>		<b>49,106,508</b>	<b>(30,979,026)</b>
<b>Attributable to:</b>			
Equity holders of the parent company		49,622,690	(29,897,718)
Non controlling interests		(516,182)	(1,081,308)
<b>PROFIT (LOSS) FOR THE YEAR</b>		<b>49,106,508</b>	<b>(30,979,026)</b>
<b>Basic and diluted earnings (loss) per share attributable to equity holders of the parent company</b>	8	<b>77.8 fils</b>	<b>(46.9) fils</b>
<b>Basic and diluted earnings (loss) per share attributable to equity holders of the parent company from continuing operations</b>	8	<b>77.8 fils</b>	<b>(41.0) fils</b>

The attached notes 1 to 34 form part of these consolidated financial statements.

The Securities House K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

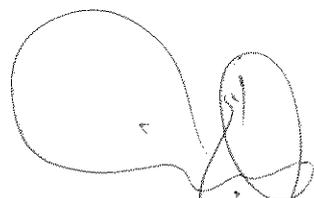
	<i>Note</i>	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
<b>Profit (loss) for the year</b>		<u>49,106,508</u>	<u>(30,979,026)</u>
<b>Other comprehensive income:</b>			
Foreign currency translation		(2,260,213)	(684,671)
Cumulative changes in equity of associates		399,404	(102,308)
Cumulative changes in fair values	13	(437,217)	825,551
<b>Other comprehensive (loss) income for the year</b>		<u>(2,298,026)</u>	<u>38,572</u>
<b>Total comprehensive income (loss) for the year</b>		<u>46,808,482</u>	<u>(30,940,454)</u>
<b>Attributable to:</b>			
Equity holders of the parent company		49,392,482	(29,731,893)
Non controlling interests		(2,584,000)	(1,208,561)
		<u>46,808,482</u>	<u>(30,940,454)</u>

The attached notes 1 to 34 form part of these consolidated financial statements.

The Securities House K.S.C. (Closed) and Subsidiaries  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2011

	Notes	2011 KD	2010 KD
<b>ASSETS</b>			
Cash and cash equivalents	9	3,272,433	21,698,448
Short-term murabaha investments	9	1,492,155	2,860,579
Accounts receivable and prepayments	10	3,153,744	8,869,031
Inventories	11	1,931,882	1,586,243
Financial assets at fair value through income statement	12	7,174,634	76,909,213
Murabaha receivables		-	4,068,069
Financial assets available for sale	13	4,500,694	19,290,179
Investment in associates	14	95,605,974	11,139,945
Investment properties	15	531,090	534,995
Property, plant and equipment	16	14,305,516	15,327,456
<b>TOTAL ASSETS</b>		<b>131,968,122</b>	<b>162,284,158</b>
<b>EQUITY</b>			
Share capital	17	68,000,000	68,000,000
Cumulative changes in fair values		-	825,551
Foreign currency translation reserve		(13,907)	(2,859,626)
Employees' share purchase plan reserve	19	545,456	607,433
Treasury shares reserve	20	11,376,864	11,376,864
Treasury shares	18	(19,867,108)	(19,867,108)
Cumulative changes in equity of associates		577,846	146,326
Accumulated losses		(7,876,653)	(57,499,343)
Equity attributable to equity holders of the parent company		52,742,498	730,097
Non controlling interests		497,949	5,451,550
<b>TOTAL EQUITY</b>		<b>53,240,447</b>	<b>6,181,647</b>
<b>LIABILITIES</b>			
Murabaha payables	21	55,609,876	131,230,265
Accounts payable and accruals	22	22,043,822	23,183,079
Employees' end of service benefits	23	1,073,977	1,689,167
<b>TOTAL LIABILITIES</b>		<b>78,727,675</b>	<b>156,102,511</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>131,968,122</b>	<b>162,284,158</b>



Ayman Abdullah Boodai  
 Chairman and Managing Director

The attached notes 1 to 34 form part of these consolidated financial statements.

# The Securities House K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

OPERATING ACTIVITIES	Notes	2011 KD	2010 KD
Profit (loss) for the year from continuing operations		49,106,508	(27,241,846)
Loss for the year from discontinued operations	7	-	(3,737,180)
Adjustments for:			
Realised loss on sale of financial assets at fair value through income statement		9,378,019	683,019
Unrealised loss on financial assets at fair value through income statement	12	1,697,580	10,160,807
Realised gain on sale of financial assets available for sale		(48,670)	(3,184,868)
Impairment loss on financial assets available for sale	13	1,103,703	757,640
Dividends and return on murabaha receivables		(260,067)	(465,328)
Share of results of associates	14	757,303	1,738,719
Impairment of loss on investment in associate	14	4,765,994	-
Realised gain on sale of investment in associates	14	-	(493,048)
Realised gain on sale of investment in a former subsidiary	14	(9,371,254)	-
Unrealised gain on fair valuation of investment retained in a former subsidiary	14	(53,005,981)	-
Dilution gain on loss of control of a subsidiary	14	(2,384,893)	-
Recycled foreign currency translation adjustment on sale of a former subsidiary	14	2,611,394	-
Realised gain on sale of priority rights of investment in a former subsidiary	14	(13,341,944)	-
Advance payment written off	10	1,318,778	-
Management fees written off		130,941	-
Loss on disposal of discontinued operations	7	-	220,614
Realised loss on sale of investment properties	7 & 15	-	8,083,201
Unrealised loss on investment properties	15	3,905	84,196
Impairment loss on property, plant and equipment	16	-	5,919
Depreciation	16	910,321	1,121,268
Employee share based plan expense		11,896	42,595
Provision for employees' end of service benefits	23	141,812	198,075
Murabaha payables costs		5,717,224	11,068,394
		<u>(757,431)</u>	<u>(957,823)</u>
<b>Operating profit before working capital changes:</b>			
Accounts receivable and prepayments		2,160,335	(3,481,528)
Inventories		(345,654)	(62,000)
Financial assets at fair value through income statement		58,658,980	5,569,453
Murabaha receivables		1,057,313	18,086
Accounts payable and accruals		3,275,230	(511,918)
Cash from operations		<u>64,048,773</u>	<u>574,270</u>
Employees' end of service benefits paid	23	(742,609)	(343,019)
<b>Net cash from operating activities</b>		<u>63,306,164</u>	<u>231,251</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of financial assets available for sale		(7,941,302)	(2,789,437)
Proceeds from sale of financial assets available for sale		13,694,957	8,111,656
Purchase of investment in associates		(9,771,668)	-
Proceeds from sale of investments in associates		-	8,447,352
Proceeds from sale of subsidiary companies, net of cash disposed	7	-	11,170,692
Proceeds from sale of investment in subsidiary	14	13,846,034	-
Net cash outflow due to loss of control of a subsidiary	14	(49,461,762)	-
Dividends and return on murabaha receivables received		260,067	974,942
Additions to investment properties		13,341,944	(738,412)
Proceeds from sale of investment properties	15	-	33,000,000
Purchase of property, plant and equipment	16	(369,075)	(1,254,793)
<b>Net cash (used in) from investing activities</b>		<u>(26,400,805)</u>	<u>56,922,000</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(29,237)	(11,234)
Purchase of treasury shares		-	(11,939)
Proceeds from sale of treasury shares		-	99,505
Non controlling interests share in net capital increase of subsidiaries	14	24,991,326	220,000
Non controlling interests share in net capital decrease of subsidiaries	33	(5,519,510)	-
Dividends paid to non controlling interests		(77,000)	-
Net repayment of murabaha payables		(65,017,217)	(38,447,815)
Net (repayment) proceeds from sale and deferred purchase agreements		(775,000)	7,750,000
Murabaha payables costs paid		(8,500,512)	(16,208,271)
<b>Net cash used in financing activities</b>		<u>(54,927,150)</u>	<u>(46,609,754)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(18,021,791)</u>	<u>10,543,497</u>
Foreign currency translation adjustment		(1,772,648)	528,229
Cash and cash equivalents at 1 January		24,559,027	13,487,301
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	9	<u>4,764,588</u>	<u>24,559,027</u>

The attached notes 1 to 34 form part of these consolidated financial statements.

