

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2012**



Ernst & Young  
Al Aiban, Al Osaimi & Partners  
P.O. Box 74 Safat  
13001 Safat, Kuwait  
Baitak Tower, 18-21st Floor  
Safat Square  
Ahmed Al Jaber Street  
Tel : 2245 2880/2295 5000  
Fax: 2245 6419  
Email: [kuwait@kw.ey.com](mailto:kuwait@kw.ey.com)  
[www.ey.com/me](http://www.ey.com/me)

# Rödl

## Middle East

Burgin – International Accountants

**Ali Al Hassawi & Partners**

P.O. Box: 22351 Safat | 3084 Kuwait  
Sharq – Dasman Complex – Block 2 – 9 Floor  
Tel 22464574-6 / 22426862-3 Fax: 22414956  
Email: [info-kuwait@rodhme.com](mailto:info-kuwait@rodhme.com)  
[www.rodhme.com](http://www.rodhme.com)

## **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 2012 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 auditors consider 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 2012, 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:

- a) 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 48,260,628 (2011: KD 59,836,068), which indicate the existence of material uncertainty about the group's ability to continue as a going concern. 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.
  
- b) We draw attention to Note 27 (b) to the consolidated financial statements which states that one of the murabaha creditors has filed a legal case against the parent company for the recovery of its dues and the uncertainty of the outcome of legal cases and its impact on the group's financial position. Our opinion is not qualified in respect of this matter.

**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 Companies Law No. 25 of 2012, as amended, and by the parent company's Articles of Association and Memorandum of incorporation, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended, nor of the Articles of Association and Memorandum of incorporation, as amended, have occurred during the year ended 31 December 2012 that might have had a material effect on the business of 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 2012.



WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
ERNST & YOUNG  
AL AIBAN, AL OSAIMI & PARTNERS

25 June 2013  
Kuwait



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

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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	<i>Notes</i>	<i>2012</i> <b>KD</b>	<i>2011</i> <b>KD</b>
<b>INCOME</b>			
<b>From investment activities</b>			
Realised gain (loss) on sale of financial assets at fair value through income statement		67,656	(9,378,019)
Realised gain on sale of financial assets available for sale		12,562	48,670
Dividends and return on murabaha receivables		24,671	260,067
Share of results of associates	13	(432,279)	(757,303)
Realised gain on sale of investment in a former subsidiary	13 (d)	-	9,371,254
Dilution gain on loss of control of a subsidiary	13 (d)	-	2,384,893
Realised gain on sale of investment in an associate	13 (b)	243,754	-
Realised gain on sale of priority rights of investment in a former subsidiary	13 (d)	-	13,341,944
Advance payment written off		-	(1,318,778)
Management fee income		1,778,958	1,216,298
Investment services income	5	66,259	2,063,584
<b>Total income from investment activities</b>		<b>1,761,581</b>	<b>17,232,610</b>
<b>From commercial activities</b>			
Sale of goods and services		10,634,575	9,333,269
Cost of sales		(6,683,038)	(6,013,366)
<b>Gross profit from commercial activities</b>		<b>3,951,537</b>	<b>3,319,903</b>
Other income	6	867,520	295,323
<b>TOTAL INCOME</b>		<b>6,580,638</b>	<b>20,847,836</b>
<b>EXPENSES</b>			
Staff costs		1,541,047	3,135,076
Selling and distribution expenses		951,422	991,895
General and administrative expenses		2,364,678	3,050,529
<b>TOTAL EXPENSES</b>		<b>4,857,147</b>	<b>7,177,500</b>
<b>PROFIT BEFORE IMPAIRMENT LOSSES, FAIR VALUE ADJUSTMENTS, MURABAHA PAYABLE COSTS AND TAXATION</b>		<b>1,723,491</b>	<b>13,670,336</b>
Unrealised loss on financial assets at fair value through income statement	11	(341,961)	(1,697,580)
Impairment loss on financial assets available for sale	12	(562,619)	(1,103,703)
Unrealised gain on fair valuation of investment retained in a former subsidiary	13 (d)	-	53,005,981
Impairment loss on investment in an associate	13 (d)	-	(4,765,994)
Recycled foreign currency translation reserve on sale in a former subsidiary	13 (d)	-	(2,611,394)
Amortisation of intangibles	13 (f)	(163,656)	-
Unrealised gain (loss) on investment properties	14	5,132	(3,905)
Murabaha payable costs		(797,654)	(5,717,224)
Taxation	21	-	(1,670,009)
<b>(LOSS) PROFIT FOR THE YEAR</b>		<b>(137,267)</b>	<b>49,106,508</b>
<b>Attributable to:</b>			
Equity holders of the parent company		(392,521)	49,622,690
Non-controlling interests		255,254	(516,182)
<b>(LOSS) PROFIT FOR THE YEAR</b>		<b>(137,267)</b>	<b>49,106,508</b>
<b>Basic and diluted (loss) earnings per share attributable to equity holders of the parent company</b>	7	<b>(0.6) fils</b>	<b>77.8 fils</b>