The Securities House K.S.C. (Closed) and Subsidiaries  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2011

	Attributable to equity holders of the parent company										
	Share capital KD	Cumulative changes in fair values KD	Foreign currency translation reserve KD	Employees' share purchase plan reserve KD	Treasury shares reserve KD	Treasury shares KD	Cumulative changes in equity of associates KD	Accumulated losses KD	Total KD	Non controlling interests KD	Total equity KD
Balance at 1 January 2011	68,000,000	825,551	(2,859,626)	607,433	11,376,864	(19,867,108)	146,326	(57,499,343)	730,097	5,451,550	6,181,647
Profit (loss) for the year	-	-	-	-	-	-	-	49,622,690	49,622,690	(516,182)	49,106,508
Other comprehensive (loss) income for the year	-	(825,551)	234,325	(38,386)	-	-	399,404	-	(230,208)	(2,067,818)	(2,298,026)
Total comprehensive (loss) income for the year	-	(825,551)	234,325	(38,386)	-	-	399,404	49,622,690	49,392,482	(2,584,000)	46,808,482
Employee share purchase plan expense (relating to subsidiary)	-	-	-	8,525	-	-	-	-	8,525	3,371	11,896
Non controlling interests share in capital increase of a subsidiary (Note 14)	-	-	-	-	-	-	-	-	-	24,991,326	24,991,326
Non controlling interests share in capital reduction of a subsidiary (Note 33)	-	-	-	-	-	-	-	-	-	(5,519,510)	(5,519,510)
Dividends paid to non controlling interests	-	-	-	-	-	-	-	-	-	(77,000)	(77,000)
Loss of control of a subsidiary (Note 14)	-	-	2,611,394	(32,116)	-	-	32,116	-	2,611,394	(21,767,788)	(19,156,394)
<b>Balance at 31 December 2011</b>	<b>68,000,000</b>	<b>-</b>	<b>(13,907)</b>	<b>545,456</b>	<b>11,376,864</b>	<b>(19,867,108)</b>	<b>577,846</b>	<b>(7,876,653)</b>	<b>52,742,498</b>	<b>497,949</b>	<b>53,240,447</b>

The attached notes 1 to 34 form part of these consolidated financial statements.

## The Securities House K.S.C. (Closed) and Subsidiaries

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2011

	Attributable to equity holders of the parent company												
	Share capital KD	Share premium KD	Statutory reserve KD	Cumulative changes in fair values KD	Foreign currency translation reserve KD	Employees' share purchase plan reserve KD	Treasury shares reserve KD	Treasury shares KD	Cumulative changes in equity of associates KD	Accumulated losses KD	Total KD	Non-controlling interests KD	Total equity KD
Balance at 1 January 2010	68,000,000	26,118,950	3,946,731	-	(2,302,208)	573,357	11,681,831	(20,259,641)	248,634	(57,667,306)	30,340,348	6,431,592	36,771,940
Loss for the year	-	-	-	-	-	-	-	-	-	(29,897,718)	(29,897,718)	(1,081,308)	(30,979,026)
Other comprehensive income (loss) for the year	-	-	-	825,551	(557,418)	-	-	-	(102,308)	-	165,825	(127,253)	38,572
Total comprehensive income (loss) for the year	-	-	-	825,551	(557,418)	-	-	-	(102,308)	(29,897,718)	(29,731,893)	(1,208,561)	(30,940,454)
Absorption of accumulated losses (Note 17)	-	(26,118,950)	(3,946,731)	-	-	-	-	-	-	30,065,681	-	-	-
Employee share purchase plan expense (relating to subsidiary)	-	-	-	-	-	34,076	-	-	-	-	34,076	8,519	42,595
Purchase of treasury shares	-	-	-	-	-	-	-	(11,939)	-	-	(11,939)	-	(11,939)
Sale of treasury shares (Note 20)	-	-	-	-	-	-	(304,967)	404,472	-	-	99,505	-	99,505
Non controlling interests' share in capital increase of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	220,000	220,000
Balance at 31 December 2010	68,000,000	-	-	825,551	(2,859,626)	607,433	11,376,864	(19,867,108)	146,326	(57,499,343)	730,097	5,451,550	6,181,647

The attached notes 1 to 34 form part of these consolidated financial statements.

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

### 1 CORPORATE INFORMATION

The consolidated financial statements of The Securities House K.S.C. (Closed) (the "parent company") and subsidiaries (collectively the "group") for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the board of directors on 10 May 2012. The shareholders' of the parent company have the power to amend these consolidated financial statements at the annual general assembly.

The annual general assembly of the shareholders of the parent company for the year ended 31 December 2010 has not been held until the date of preparation of these consolidated financial statements. Accordingly, the consolidated financial statements for the year ended 31 December 2010 have not yet been approved by the shareholders. The consolidated financial statements for the year ended 31 December 2011 do not include any adjustments, which might have been required, had the annual general assembly of the shareholders of the parent company approved the consolidated financial statements for the year ended 31 December 2010.

The parent company is a Kuwaiti closed shareholding company incorporated and registered in Kuwait on 28 March 1982 and is engaged in investment and trading in securities, investment in real estate, finance activities and in portfolio and fund management on behalf of third parties.

The parent company's Extraordinary General Assembly of the shareholders held on 30 April 2003 approved the transfer of the parent company's activities to conform with Islamic Shariah effective from 1 January 2003.

The details of subsidiaries are included in Note 4.

The parent company's principal place of business and registered address is 17<sup>th</sup> floor, Al-Dhow Tower, Khalid Ibn Al-Waleed Street, Sharq, P.O. Box 26972 Safat, 13130, Kuwait.

### 2 FUNDAMENTAL ACCOUNTING CONCEPT

The group's current liabilities exceed its current assets by KD 59,836,068 (2010: KD 41,956,416). The ability of the group to continue as a going concern is dependent on availability of the continued support from its creditors (i.e. rescheduling of the profit bearing murabaha payables from short term to medium/long term) and shareholders, and the ability of the group to improve profitability and cash flows.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts and classification of liabilities that may be necessary if the group is unable to continue as a going concern.

#### 3.1 BASIS OF PREPARATION

##### **Basis of measurement**

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of financial assets at fair value through income statement, financial assets available for sale and investment properties.

##### **Functional and presentation currency**

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

#### 3.2 STATEMENT OF COMPLIANCE

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

### 3.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in previous year except for the adoption of the following amended and revised International Accounting Standards Board ("IASB") standards effective as of 1 January 2011.

- IAS 1: Presentation of Financial Statements (Amendment) (*effective 1 January 2011*)
- IAS 24: Related Party Disclosures (Revised) (*effective 1 January 2011*)

#### *IAS 1 Presentation of Financial Statements (Amendment):*

The amendment clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The adoption of the amendment did not have any impact on the financial position or performance of the group.

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

The amended standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The adoption of the amendment did not have any impact on the financial position or performance of the group.

### 3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the group's financial statements are listed below. This listing of standards issued is those that the group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The group intends to adopt these standards when they become effective.

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

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The standard is effective for annual periods beginning on or after 1 January 2015.

#### *IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 12 Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

### 3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

#### Improvements

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the group.

- IFRS 7 Financial Instruments: Disclosures

#### *IFRS 7 Financial Instruments — Disclosures*

The amendment to standard was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and subsidiaries as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

The subsidiaries of the group are as follows:

Name	Country of incorporation	% equity interest	
		2011	2010
Gatehouse Bank plc (refer to Note 14)	United Kingdom	-	80%
Securities House Real Estate Company K.S.C. (Closed) ("SHRE")	Kuwait	92%	92%
Global Securities House for Economic & Financial Consultancy K.S.C.(Closed) ("GSH")	Kuwait	100%	100%
New Technology Bottling Company K.S.C. (Closed)	Kuwait	95%	95%
Kuwait Boxes Carton Manufacturing Company K.S.C. (Closed)	Kuwait	100%	100%
Securities House for Industrial Consultancy W.L.L.	Kuwait	100%	100%
Saji Real Estate Company K.S.C. (Closed)	Kuwait	90%	90%
Modern Cables Manufacturing Company K.S.C. (Closed)	Kuwait	100%	100%

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

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

Name	Country of incorporation	% equity interest	
		2011	2010
<b>Held through SHRE</b>			
Emirates and Kuwait Real Estate Company L.L.C.	United Arab Emirates	80%	80%
<b>Held through GSH</b>			
Global Securities House USA LLC	USA	100%	100%
Global Securities House France S.A.S.	France	100%	100%

#### Business combinations and goodwill

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

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

#### Revenue recognition

- i) Profits or losses on sale of investments and properties are recognised when the risks and rewards are transferred to the buyer.
- ii) Dividend income is recognised when the right to receive payment is established.
- iii) Management fee income is recognised when services are rendered.
- iv) Investment services income is recognised when services are rendered.
- v) Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and cash equivalents**

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

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, and are accounted as follows:

Raw material, unfinished components and spare parts	- purchase cost on weighted average basis
Finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

**Financial assets and liabilities**

The group classifies its financial assets and liabilities as “short term murabaha investments”, “accounts receivables and prepayments”, “loans and receivables”, “financial assets at fair value through income statement”, “financial assets available for sale” or “financial liabilities”.

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

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

**Financial assets**

*Short-term murabaha investments*

Short-term murabaha investments represent amounts receivable from financial institutions on a deferred settlement basis for assets sold under murabaha arrangements. Short-term murabaha investments are stated at the gross amount of the receivable, net of deferred profit receivable. Profit receivable is recognised as income on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

*Accounts receivable*

Accounts receivable are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

*Loans and receivables*

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

*Financial assets at fair value through income statement*

Financial assets at fair value through income statement includes financial assets that are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy.

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Financial assets and liabilities (continued)*

*Financial assets available for sale*

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

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

*Fair value*

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For mutual fund investments, fair value is determined based on net asset values reported by the fund managers.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by using valuation techniques, such as recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, an earnings multiple, or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

An analysis of fair value of financial instruments and further details as to how they are measured are provided in Note 27.

*Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Financial assets and liabilities (continued)*

**Impairment and uncollectibility of financial assets**

An assessment is made at each reporting 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 consolidated income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement;
- (b) For 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;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

Reversal of impairment losses is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. For equity instruments classified as financial assets available for sale, impairment losses are not reversed through the consolidated income statement; any increase in the fair value subsequent to the recognition of impairment loss, is recognised directly in other comprehensive income.

In addition, in accordance with CBK instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

In March 2007, the CBK issued a circular amending the basis of making general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities was retained as a general provision until the CBK issued a new circular in November 2008 approving the transfer of the excess reserve in general provision to the consolidated statement of income for the year ended 31 December 2008 with the transfer of a similar amount from the distributable profits for the same year to the general reserve.

**Financial liabilities**

Financial liabilities are subsequently measured at amortised cost using effective profit rate method.

*Murabaha payables*

Murabaha payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportioned basis taking account of the profit rate attributable and the balance outstanding. Murabaha payables are classified as "financial liabilities."

*Accounts payable*

Accounts payable are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Certain accounts payable are classified as "financial liabilities."

*Derecognition*

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

*Offsetting*

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment in associates**

The group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the group's share of net assets of the associate, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor individually tested for impairment.

The consolidated income statement reflects the group's share of the results of operations of the associate. Where there has been a change recognised directly in consolidated statement of comprehensive income of the associate, the group recognises its share of any changes and discloses this, when applicable, in the other comprehensive income. Unrealised gain or losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

The group's share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the group. When necessary, adjustments are made to bring the accounting policies in line with those of the group.

After application of the equity method, the group determines whether it is necessary to recognise an additional impairment loss of the investment in its associates. The group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the group calculates the amount of impairment as being the difference between the recoverable value of the associate and its carrying cost and recognises the amount under 'impairment loss of investment in associate' in the consolidated income statement.

**Investment properties**

Investment properties are measured initially at cost, including transaction cost, being the fair value of the consideration given and including acquisition charges associated with the property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses from change in the fair values of investment properties are recognised in the consolidated income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation method consistent with the nature and usage of the investment properties.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated income statement in the period of derecognition.

**Property, plant and equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives as follows:

- Buildings 10 to 20 years
- Other assets 3 to 10 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets**

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**Share based payment transactions**

The group operates an equity-settled, share-based Employee Stock Option Plan ("ESOP"). Under the terms of the plan, share options are granted to eligible employees. The options are exercisable in future period. The fair value of the options at the date on which they are granted is recognised as an expense over the vesting period with corresponding effect to equity.

**Treasury shares**

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

**Employees' end of service benefits**

The group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' length of service. The expected costs of these benefits are accrued over the period of employment.

**Foreign currencies translation**

Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to KD at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated income statement.

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currencies translation (continued)**

Exchange differences arising from translation of the financial statements of the foreign operations are taken to other comprehensive income under foreign currency translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

**Fiduciary accounts**

Assets and related liabilities held in a trust or fiduciary capacity on behalf of managed portfolios and funds' owners are not treated as assets or liabilities of the group and, accordingly, are not included in the consolidated statement of financial position.

**Judgement**

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

*Classification of investments*

Classification of financial assets and liabilities is based on management's intention at acquisition and requires considerable judgement.

*Classification of real estate*

Management decides on acquisition of real estate whether it should be classified as trading property or investment properties or property under development.

The group classifies property as trading property if it is acquired principally for sale in the ordinary course of business. The group classifies property as investment properties if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

For development projects where there will ultimately be a trading and an investment component, the group classifies all related costs as property under development, until such time that the project is complete.

**Estimation uncertainty**

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

*Valuation of unquoted equity investments*

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

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

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

*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.

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

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

#### Estimation uncertainty (continued)

##### *Impairment of investment in associates*

After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associates at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

##### *Impairment provision of receivables and murabaha receivables*

An estimate of the collectible amount of receivables and murabaha receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

##### *Useful lives of property, plant and equipment*

The parent company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

##### *Impairment of property, plant and equipment*

The carrying amounts of the parent company's assets are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

### 5 INVESTMENT SERVICES INCOME

	2011 KD	2010 KD
Restructuring and arranging fees	1,936,677	1,865,977
Advisory fees	55,699	130,126
Placement fees	71,208	111,362
	<u>2,063,584</u>	<u>2,107,465</u>

### 6 OTHER INCOME

	2011 KD	2010 KD
Murabaha and saving accounts income	43,509	106,063
Foreign exchange gain (loss)	26,653	(25,066)
Miscellaneous income	225,161	142,905
	<u>295,323</u>	<u>223,902</u>

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

### 7 DISCONTINUED OPERATIONS

During the year ended 31 December 2010, the group sold all of its interests in the following:

- Streamlink Communications W.L.L.; and
- Al-Shaab National Real Estate Company K.S.C. (Closed).

The loss for the year from discontinued operations is presented below:

	<i>2010</i> <i>KD</i>
Sales of goods and services	1,042,997
Cost of sales	(802,689)
	<hr/>
Gross profit from commercial activities	240,308
Other loss	(5)
Realised loss on sale of investment properties	(3,482,496)
Staff costs	(170,641)
Selling and distribution expenses	(9,452)
General and administration expenses	(85,778)
Depreciation (Note 16)	(8,502)
	<hr/>
Net loss for the year from discontinued operations	(3,516,566)
Loss on disposal of discontinued operations	(220,614)
	<hr/>
Loss for the year from discontinued operations	(3,737,180)
	<hr/>
<b>Attributable to:</b>	
Equity holders of the parent company	(3,737,180)
Non-controlling interests	-
	<hr/>
	(3,737,180)
	<hr/>
Basic and diluted loss per share attributable to equity holders of the parent company from discontinued operations	(5.9) fils
	<hr/>

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

### 7 DISCONTINUED OPERATION (continued)

The net assets of the subsidiary companies on the date of disposal were as follows:

	<i>KD</i>
<b>Assets</b>	
Bank balances and cash	402,351
Accounts receivable and prepayments	399,945
Inventories	6,394
Investments properties	52,116,408
Property, plant and equipment	81,600
<b>Total assets</b>	<u>53,006,698</u>
<b>Liabilities</b>	
Murabaha payable	8,817,632
Accounts payable and accruals	2,369,177
Employees' end of service benefits (Note 23)	26,232
<b>Total liabilities</b>	<u>11,213,041</u>
<b>Net assets</b>	41,793,657
Total consideration**	<u>(41,573,043)</u>
<b>Realised loss on sale</b>	<u>(220,614)</u>
Cash and cash equivalents:	
Total consideration	41,573,043
Less: Bank balances and cash	(402,351)
Less: non-cash item*	<u>(30,000,000)</u>
<b>Net cash inflow</b>	<u>11,170,692</u>

\* Total consideration includes a non-cash item of KD 30,000,000 and represents a piece of land valued by an independent valuer.