The attached notes 1 to 30 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 2012

	<i>Notes</i>	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
<b>(Loss) profit for the year</b>		<b>(137,267)</b>	<b>49,106,508</b>
<b>Other comprehensive income (loss):</b>			
Foreign currency translation adjustment		<b>26,531</b>	(2,260,213)
Share of other comprehensive income of associates	13	<b>3,640,287</b>	399,404
Cumulative changes in fair values on financial assets available for sale	12	-	(437,217)
<b>Other comprehensive income (loss) for the year</b>		<b>3,666,818</b>	<b>(2,298,026)</b>
<b>Total comprehensive income for the year</b>		<b>3,529,551</b>	<b>46,808,482</b>
<b>Attributable to:</b>			
Equity holders of the parent company		<b>3,270,117</b>	49,392,482
Non-controlling interests		<b>259,434</b>	(2,584,000)
		<b>3,529,551</b>	<b>46,808,482</b>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	<i>Notes</i>	<b>2012 KD</b>	<b>2011 KD</b>
<b>ASSETS</b>			
Bank balances and cash	8	<b>6,653,809</b>	3,272,433
Short-term murabaha investments	8	<b>1,243,077</b>	1,492,155
Accounts receivable and prepayments	9	<b>3,146,932</b>	3,153,744
Inventories	10	<b>2,226,221</b>	1,931,882
Financial assets at fair value through income statement	11	<b>5,961,944</b>	7,174,634
Financial assets available for sale	12	<b>4,219,910</b>	4,500,694
Investment in associates	13	<b>90,504,323</b>	95,605,974
Investment properties	14	<b>536,222</b>	531,090
Property, plant and equipment	15	<b>15,599,164</b>	14,305,516
<b>TOTAL ASSETS</b>		<b>130,091,602</b>	<b>131,968,122</b>
<b>EQUITY</b>			
Share capital	16	<b>68,000,000</b>	68,000,000
Foreign currency translation reserve		<b>8,444</b>	(13,907)
Employees' share option reserve	16	<b>545,456</b>	545,456
Other reserves	4	<b>(255,897)</b>	-
Treasury shares reserve	16	<b>11,376,864</b>	11,376,864
Treasury shares	17	<b>(19,867,108)</b>	(19,867,108)
Cumulative changes in equity of associates		<b>4,218,133</b>	577,846
Accumulated losses		<b>(8,269,174)</b>	(7,876,653)
Equity attributable to equity holders of the parent company		<b>55,756,718</b>	52,742,498
Non-controlling interests		<b>5,957,513</b>	497,949
<b>TOTAL EQUITY</b>		<b>61,714,231</b>	<b>53,240,447</b>
<b>LIABILITIES</b>			
Murabaha payables	18	<b>52,471,494</b>	55,609,876
Accounts payable and accruals	19	<b>15,134,173</b>	22,043,822
Employees' end of service benefits	20	<b>771,704</b>	1,073,977
<b>TOTAL LIABILITIES</b>		<b>68,377,371</b>	<b>78,727,675</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>130,091,602</b>	<b>131,968,122</b>