\*\* Total consideration amounting to KD 41,573,043 comprises KD 200,000 and KD 41,373,043 (Note 15) on sale of Streamlink Communications W.L.L. and Al-Shaab National Real Estate Company K.S.C. (Closed) respectively.

### 8 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share is computed by dividing profit (loss) attributable to the equity holders of the parent company by the weighted average number of shares (net of treasury shares) outstanding during the year as follows:

	<i>2011</i>	<i>2010</i>
	<i>KD</i>	<i>KD</i>
Profit (loss) attributable to equity holders of the parent company	<u>49,622,690</u>	<u>(29,897,718)</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of shares (net of treasury shares) outstanding for the year	<u>637,537,918</u>	<u>637,537,918</u>
Basic and diluted earnings (loss) per share attributable to the equity holders of the parent company	<u>77.8 fils</u>	<u>(46.9) fils</u>

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

### 8 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (continued)

Basic and diluted earnings (loss) per share from continuing operations:

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Profit (loss) for the year from continuing operations attributable to equity holders of the parent company	<u>49,622,690</u>	<u>(26,160,538)</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of shares (net of treasury shares) outstanding for the year	<u>637,537,918</u>	<u>637,537,918</u>
Basic and diluted earnings (loss) per share attributable to the equity holders of the parent company	<u>77.8 fils</u>	<u>(41.0) fils</u>

### 9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as shown in the consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Bank balances and cash	3,272,433	21,698,448
Short-term murabaha investments with original maturities up to three months	<u>1,492,155</u>	<u>2,860,579</u>
	<u>4,764,588</u>	<u>24,559,027</u>

Short-term murabaha investments carry effective average annual profit rate of 0.4% (2010: 0.8%).

### 10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Trade accounts receivable – public sector	820,741	756,090
Trade accounts receivable – private sector	<u>1,927,241</u>	<u>1,314,075</u>
	2,747,982	2,070,165
Provision for doubtful receivables	<u>(157,360)</u>	<u>(162,666)</u>
	2,590,622	1,907,499
Receivable from sale of investments	-	3,364,771
Prepayments	181,297	2,048,798
Accrued income	154,923	1,292,228
Other receivables	<u>226,902</u>	<u>255,735</u>
	<u>3,153,744</u>	<u>8,869,031</u>

During 2008, a subsidiary company, SHRE, made an advance rent payment of KD 1,318,778 for a leasehold land in Dubai. The development of the land was delayed by the lessor. During the current year, the group had significant doubts about the recoverability of the balance, therefore, the full amount has been written off during the current year.

The Securities House K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

11 INVENTORIES

	2011 KD	2010 KD
Raw and packing materials	2,237,549	1,817,923
Finished goods	117,156	102,046
	<u>2,354,705</u>	<u>1,919,969</u>
Provision for obsolete and slow moving inventory	(422,823)	(333,726)
	<u>1,931,882</u>	<u>1,586,243</u>

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2011 KD	2010 KD
<i>Quoted local equities:</i>		
Carrying value before fair value adjustment	1,584,652	4,573,220
Fair value adjustment during the year	(937,753)	487,138
	<u>646,899</u>	<u>5,060,358</u>
<i>Unquoted local equities:</i>		
Carrying value before fair value adjustment	2,097,931	26,373,888
Fair value adjustment during the year	(142,897)	699,553
	<u>1,955,034</u>	<u>27,073,441</u>
<i>Unquoted equities in the Middle East:</i>		
Carrying value before fair value adjustment	3,372,972	54,129,391
Fair value adjustment during the year	(616,726)	(11,477,769)
	<u>2,756,246</u>	<u>42,651,622</u>
<i>Unquoted foreign equities:</i>		
Carrying value before fair value adjustment	1,816,659	1,993,521
Fair value adjustment during the year	(204)	130,271
	<u>1,816,455</u>	<u>2,123,792</u>
	<u>7,174,634</u>	<u>76,909,213</u>

The valuation of investments in unquoted securities involves the exercise of judgment and is based on information available on recent arm's length market transactions, current fair value of another instrument that is substantially the same, the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; earnings multiple technique, or other valuation models.

Financial assets at fair value through income statement amounting to KD 2,094,373 (2010: KD 52,024,619) are pledged as security against the murabaha payables facilities amounting to KD 43,352,021 (2010: 80,534,409) (Note 21).

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

### 13 FINANCIAL ASSETS AVAILABLE FOR SALE

	2011 KD	2010 KD
<i>Unquoted local equities:</i>		
Carrying value before fair value adjustment	300,000	1,525,000
Cumulative changes in fair values	-	250,000
	<b>300,000</b>	<b>1,775,000</b>
<i>Unquoted equities in the Middle east:</i>		
Carrying value before fair value adjustment	1,077,000	3,806,280
Impairment in value during the year	(252,420)	-
	<b>824,580</b>	<b>3,806,280</b>
<i>Unquoted foreign equities:</i>		
Carrying value before fair value adjustment	4,664,614	13,890,988
Cumulative changes in fair values	(437,217)	575,551
Impairment in value during the year	(851,283)	(757,640)
	<b>3,376,114</b>	<b>13,708,899</b>
	<b>4,500,694</b>	<b>19,290,179</b>

Included in the financial assets above are unquoted equities amounting to KD 2,590,784 (2010: KD 15,931,301) which are carried at cost less impairment since their fair value cannot be reliably measured due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these assets.

During the year, the group performed impairment test of its financial assets available for sale which resulted in the recognition of an impairment loss of KD 1,103,703 (2010: KD 757,640) in the consolidated income statement to account for the adverse circumstances affecting certain assets, thus reducing the value of these assets to their recoverable amount. The assessment model used was based on market observable inputs. The management believes that there is no objective evidence or circumstances that indicate any further impairment in the value of these assets and that there is no need to recognise any additional impairment in its value.

Financial assets available for sale amounting to KD 548,260 (2010: 7,498,024) are pledged as security against the murabaha payables facilities amounting to KD 43,352,021 (2010: KD 80,534,409) (Note 21).

### 14 INVESTMENT IN ASSOCIATES

The significant associates included in these consolidated financial statements are listed as follows:

Name	Country of incorporation	equity interest	
		2011	2010
Gatehouse Bank plc (refer below)	United Kingdom	49%	-
Al-Aman Investment Company K.S.C. (Closed)	Kuwait	46%	26%
Nafaes Group for General Trading and Contracting W.L.L.	Kuwait	50%	50%
Weaver Point Company L.L.C.	U.S.A.	25%	25%
Green Valley Investment Limited	Cayman Islands	44%	44%

During the year ended 31 December 2010, the management of Gatehouse Bank plc, (the "bank") have prepared a business plan for its first phase of the expansion of the bank's activities and aimed to increase the paid up share capital of GBP 50 million to GBP 150 million through the issuance of 10 billion shares at nominal value of GBP 0.01 per share amounting to GBP 100 million.

During October 2010, the bank has assigned an independent consultant to review and enhance the group's business plan, and assess the fair value of the bank's shares after the capital increase, which was estimated to be GBP 0.0239 per share.

**14 INVESTMENT IN ASSOCIATES (continued)**

During July 2011, the group has sold 4,686,400,000 shares out of its 9,094,400,000 shares (equivalent to 29.7% of the bank's total issued share capital after the capital increase) priority rights to subscribe in the capital increase to a strategic investor. The group realised a net gain of KD 13,341,944 from the sale of these rights classified under 'Realised gain on sale of priority rights of investment in a former subsidiary in the consolidated income statement. The group subscribed in the bank's capital increase of its remaining share of 4,408,000,000 shares amounting to KD 19,688,674 (equivalent to GBP 44,080,000). As a result, the group's ownership has been diluted from 80% to 57.3% and recognised a dilution gain amounting to KD 2,384,893 in the consolidated financial information. The non controlling interest's share of the increase in the bank's share capital of KD 24,991,326 has been accounted for in the consolidated statement of changes in equity.

Further, in the group's efforts to reduce its debts and increase shareholders' value, the group sold 1,316,600,000 shares (equivalent to 8.3% of the total issued share capital after the capital increase) of the bank's shares to its creditors against settlement of certain outstanding murabaha payables amounting to KD 13,846,034. The sale price was set based on the fair valuation as determined by the independent consultant as mentioned above. Accordingly, a realised gain amounting to KD 9,371,254 on sale of 8.3% of the group's equity interest is recorded in the consolidated income statement.

As a result of the above, the group's ownership percentage in the bank has further decreased to 48.93% with effect from 19 September 2011. From the date of loss of control, the investment in the bank has been accounted for as an associate of the group in accordance with IAS 28: "Investment in Associates". In accordance with IAS 27R, the group fair valued the equity interest retained in the bank and recognised a gain of KD 53,005,981 in the consolidated income statement being the excess of fair value of interest retained over its carrying amount. As a result of the above, the foreign currency translation reserve relating to the subsidiary amounting to KD 2,611,394 was recycled to the consolidated income statement.

As a result of derecognition of the subsidiary, the net cash outflow on loss of control of the subsidiary is equivalent to KD 49,461,762 and non-controlling interests is equivalent to KD 21,767,788.

The carrying value and market value of Al-Aman Investment Company K.S.C (Closed) as at 31 December 2011 are KD 13,898,053 (2010: KD 9,039,478) and KD 6,217,411 (2010: KD 6,594,867) respectively. Other associates are not listed in any of the public stock exchanges, therefore, the fair valuates are not determinable.

During the previous year, the parent company has sold a portion of its equity interest in its investment in Al-Aman Investment Company K.S.C. (Closed), which resulted in a net gain of KD 493,048.

During the year, the group performed an impairment test on its investments in associates which resulted in the recognition of an impairment loss of KD 4,765,994 (2010: Nil) in the consolidated income statement. The management believes that there is no objective evidence or circumstances that indicate any further impairment in the value of its investments in associates and that there is no need to recognise any additional impairment in its value.

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

### 14 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates summarised financial information of investment in associates:

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
<b>Share of associates' assets and liabilities:</b>		
Current assets	32,282,441	5,168,703
Non-current assets	25,567,282	8,058,238
Current liabilities	(11,114,846)	(6,571,758)
Non-current liabilities	(11,856,240)	(71,290)
Net assets	34,878,637	6,583,893
Goodwill	65,493,331	4,556,052
Impairment loss on associates	(4,765,994)	-
	<u>95,605,974</u>	<u>11,139,945</u>
<b>Share of associates' revenue and results:</b>		
	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Revenue	1,600,719	1,086,210
Share of results	(757,303)	(1,738,719)
Impairment	(4,765,994)	-

### 15 INVESTMENT PROPERTIES

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
As at 1 January	534,995	63,119,191
Additions (capital expenditure)	-	738,412
Additions (acquisition of land) (Note 7)	-	30,000,000
Disposals	-	(37,600,705)
Discontinued operations	-	(55,637,707)
Unrealised loss	(3,905)	(84,196)
At 31 December	<u>531,090</u>	<u>534,995</u>

During the previous year, the group disposed off its subsidiary company "Al-Shaab National Real Estate Company K.S.C. (Closed)" to a non-related party (see Note 7), as a result, the group received a consideration comprising cash of KD 11,373,043 and a piece of land valued at KD 30,000,000, which was later on sold to an non-related party at KD 25,000,000 during the same year. In addition, during the previous year, the group sold a piece of land to an unrelated party at KD 8,000,000.

Accordingly the group has recorded a net loss of KD 4,600,705 under continuing operations in the consolidated income statement during the year ended 31 December 2010.

The Securities House K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

16 PROPERTY, PLANT AND EQUIPMENT

	<i>Construction in process KD</i>	<i>Buildings KD</i>	<i>Machinery, plant and equipment KD</i>	<i>Furniture, fixture and office equipment KD</i>	<i>Motor vehicles KD</i>	<i>Total KD</i>
<b>Cost:</b>						
As at 1 January 2011	10,751,650	1,351,247	4,178,509	2,476,298	699,187	19,456,891
Additions	13,501	-	133,349	66,945	155,280	369,075
Relating to loss of control of a subsidiary (Note 14)	-	-	-	(1,057,161)	-	(1,057,161)
As at 31 December 2011	<u>10,765,151</u>	<u>1,351,247</u>	<u>4,311,858</u>	<u>1,486,082</u>	<u>854,467</u>	<u>18,768,805</u>
<b>Depreciation:</b>						
As at 1 January 2011	-	420,656	1,680,473	1,589,629	438,677	4,129,435
Charge for the year	-	74,712	620,661	109,940	105,008	910,321
Relating to loss of control of a subsidiary (Note 14)	-	-	-	(576,467)	-	(576,467)
As at 31 December 2011	<u>-</u>	<u>495,368</u>	<u>2,301,134</u>	<u>1,123,102</u>	<u>543,685</u>	<u>4,463,289</u>
<b>Net book value</b>						
As at 31 December 2011	<u><b>10,765,151</b></u>	<u><b>855,879</b></u>	<u><b>2,010,724</b></u>	<u><b>362,980</b></u>	<u><b>310,782</b></u>	<u><b>14,305,516</b></u>

	<i>Construction in process KD</i>	<i>Buildings KD</i>	<i>Machinery, plant and equipment KD</i>	<i>Furniture, fixture and office equipment KD</i>	<i>Motor vehicles KD</i>	<i>Total KD</i>
<b>Cost:</b>						
As at 1 January 2010	9,791,288	1,351,247	4,952,006	2,629,348	679,492	19,403,381
Additions	960,362	-	125,248	118,824	50,359	1,254,793
Relating to disposal of subsidiaries (Note 7)	-	-	(898,745)	(203,924)	(30,664)	(1,133,333)
Impairment in value	-	-	-	(5,919)	-	(5,919)
Exchange adjustment	-	-	-	(62,031)	-	(62,031)
As at 31 December 2010	<u>10,751,650</u>	<u>1,351,247</u>	<u>4,178,509</u>	<u>2,476,298</u>	<u>699,187</u>	<u>19,456,891</u>
<b>Depreciation:</b>						
As at 1 January 2010	-	345,911	2,192,627	1,175,330	366,258	4,080,126
Charge for the year	-	74,745	367,307	577,568	101,648	1,121,268
Relating to disposal of subsidiaries (Note 7)	-	-	(879,461)	(143,043)	(29,229)	(1,051,733)
Exchange adjustment	-	-	-	(20,226)	-	(20,226)
As at 31 December 2010	<u>-</u>	<u>420,656</u>	<u>1,680,473</u>	<u>1,589,629</u>	<u>438,677</u>	<u>4,129,435</u>
<b>Net book value</b>						
As at 31 December 2010	<u><b>10,751,650</b></u>	<u><b>930,591</b></u>	<u><b>2,498,036</b></u>	<u><b>886,669</b></u>	<u><b>260,510</b></u>	<u><b>15,327,456</b></u>

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 16 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation charge for the year is allocated as follows:

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Cost of sales from commercial activities	357,994	478,039
General and administration expenses	552,327	634,727
Discontinued operations (Note 7).	-	8,502
	<u>910,321</u>	<u>1,121,268</u>

At year end, the group tested property, plant and equipment for impairment, which resulted in the recognition of an impairment loss of KD Nil (2010: KD 5,919) in the consolidated income statement.

### 17 SHARE CAPITAL, DIVIDENDS AND DIRECTORS' REMUNERATION

The authorised, issued and paid up share capital comprises 680,000,000 (2010: 680,000,000) shares of 100 fils (2010: 100 fils) per share which was paid in cash.

In the annual general meeting held on 29 July 2010, the shareholders of the parent company and the regulatory authorities approved the absorption of an amount of KD 30,065,681 of the balance of the accumulated losses at 31 December 2009 through charging KD 3,946,731 to the statutory reserve and KD 26,118,950 to the share premium.

No remuneration is proposed to Directors for the year ended 31 December 2011 (2010: Nil).

During the Board meeting held on 10 May 2012, the Board of Directors of the parent company has proposed not to distribute any cash dividend or bonus shares for the year ended 31 December 2011. This proposal is subject to approval by the shareholders' annual general meeting.

### 18 RESERVES

#### *Share premium*

The share premium account is not available for distribution. In the annual general meeting held on 29 July 2010 has approved the absorption of KD 26,118,950 to share premium against the accumulated losses as at 31 December 2009 (Note 17).