Ayman Abdullah Boodai  
Chairman and Managing Director

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 KD	2011 KD
<b>OPERATING ACTIVITIES</b>			
(Loss) profit for the year		(137,267)	49,106,508
Adjustments for:			
Realised (gain) loss on sale of financial assets at fair value through income statement		(67,656)	9,378,019
Realised gain on sale of financial assets available for sale		(12,562)	(48,670)
Dividends and return on murabaha receivables		(24,671)	(260,067)
Share of results of associates	13	432,279	757,303
Realised gain on sale of investment in a former subsidiary	13 (d)	-	(9,371,254)
Dilution gain on loss of control of a subsidiary	13 (d)	-	(2,384,893)
Realised gain on sale of investment in an associate	13 (a)	(243,754)	-
Advance payment written off	9	-	1,318,778
Realised gain on sale of priority rights of investment in a former subsidiary	13 (d)	-	(13,341,944)
Unrealised loss on financial assets at fair value through income statement	11	341,961	1,697,580
Impairment loss on financial assets available for sale	12	562,619	1,103,703
Unrealised gain on fair valuation of investment retained in a former subsidiary	13 (d)	-	(53,005,981)
Recycled foreign currency translation adjustment on sale of a former subsidiary	13 (d)	-	2,611,394
Impairment loss on investment in associate	13 (d)	-	4,765,994
Amortisation of intangibles	13 (f)	163,656	-
Unrealised (gain) loss on investment properties	14	(5,132)	3,905
Murabaha payables costs		797,654	5,517,511
Management fees written off		-	130,941
Depreciation	15	577,157	910,321
Employee share based plan expense		-	11,896
Provision for employees' end of service benefits	20	101,100	141,812
		<b>2,485,384</b>	<b>(957,144)</b>
<i>Working capital adjustments:</i>			
Accounts receivable and prepayments		6,812	2,160,335
Inventories		(294,339)	(345,654)
Financial assets at fair value through income statement		938,385	58,658,980
Murabaha receivables		-	1,057,313
Accounts payable and accruals		304,129	3,275,230
Cash from operations		<b>3,440,371</b>	<b>63,849,060</b>
Employees' end of service benefits paid	20	(403,373)	(742,609)
<b>Net cash from operating activities</b>		<b>3,036,998</b>	<b>63,106,451</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of financial assets available for sale		(631,278)	(7,941,302)
Proceeds from sale of financial assets available for sale		362,005	13,694,957
Purchase of investment in associates	13 (a)	(2,704,032)	(9,771,668)
Proceeds from sale of investments in associates	13 (b)	10,275,148	-
Proceeds from sale of investment in subsidiary	4	500,000	13,846,034
Net cash outflow due to loss of control of a subsidiary	13 (d)	-	(49,461,762)
Dividend income received from an associates	13	269,239	-
Dividends and return on murabaha receivables received		24,671	260,067
Sale of property, plant and equipment		6,200	-
Proceeds from sale of priority rights of investment in a former subsidiary		-	13,341,944
Proceeds from sale of priority rights of investment in a subsidiary	22	1,296,000	-
Purchase of property, plant and equipment	15	(1,877,005)	(369,075)
<b>Net cash from (used in) investing activities</b>		<b>7,520,948</b>	<b>(26,400,805)</b>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		-	(29,237)
Non-controlling interests share in net capital increase of subsidiaries		3,709,169	24,991,326
Non-controlling interests share in net capital decrease of subsidiaries		-	(5,519,510)
Dividends paid to non-controlling interests		(53,900)	(77,000)
Repayment of murabaha payables		(10,175,000)	(65,017,217)
Receipt of murabaha payables		924,269	-
Net repayment from sale and deferred purchase agreements		(1,252,129)	(775,000)
Murabaha payables costs paid		(604,588)	(8,300,799)
<b>Net cash used in financing activities</b>		<b>(7,452,179)</b>	<b>(54,727,437)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>3,105,767</b>	<b>(18,021,791)</b>
Foreign currency translation adjustment		26,531	(1,772,648)
Cash and cash equivalents at 1 January		4,764,588	24,559,027
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	8	<b>7,896,886</b>	<b>4,764,588</b>

The attached notes 1 to 30 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 2012

*Attributable to equity holders of the parent company*

	Share capital KD	Foreign currency translation reserve KD	Employees' share option reserve KD	Other reserve KD	Treasury shares reserve KD	Treasury shares KD	Cumulative changes in equity of associates KD	Accumulated losses KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2012	68,000,000	(13,907)	545,456	-	11,376,864	(19,867,108)	577,846	(7,876,653)	52,742,498	497,949	53,240,447
(Loss) profit for the year	-	-	-	-	-	-	-	(392,521)	(392,521)	255,254	(137,267)
Other comprehensive income	-	22,351	-	-	-	-	3,640,287	-	3,662,638	4,180	3,666,818
<b>Total comprehensive income (loss) for the year</b>	-	22,351	-	-	-	-	3,640,287	(392,521)	3,270,117	259,434	3,529,551
Non-controlling interest share in capital increase of a subsidiary (Note 4)	-	-	-	-	-	-	-	-	-	5,254,030	5,254,030
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(53,900)	(53,900)
Loss on partial disposal of a subsidiary (Note 4)	-	-	-	(255,897)	-	-	-	-	(255,897)	-	(255,897)
<b>As at 31 December 2012</b>	<b>68,000,000</b>	<b>8,444</b>	<b>545,456</b>	<b>(255,897)</b>	<b>11,376,864</b>	<b>(19,867,108)</b>	<b>4,218,133</b>	<b>(8,269,174)</b>	<b>55,756,718</b>	<b>5,957,513</b>	<b>61,714,231</b>

The attached notes 1 to 30 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 2012

	Attributable to equity holders of the parent company										
	Share capital KD	Cumulative changes in fair values KD	Foreign currency translation reserve KD	Employees' share option 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
As 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	-	(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 13)	-	-	-	-	-	-	-	-	-	24,991,326	24,991,326
Non-controlling interests share in capital reduction of a subsidiary	-	-	-	-	-	-	-	-	-	(5,519,510)	(5,519,510)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(77,000)	(77,000)
Loss of control of a subsidiary (Note 13)	-	-	2,611,394	(32,116)	-	-	32,116	-	2,611,394	(21,767,788)	(19,156,394)
As at 31 December 2011	68,000,000	-	(13,907)	545,456	11,376,864	(19,867,108)	577,846	(7,876,653)	52,742,498	497,949	53,240,447

The attached notes 1 to 30 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION AND ACTIVITIES

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 2012 were authorised for issue in accordance with a resolution of the board of directors on 25 June 2013. The shareholders of the parent company have the power to amend these consolidated financial statements at the annual general assembly.

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 is regulated by the Central Bank of Kuwait and Capital Markets Authority as an investment company.

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.

The Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no. 97 of 2013 (the "Decree").

According to article 2 and 3 of the Decree, Executive Regulations which shall be issued by the Ministry of Commerce and Industry by 26 September 2013 will determine the basis and rules which the parent company shall adopt to regularise its affairs with the Companies Law as amended.

## 2 FUNDAMENTAL ACCOUNTING CONCEPT

The group's current liabilities exceed its current assets by KD 48,260,628 (2011: KD 59,836,068). 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 consolidated 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 2012.

#### *IFRS 3: Business Combinations (Amendment) (effective 1 July 2011)*

The measurement options available for non-controlling interest have been amended. Only components of non-controlling interest that constitute a present ownership interest that entitles their holder to a proportionate share of the entity’s net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets. All other components are to be measured at their acquisition date fair value.

#### *IFRS 7: Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (effective 1 July 2011)*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the group’s financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011.

The adoption of the above mentioned amendments did not have any material impact on the financial position or performance of the group.

### 3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards that are issued, but not yet effective, up to the date of issuance of the group’s consolidated financial statements are disclosed below. The group intends to adopt these standards, if applicable, when they become effective.

#### *IFRS 7: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendment) (effective for annual periods beginning on or after 1 January 2013)*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32: *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

#### *IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2015)*

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39: *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group’s financial assets, but will not have an impact on classification and measurements of financial liabilities.

#### *IFRS 10: Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation — Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement 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. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the group.

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

*IFRS 12: Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013)*

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, but has no impact on the group's financial position or performance.

*IFRS 13: Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 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, but based on the preliminary analyses, no material impact is expected.

*IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment) (effective for annual periods beginning on or after 1 July 2012)*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the group's financial position or performance.

*IAS 28: Investments in Associates and Joint Ventures (Amendment) (effective for annual periods beginning on or after 1 January 2013)*

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected.

*IAS 32: Offsetting Financial Assets and Financial Liabilities (Amendment) (effective for annual periods beginning on or after 1 January 2014)*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the group's financial position or performance.

**Annual Improvements May 2012**

These improvements will not have an impact on the group, but include:

*IAS 1: Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2013)*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

*IAS 16: Property Plant and Equipment (effective for annual periods beginning on or after 1 January 2013)*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

*IAS 32: Financial Instruments, Presentation (effective for annual periods beginning on or after 1 January 2013)*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12: *Income Taxes*.