#### *Statutory reserve*

In accordance with the Law of Commercial Companies and the parent company's articles of association, 10% of the profit for the year before directors' remuneration, contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST") and Zakat is required to be transferred to the statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of paid-up share capital. During the current year, no transfer has been made to statutory reserve since previously accumulated losses have not been fully recovered (2010: KD Nil)

In the annual general meeting held on 29 July 2010 has approved the absorption of KD 3,946,731 to statutory reserve against accumulated losses as of 31 December 2009 (Note 17)

Distribution of this 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 accumulated profits are not sufficient for the payment of a dividend of that amount.

#### *Treasury shares reserve*

Reserves equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable in the parent company.

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 19 EMPLOYEES' SHARE PURCHASE PLAN RESERVE

During 2009, the parent company cancelled 2,500,000 equity-settled stock options to eligible employees under the employee share purchase plan. The vesting of the options and shares is dependent on eligible employees remaining in service for a period of 12 months from date of grant.

There were no options outstanding as at 31 December 2011.

### 20 TREASURY SHARES

	2011	2010
Number of treasury shares	<u>42,280,000</u>	<u>42,280,000</u>
Percentage of share capital	<u>6.2%</u>	<u>6.2%</u>
Market value (KD) *	<u>5,496,400</u>	<u>5,496,400</u>

The parent company sold Nil (2010: 760,000) treasury shares at a loss of KD Nil (2010: KD 304,967). The full amount of the loss has been transferred to "treasury shares reserve" within shareholders' equity.

\* On 01 April 2010, the shares of the parent company were suspended from trading in Kuwait Stock Exchange. Accordingly, the market value of the treasury shares was determined using the last transaction price.

### 21 MURABAHA PAYABLES

	2011 KD	2010 KD
Maturities within 1 year	55,109,223	130,734,694
Maturities above 1 year	<u>500,653</u>	<u>495,571</u>
	<u>55,609,876</u>	<u>131,230,265</u>

Murabaha payable represents the value of assets purchased on a deferred settlement basis.

Short-term facilities carry profit rates varying from 5% to 6.5% (2010: 1.20% to 9.50%). Long-term facilities carry profit rates varying from 6% to 7.5% (2010: 10.50% to 11.00%) per annum.

In addition, certain murabaha payable facilities amounting to KD 43,352,021 (2010: KD 80,534,409) are secured against financial assets at fair value through income statement and financial assets available for sale amounting to KD 2,094,373 and KD 548,260 respectively (2010: 52,024,619 and KD 7,498,024) (Notes 12 and 13).

### 22 ACCOUNTS PAYABLE AND ACCRUALS

	2011 KD	2010 KD
Advances received from customers	8,672,454	8,502,796
Payable under sale and deferred purchase agreement	7,130,505	7,922,863
Trade accounts and notes payable	1,365,113	726,849
Staff payables	127,207	329,167
Other payables	990,155	667,192
Accruals	<u>3,758,388</u>	<u>5,034,212</u>
	<u>22,043,822</u>	<u>23,183,079</u>

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 23 EMPLOYEES' END OF SERVICE BENEFITS

In accordance with Kuwait labour law, the group provides for end of service benefits for its employees.

Movement in the provision recognised in the consolidated statement of financial position are as follows:

	<b>2011</b>	<b>2010</b>
	<b>KD</b>	<b>KD</b>
As at 1 January	1,689,167	1,860,343
Charge for the year	141,812	198,075
Employees' end of service benefits paid	(742,609)	(343,019)
Relating to disposal of subsidiaries (Note 7)	-	(26,232)
Relating to loss of control of a subsidiary	(14,393)	-
As at 31 December	<u>1,073,977</u>	<u>1,689,167</u>

### 24 TAXATION

	<b>2011</b>	<b>2010</b>
	<b>KD</b>	<b>KD</b>
National Labour Support Tax ("NLST")	1,152,177	-
Zakat	517,832	-
	<u>1,670,009</u>	<u>-</u>

### 25 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and executive officers of the parent company, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the parent company's management.

Related party balances and transactions consist of the following:

	<i>Other related parties</i>	<i>Other related parties</i>
	<b>2011</b>	<b>2010</b>
	<b>KD</b>	<b>KD</b>
<b>Consolidated income statement:</b>		
Dividends	86,706	153,060
Management fee income - managed funds	241,453	612,387
Restructuring and arrangement fees	59,235	61,583
Rent expense	166,098	(245,687)
<b>Consolidated statement of financial position:</b>		
<b>Accounts receivable and prepayments:</b>		
Accrued management fees – managed funds	113,258	908,824
Accrued dividends – managed funds	96,979	100,729
	<b>2011</b>	<b>2010</b>
	<b>KD</b>	<b>KD</b>
<b>Key management compensation:</b>		
Salaries and other short term benefits	719,637	1,010,319
Employees' end of services benefit	75,627	147,992
Share based payment	-	7,826
	<u>795,264</u>	<u>1,166,137</u>

Assets amounting to KD 4,131,630 (2010: KD 8,463,519) are being managed on behalf of related parties.

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 26 SEGMENTAL INFORMATION

For management purposes the group is organised into three major business segments:

Proprietary investment management : Investing of group funds in securities and real estate, financing corporate and individual customers, and managing the group's liquidity requirements.

Asset management and advisory services : Discretionary and non-discretionary investment portfolio management, managing of local and international investment funds and providing advisory and structured finance services and other related investment services.

Commercial trading activities : Selling and distribution of manufactured and imported goods and services.

	Proprietary investment management		Asset management and advisory services		Commercial trading activities		Discontinued operations		Total		
	2011 KD	2010 KD	2011 KD	2010 KD	2011 KD	2010 KD	2011 KD	2010 KD	2011 KD	2010 KD	
Segment revenue (losses)	31,572,464	(13,661,424)	16,621,826	3,060,144	9,515,817	7,741,822	57,710,107	(2,859,458)	1,042,992	57,710,107	(1,816,466)
Segment results	40,000,819	(16,801,810)	16,430,110	3,040,734	954,606	1,052,152	57,385,535	(12,708,924)	(3,737,180)	57,385,535	(16,446,104)
Unallocated expenses							(134,491)	(1,725,809)	-	(134,491)	(1,725,809)
Share in result of associates							(757,303)	(1,738,719)	-	(757,303)	(1,738,719)
Murabaha payable costs							(5,717,224)	(11,068,394)	-	(5,717,224)	(11,068,394)
Taxation							(1,670,009)	-	-	(1,670,009)	-
Profit (loss) for the year	24,422,583	118,340,879	320,376	320,266	6,854,601	7,924,041	49,106,508	(27,241,846)	(3,737,180)	49,106,508	(30,979,026)
Assets:											
Segment assets	24,422,583	118,340,879	320,376	320,266	6,854,601	7,924,041	31,597,560	126,585,186	-	31,597,560	126,585,186
Investment in associates	13,898,053	9,251,386	81,707,921	1,888,559	-	-	95,605,974	11,139,945	-	95,605,974	11,139,945
Others	3,769,697	22,954,061	-	-	994,891	1,604,966	4,764,588	24,559,027	-	4,764,588	24,559,027
	42,090,333	150,546,326	82,028,297	2,208,825	7,849,492	9,529,007	131,968,122	162,284,158	-	131,968,122	162,284,158

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26 SEGMENTAL ANALYSIS (continued)

	Proprietary investment management		Asset management and advisory services		Commercial trading activities		Discontinued operations		Total			
	2010		2011		2010		2011		2010		2011	
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
<b>Liabilities:</b>												
Account payable and accruals	20,086,264	21,661,984	-	-	1,521,095	1,521,095	22,043,822	22,043,822	-	-	22,043,822	23,183,079
Murabaha payables	55,109,223	129,904,955	500,653	-	1,325,310	1,325,310	55,609,876	55,609,876	-	-	55,609,876	131,230,265
Employees' end of service benefits	727,220	1,387,544	-	-	301,623	301,623	1,073,977	1,073,977	-	-	1,073,977	1,689,167
	<u>75,922,707</u>	<u>152,954,483</u>	<u>500,653</u>	<u>-</u>	<u>2,304,315</u>	<u>3,148,028</u>	<u>78,727,675</u>	<u>78,727,675</u>	<u>-</u>	<u>-</u>	<u>78,727,675</u>	<u>156,102,511</u>
<b>Other segmental information:</b>												
Capital expenditure	79,793	982,707	-	15,962	289,282	215,133	369,075	369,075	-	40,991	369,075	1,254,793
Depreciation (Note 16)	353,024	400,700	78,666	98,048	478,631	587,699	910,321	910,321	-	34,821	910,321	1,121,268
Impairment loss on financial assets available for sale (Note 13)	1,103,703	757,640	-	-	-	-	1,103,703	1,103,703	-	-	1,103,703	757,640
Impairment loss of investment in an associate (Note 14)	4,765,994	-	-	-	-	-	4,765,994	4,765,994	-	-	4,765,994	-
Impairment loss on property, plant and equipment (Note 16)	-	5,919	-	-	-	-	-	-	-	5,919	-	5,919

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**27 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, short-term murabaha investments, financial assets at fair value through income statement, financial assets available for sale, and certain accounts receivable. Financial liabilities consist of murabaha payables and certain accounts payable.

Fair values of all financial instruments, except for certain financial assets available for sale that are carried at cost as stated in Note 13, are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value of financial assets at fair value through income statement is based on the following:

<i>As at 31 December 2011</i>	<i>Total KD</i>	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Level 3 KD</i>
<i>Financial assets at fair value through income statement</i>				
Quoted equity securities	646,899	646,899	-	-
Unquoted equity securities	6,527,735	-	-	6,527,735
<i>Financial assets available for sale</i>				
Unquoted equity securities	1,909,910	-	-	1,909,910
	<u>9,084,544</u>	<u>646,899</u>	<u>-</u>	<u>8,437,645</u>
<i>As at 31 December 2010</i>	<i>Total KD</i>	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Level 3 KD</i>
<i>Financial assets at fair value through income statement</i>				
Quoted equity securities	5,060,358	5,060,358	-	-
Unquoted equity securities	71,848,855	-	-	71,848,855
<i>Financial assets available for sale</i>				
Unquoted equity securities	3,358,878	-	-	3,358,878
	<u>80,268,091</u>	<u>5,060,358</u>	<u>-</u>	<u>75,207,733</u>

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27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value.

	<i>At 1 January 2011 KD</i>	<i>Loss (gain) recorded in the consolidated income statement KD</i>	<i>Net purchases, sales and settlements KD</i>	<i>31 December 2011 KD</i>
<i>Financial assets at fair value through income statement</i>				
Unquoted equity securities	71,848,855	(759,827)	(62,095,819)	8,993,209
<i>Financial assets available for sale</i>				
Unquoted equity securities	3,358,878	(1,011,511)	(2,902,931)	(555,564)
	<u>75,207,733</u>	<u>(1,771,338)</u>	<u>(64,998,750)</u>	<u>8,437,645</u>

	<i>At 1 January 2010 KD</i>	<i>Loss (gain) recorded in the consolidated income statement KD</i>	<i>Net purchases, sales and settlements KD</i>	<i>31 December 2010 KD</i>
<i>Financial assets at fair value through income statement</i>				
Unquoted equity securities	88,878,592	(10,647,945)	(6,381,792)	71,848,855
<i>Financial assets available for sale</i>				
Unquoted equity securities	-	-	3,358,878	3,358,878
	<u>88,878,592</u>	<u>(10,647,945)</u>	<u>(3,022,914)</u>	<u>75,207,733</u>

During the year, there have been no transfers between the hierarchies.

The level 3 hierarchy of fair value are valued using valuation techniques that incorporate non-observable inputs to the models and assumptions regarding the future financial performance of the investee, its risk profile, economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

The fair values of level 3 financial instruments are determined using valuation techniques that are based on recent arm's length market transactions, price to book value or earnings model and net assets or book value after discounting for lack of marketability by 10 to 20%.

The valuation models used, the related fair values and the unrealised gain (loss) are as follows:

Valuation model	<i>Fair value</i>		<i>Unrealised (loss) gain</i>	
	<i>2011 KD</i>	<i>2010 KD</i>	<i>2011 KD</i>	<i>2010 KD</i>
Recent secondary market transactions	-	2,160,455	-	665,323
Sum of the parts methodology	-	23,486,119	-	(3,718,775)
Net assets or book value	<u>8,437,645</u>	<u>49,561,159</u>	<u>(1,771,338)</u>	<u>(6,768,942)</u>
	<u>8,437,645</u>	<u>75,207,733</u>	<u>(1,771,338)</u>	<u>(9,822,394)</u>

At 31 December 2011

**28 RISK MANAGEMENT**

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into profit rate risk, currency risk and equity price risk. The group is also subject to operational risk. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the group's strategic planning process.

**28.1 CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of financing activities.

**Maximum exposure to credit risk and risk concentration**

With respect to credit risk arising from the financial assets of the group, which comprise bank balances and cash, short-term murabaha investments, murabaha receivables and certain accounts receivable, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of contractual financial instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The group's bank balances and short-term murabaha investments are held with high credit quality banks and financial institutions. In addition, murabaha receivables and receivable balances are monitored on an ongoing basis. As a result, the group's exposure to bad debts is not significant.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

The table below shows the maximum exposure to credit risk and risk concentration for the contractual financial instruments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements or credit enhancements:

	<i>Gross maximum exposure 2011 KD</i>	<i>Gross maximum exposure 2010 KD</i>
Bank balances and short-term murabaha investments:		
- Local banks and financial institutions	3,672,533	21,672,384
- Foreign banks and financial institutions	1,092,155	2,886,643
	4,764,688	24,559,027
Trade receivables from local public sector:		
- Industrial sector	820,751	756,090
Trade receivables from local private sector:		
- Industrial sector	1,556,067	919,308
- Real estate sector	371,174	71,374
- Financial sector	-	160,727
	1,927,241	1,151,409

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At 31 December 2011

**28 RISK MANAGEMENT (continued)**

**28.1 CREDIT RISK (continued)**

	<i>Gross maximum exposure 2011 KD</i>	<i>Gross maximum exposure 2010 KD</i>
Murabaha receivables to local private sector:		
- Oil sector	-	1,653,418
Murabaha receivables to private sector in the Middle East:		
- Financial sector	-	2,414,651
Receivable on sale of investments	-	1,907,499
<b>Total credit risk exposure</b>	<b>7,512,570</b>	<b>32,442,094</b>

*Collateral and other credit enhancements*

The group does not have any collateral or other credit enhancements against any of the financial assets at 31 December 2011 and 31 December 2010.

*Analysis of past due but not impaired*

The amount of past due but not impaired financial assets at 31 December 2011 and 31 December 2010 is not significant.

*Analysis of impaired financial assets*

An estimate of the collectible amount of financial assets is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At 31 December 2011, the provision for impaired and doubtful receivables is KD 157,360 (31 December 2010: KD 162,666) (Note 10). Any difference between the amounts actually collected in future period and the amounts expected will be recognised in the consolidated income statement.

**28.2 LIQUIDITY RISK**

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the group periodically assesses the financial viability of customers and invests in short-term murabaha or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

It is the group's policy that not more than 60% of borrowings should mature in the next 12 month period. The group is currently considers refinancing its short-term borrowings by medium to long-term financing arrangements. 91% of the group's borrowings will mature in less than one year at 31 December 2011 (2010: 86%) based on their carrying value reflected in the consolidated financial statements.

The table below summarises the maturity profile of the group financial liabilities based on contractual undiscounted repayment obligations.

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### 28 RISK MANAGEMENT (continued)

#### 28.2 LIQUIDITY RISK (continued)

The liquidity profile of financial liabilities reflects the projected cash flows which includes future profit payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December is as follows:

31 December 2011	<i>Within 1 month KD</i>	<i>1 to 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Murabaha payables	55,109,223	-	-	500,653	55,609,876
Future profit payable	104,694	-	-	-	104,694
Accounts payable and accruals	1,196,727	3,129,267	10,405,690	7,312,138	22,043,822
<b>Total financial liabilities</b>	<b>56,410,644</b>	<b>3,129,267</b>	<b>10,405,690</b>	<b>7,812,791</b>	<b>77,758,392</b>
<b>Commitments</b>	-	-	-	-	-
31 December 2010	<i>Within 1 month KD</i>	<i>1 to 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Murabaha payables	16,655,157	39,159,636	74,919,901	495,571	131,230,265
Future profit payable	55,995	594,301	1,912,098	-	2,562,394
Accounts payable and accruals	379,286	4,026,542	3,196,259	7,078,196	14,680,283
<b>Total financial liabilities</b>	<b>17,090,438</b>	<b>43,780,479</b>	<b>80,028,258</b>	<b>7,573,767</b>	<b>148,472,942</b>
<b>Commitments</b>	-	-	19,500	-	19,500

#### 28.3 MARKET RISK

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

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration as disclosed in Note 26, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

##### 28.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The group is not exposed to profit rate risk on its profit bearing assets and liabilities (short-term murabaha investments, murabaha receivables and murabaha payable) as a result of reasonably possible changes in profit rates since the group is not exposed to any floating rate profit bearing assets and liabilities.