Additional disclosures will be made in the consolidated financial statements when these Standards become effective.

These improvements are 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 2012

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2012.

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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group. The financial statements of subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interests even if it 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's share of components previously recognised in other comprehensive income to consolidated statement of income or retained earnings, as appropriate.

The consolidated financial statements include the financial statements of the parent company and the following subsidiaries:

Name of company	Country of incorporation	% equity interest	
		2012	2011
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	58%	99%
New Technology Bottling Company K.S.C. (Closed) ("NTBC")	Kuwait	95%	95%
Kuwait Boxes Carton Manufacturing Company K.S.C. (Closed)	Kuwait	99%	99%
Securities House for Industrial Consultancy W.L.L.	Kuwait	99%	99%
Saji Real Estate Company K.S.C. (Closed)	Kuwait	90%	90%
Modern Cables Manufacturing Company K.S.C. (Closed)	Kuwait	99%	99%
<b>Held through SHRE</b>			
Emirates and Kuwait Real Estate Company L.L.C.	United Arab Emirates	80%	80%
<b>Held through GSH</b>			
Dhow Holding Corporation	Cayman Islands	100%	100%
Global Securities House USA L.L.C.	U.S.A.	100%	100%
Global Securities House France S.A.S.	France	100%	100%
<b>Held through NTBC</b>			
Al Bourouj National Company for Trading and Marketing W.L.L.	Kuwait	99%	99%
National Water Technology Company K.S.C. (Closed)	Kuwait	90%	90%

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of consolidation (continued)**

\* During the year, the group sold 10% of its equity interest in its subsidiary, "GSH", to a related party at a consideration of KD 500,000 and realised a loss of KD 255,897. The adjustments to reflect the changes in the carrying amount of the controlling and non-controlling interests in the group are recorded within equity under 'Other reserve' in accordance with IAS 27: *Consolidated and Separate Financial Statements*.

In addition, the share capital of GSH was increased during the year, in which the parent company has partially sold its priority rights to participate in the capital increase to one of its associates, namely, Gatehouse Bank [Note 13 (c)]. As a result, the parent company's interest was diluted from 90% to 58%. As a result of the above, there has been an increase in non-controlling interests by KD 5,254,030.

Certain ownership percentages in some of the above subsidiaries are registered in the name of certain related and unrelated parties, as nominees for the parent company. These nominees have confirmed in writing that the parent company is the beneficial owner of these subsidiaries.

**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 to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *IAS 39 Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for 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 the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

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

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

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

- i) Gain or losses on sale of investments and investment 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.

**Cash and cash equivalents**

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

**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 and packing material	- 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.

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

**Financial assets and liabilities (continued)**

*Financial assets (continued)*

*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.

*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 24.

*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.



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

*Derecognition (continued)*

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.

**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 interest 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Financial liabilities (continued)*

*Offsetting*

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

**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 30 years
- Machinery, plant and equipment 3 to 15 years
- Furniture, fixture and office equipment 3 to 10 years
- Motor vehicles 3 to 10 years

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment (continued)**

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.

**Intangible assets**

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and are expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. The estimated useful lives of intangible assets are as follows:

Asset management agreements	1 year
Brand	Indefinite life
License	Indefinite life

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

**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.

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

**Impairment of non-financial assets (continued)**

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.

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.

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

**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.

*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.

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

**Estimation uncertainty (continued)**

*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.

*Impairment of intangibles*

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

**5 INVESTMENT SERVICES INCOME**

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Restructuring and arranging fees	-	1,936,677
Advisory fees	-	55,699
Placement fees	<b>66,259</b>	71,208
	<b>66,259</b>	<b>2,063,584</b>

**6 OTHER INCOME**

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Murabaha and saving accounts income	<b>92,239</b>	43,509
Foreign exchange (loss) gain	<b>(41,407)</b>	26,653
Miscellaneous income	<b>816,688</b>	225,161
	<b>867,520</b>	<b>295,323</b>

During 2006, a former investment advisor filed a legal case against the parent company for unpaid past incentive fees on the disposal of a real estate investment. During the current year, the final resolution came in favour of the parent company and an amount of KD 562,023 was received as incidental expenses, which is included under 'miscellaneous income'.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

**7 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE**

Basic and diluted (loss) earnings per share is computed by dividing (loss) profit 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:

	<b>2012</b>	<b>2011</b>
	<b>KD</b>	<b>KD</b>
(Loss) profit attributable to equity holders of the parent company	<u>(392,521)</u>	<u>49,622,690</u>
	<b>Shares</b>	<b>Shares</b>
Weighted average number of shares (net of treasury shares) outstanding for the year	<u>637,720,000</u>	<u>637,720,000</u>
Basic and diluted (loss) earnings per share attributable to the equity holders of the parent company	<u>(0.6) fils</u>	<u>77.8 fils</u>

There are no dilutive potential ordinary shares.