**28 RISK MANAGEMENT (continued)**

**28.3 MARKET RISK (continued)**

**28.3.2 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.

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

The effect on profit for the year (due to change in the fair value of monetary assets and liabilities) and on equity, as a result of change in currency rate, with all other variables held constant is shown below:

Currency	<i>Change in currency rate by 3%</i>			
	<i>31 December 2011</i>		<i>31 December 2010</i>	
	<i>Effect on profit for the year</i>	<i>Effect on other comprehensive income</i>	<i>Effect on loss for the year</i>	<i>Effect on other comprehensive income</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
USD	142,695	68,892	1,391,201	184,194
GBP	2,291,290	67,087	19,770	345,854
AED	202	-	98,955	61,200
Euro	44,938	-	44,782	27,314

**28.3.3 Equity price risk**

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

The effect on profit for the year (as a result of a change in the fair value of financial assets at fair value through income statement) and on equity (as a result of a change in the fair value of financial assets available for sale) due to a reasonably possible changes in active market indices, with all other variables held constant is as follows:

Market index	<i>Change in equity market index by 5%</i>	
	<i>Effect on profit for the year</i>	<i>Effect on loss for the year</i>
	<i>2011</i>	<i>2010</i>
	<i>KD</i>	<i>KD</i>
Kuwait	32,345	216,475

Any change in fair values of unquoted investments valued based on price earnings ratios will have a corresponding change in equity and profit before deductions.

Investments in the category of financial assets available for sale category are in unlisted companies and therefore the group is not significantly exposed to equity price risk due to reasonably possible changes in active market indices.

The group's unquoted equity securities carried at cost in available for sale category where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated income statement will be impacted.

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### 28 RISK MANAGEMENT (continued)

#### 28.3 MARKET RISK (continued)

##### 28.3.4 Prepayment risk

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.

#### 28.4 CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

The distribution of assets by geographic region was as follows:

	<i>2011</i>	<i>2010</i>
	<i>KD</i>	<i>KD</i>
<b>Geographic region</b>		
- Kuwait	44,504,296	87,068,663
- Bahrain	3,581,525	45,102,072
- United Kingdom	79,281,498	13,208,989
- United Arab Emirates	6,722	5,338,505
- United States of America	2,358,346	5,767,666
- Saudi Arabia	1,545	2,228,492
- France	1,437,485	2,416,737
- Other	796,705	1,153,034
	<u>131,968,122</u>	<u>162,284,158</u>

The distribution of financial investments and investment properties by industry sector was as follows:

	<i>2011</i>	<i>2010</i>
	<i>KD</i>	<i>KD</i>
<b>Industry sector</b>		
- Banks and financial and investment institutions	98,286,572	64,701,064
- Real estate	4,335,294	31,907,885
- Services	1,348,195	4,235,923
- Oil and gas	280,900	2,773,400
- Manufacturing	550,770	1,651,390
- Food and agriculture	-	201,069
- Information technology	274,860	574,400
- Others	268,942	1,829,201
	<u>105,345,533</u>	<u>107,874,332</u>

# The Securities House K.S.C. (Closed) and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 29 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at fair value through income statement, financial assets available for sale and investment properties is based on management's estimate of liquidation of those investments.

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

31 December 2011	<i>Up to 1 year KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>Assets:</b>			
Cash and cash equivalents	3,272,433	-	3,272,433
Short-term murabaha investments	1,492,155	-	1,492,155
Accounts receivable and prepayments	3,153,744	-	3,153,744
Inventories	1,931,882	-	1,931,882
Financial assets at fair value through income statement	697,033	6,477,601	7,174,634
Financial assets available for sale	300,000	4,200,694	4,500,694
Investment in associates	-	95,605,974	95,605,974
Investment properties	-	531,090	531,090
Property, plant and equipment	-	14,305,516	14,305,516
<b>Total assets</b>	<b>10,847,247</b>	<b>121,120,875</b>	<b>131,968,122</b>
<b>Liabilities:</b>			
Murabaha payables	55,109,223	500,653	55,609,876
Accounts payable and accruals	15,574,092	6,469,730	22,043,822
Employees' end of service benefits	-	1,073,977	1,073,977
<b>Total liabilities</b>	<b>70,683,315</b>	<b>8,044,360</b>	<b>78,727,675</b>
31 December 2010	<i>Up to 1 year KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>Assets:</b>			
Cash and cash equivalents	21,698,448	-	21,698,448
Short-term murabaha investments	2,860,579	-	2,860,579
Accounts receivable and prepayments	8,869,031	-	8,869,031
Inventories	1,586,243	-	1,586,243
Financial assets at fair value through income statement	50,511,689	26,397,524	76,909,213
Murabaha receivables	4,068,069	-	4,068,069
Financial assets available for sale	6,037,716	13,252,463	19,290,179
Investment in associates	9,251,386	1,888,559	11,139,945
Investment properties	-	534,995	534,995
Property, plant and equipment	-	15,327,456	15,327,456
<b>Total assets</b>	<b>104,883,161</b>	<b>57,400,997</b>	<b>162,284,158</b>
<b>Liabilities:</b>			
Murabaha payables	130,734,694	495,571	131,230,265
Accounts payable and accruals	16,104,883	7,078,196	23,183,079
Employees' end of service benefits	-	1,689,167	1,689,167
<b>Total liabilities</b>	<b>146,839,577</b>	<b>9,262,934</b>	<b>156,102,511</b>

### 30 COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2011, the group's bankers have given bank guarantees amounting to KD 289,953 (2010: KD 289,953). At 31 December 2011, the group has an amount of KD Nil (2010: KD 19,500) in respect of capital commitments for purchase of investments and assets.

### 31 MANAGED PORTFOLIOS AND FUNDS

In its capacity as manager of portfolios and funds belonging to third parties, the parent company holds investments and bank accounts amounting to KD 39,689,347 (2010: KD 90,724,438) in its own name as a nominee for the third parties. These assets are not included in the consolidated statement of financial position of the group. Income from the managed portfolios and funds amounts to KD 1,216,298 for the year ended 31 December 2011 (2010: KD 952,679).

### 32 ZAKAT

Zakat for shareholders is calculated according to the Sharia rules approved by the parent company's Fatwa and Shariah Supervisory Board. Zakat calculated amount as of 31 December 2011 is 2.9 fils (2010: 0.7 fils) per share.

In accordance with Law No. 46 of 2006 and as a result of the profit for the year, the group has deducted a provision of 1% of net profit subject to zakat for the year ended 31 December 2011 (2010: the group has not deducted a provision of 1% of net profit, as a result of loss incurred for the year).

Responsibility for payment of unsettled zakat amounting to 2.2 fils (2010: 0.7 fils) per share lies with the shareholders and not the parent company.

### 33 NON-CONTROLLING INTERESTS

During the year ended 31 December 2011, the paid up share capital of a subsidiary company (SHRE) was reduced from KD 48,000,000 (equivalent to 480,000,000 shares of 100 fils) to KD 10,200,000 (equivalent to 102,000,000 shares of 100 fils), as a result, the non controlling interests' share of the decrease in SHRE's share capital of KD 5,519,510 has been accounted for in the consolidated statement of changes in equity.

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At 31 December 2011

### 34 CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the group may reduce the amount of borrowings, adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

The group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The group includes within net debt, murabaha payable, accounts payable and accruals and employees' end of service benefits, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent company.

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Murabaha payable	55,609,876	131,230,265
Accounts payable and accruals	22,043,822	23,183,079
Employees' end of service benefits	1,073,977	1,689,167
Less: Cash and cash equivalents	(4,764,588)	(24,559,027)
Net debt	<u>73,963,087</u>	<u>131,543,484</u>
Capital - Equity attributable to the equity holders of the parent company	<u>52,742,498</u>	<u>730,097</u>
Capital and net debt	<u>126,705,585</u>	<u>132,273,581</u>
Gearing ratio	<u>58.4%</u>	<u>99.4%</u>