**8 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:

	<b>2012</b>	<b>2011</b>
	<b>KD</b>	<b>KD</b>
Bank balances and cash	6,653,809	3,272,433
Short-term murabaha investments with original maturities up to three months	1,243,077	1,492,155
	<u>7,896,886</u>	<u>4,764,588</u>

Short-term murabaha investments carry effective average profit rate of 2.0% (2011: 0.4%) per annum.

**9 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>2012</b>	<b>2011</b>
	<b>KD</b>	<b>KD</b>
Trade receivables	2,480,025	2,747,982
Allowance for bad and doubtful receivables	(161,894)	(157,360)
	<u>2,318,131</u>	<u>2,590,622</u>
Prepayments	125,123	181,297
Accrued income	163,409	154,923
Other receivables	540,269	226,902
	<u>3,146,932</u>	<u>3,153,744</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

10 INVENTORIES

	2012 KD	2011 KD
Raw materials and packing materials	2,588,639	2,237,549
Finished goods	181,430	117,156
	<u>2,770,069</u>	<u>2,354,705</u>
Allowance for obsolete and slow moving inventories	(543,848)	(422,823)
	<u>2,226,221</u>	<u>1,931,882</u>

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2012 KD	2011 KD
<i>Quoted local equities:</i>		
Carrying value before fair value adjustment	530,162	1,584,652
Fair value adjustment during the year	44,991	(937,753)
	<u>575,153</u>	<u>646,899</u>
<i>Unquoted local equities:</i>		
Carrying value before fair value adjustment	1,660,682	2,097,931
Fair value adjustment during the year	187,211	(142,897)
	<u>1,847,893</u>	<u>1,955,034</u>
<i>Unquoted equities in the Middle East:</i>		
Carrying value before fair value adjustment	2,677,386	3,372,972
Fair value adjustment during the year	112,686	(616,726)
	<u>2,790,072</u>	<u>2,756,246</u>
<i>Unquoted foreign equities:</i>		
Carrying value before fair value adjustment	1,435,675	1,816,659
Fair value adjustment during the year	(686,849)	(204)
	<u>748,826</u>	<u>1,816,455</u>
	<u>5,961,944</u>	<u>7,174,634</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 or other valuation models.

Financial assets at fair value through income statement amounting to KD 1,909,473 (2011: KD 2,094,373) are pledged as security against the murabaha payables facilities amounting to KD 43,352,021 (2011: KD 43,352,021) (Note 18).



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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

12 FINANCIAL ASSETS AVAILABLE FOR SALE

	2012 KD	2011 KD
<i>Unquoted local equities:</i>		
Carrying value before fair value adjustment	300,000	300,000
Impairment in value during the year	(176,571)	-
	<u>123,429</u>	<u>300,000</u>
<i>Unquoted equities in the Middle east:</i>		
Carrying value before fair value adjustment	824,580	1,077,000
Impairment in value during the year	-	(252,420)
	<u>824,580</u>	<u>824,580</u>
<i>Unquoted foreign equities:</i>		
Carrying value before fair value adjustment	3,657,949	4,664,614
Cumulative changes in fair values	-	(437,217)
Impairment in value during the year	(386,048)	(851,283)
	<u>3,271,901</u>	<u>3,376,114</u>
	<u>4,219,910</u>	<u>4,500,694</u>

Unquoted equities amounting to KD 4,219,910 (2011: KD 4,500,694) 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 testing for financial assets available for sale which resulted in the recognition of an impairment loss of KD 562,619 (2011: KD 1,103,703) 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 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 911,689 (2011: KD 548,260) are pledged as security against the murabaha payables facilities amounting to KD 43,352,021 (2011: KD 43,352,021) (Note 18).

13 INVESTMENT IN ASSOCIATES

The group has interest in the following associates:

Name of company	Country of incorporation	equity interest %	
		2012	2011
<i>Quoted</i>			
Al-Aman Investment Company K.S.C. (Closed) ("Al-Aman")	Kuwait	46%	46%
<i>Unquoted</i>			
Gatehouse Bank plc ("Gatehouse Bank" or "the bank")	United Kingdom	43%	49%
Nafaes Group for General Trading and Contracting W.L.L.	Kuwait	50%	50%
Weaver Point Company L.L.C. ("Weaver Point")	U.S.A.	65%	25%
Green Valley Investment Limited	Cayman Islands	44%	44%

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

### 13 INVESTMENT IN ASSOCIATES (continued)

The movement in the carrying value of associates are as follows:

	2012 KD	2011 KD
As at 1 January	95,605,974	11,139,945
Acquisitions (a)	2,704,032	9,771,668
Disposals (b)	(10,031,394)	-
Share of results	(432,279)	(757,303)
Share of other comprehensive income	3,640,287	399,404
Dividend received	(269,239)	-
Elimination of downstream transaction (c)	(549,402)	-
Amortisation of intangible assets (d)	(163,656)	-
Impairment (f)	-	(4,765,994)
Reclassification on loss of control (d)	-	79,818,254
	<u>90,504,323</u>	<u>95,605,974</u>

- (a) During the current year, the group acquired 40% additional equity interest in Weaver Point for a total consideration of KD 2,704,032 from an a non-related party and as a result, the equity interest in Weaver Point was increased from 25% to 65%. The group has accounted for the investment in Weaver Point as an associate in accordance with IAS 28: Investment in associates, as the group does not have majority representation on its board of directors and hence does not have control over Weaver Point.
- (b) During the year, the parent company sold 984,529,948 shares (equivalent to 6% of the total issued share capital) of Gatehouse Bank's shares to its creditors against settlement of certain outstanding murabaha payables amounting to KD 9,675,000 and accrued murabaha profit amounting to KD 600,148 for KD 10,275,148. Accordingly, the group recognised a realised gain on sale amounting to KD 243,754 in the consolidated income statement.
- (c) During the year, the parent company had partially sold its priority rights to participate in the capital increase of one of its subsidiaries, namely Global Securities House for Economic & Financial Consultancy K.S.C. (Closed) to Gatehouse Bank (an associate) for KD 1,299,690. The parent company has eliminated an amount of KD 549,402 to the extent of its ownership percentage (Note 22).
- (d) **2011**  
During the year ended 31 December 2011, the group has sold 4,686,400,000 shares out of its 9,094,400,000 shares priority rights to subscribe in the capital increase of Gatehouse Bank 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. 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 income statement. 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 during 2011, the group sold 1,316,600,000 shares of the bank's shares to its creditors against settlement of certain outstanding murabaha payables amounting to KD 13,846,034. 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 during 2011.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

13 INVESTMENT IN ASSOCIATES (continued)

(d) 2011 (continued)

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 during the previous year.

2012:

During the year, the parent company finalised the Purchase Price Allocation (“PPA”) exercise of Gatehouse Bank and as a result, goodwill and intangible assets amounting to KD 45,544,214 and KD 3,302,655 respectively, were determined. The estimated useful lives of intangible assets are one year for the asset management agreements. As a result, amortisation charge of KD 163,656 is recorded against the intangible assets and is disclosed in the consolidated income statement. Goodwill relating to Gatehouse Bank was tested for impairment by management as at 31 December 2012. The recoverable amount of the investment in Gatehouse Bank has been determined based on value-in-use calculations, using cash flow projections based on financial budgets approved by the board of directors of Gatehouse Bank covering a 5 year period (2013 to 2017). The following rates are used by the parent company:

Discount rate	10.4%
Projected compounded annual growth for income	41.0%
Projected compounded annual growth for net profit	47.0%
Terminal growth rate	2.5%

The calculation of value-in-use for the Gatehouse Bank is most sensitive to projected compounded annual growth rate of Gatehouse Bank’s revenues and discount rate.

**Discount rate**

Discount rate reflects the current market assessment of the risk specific to Gatehouse Bank, which is an investment bank located in United Kingdom specialised in real estate advisory, wealth management and investments in accordance with the Shariaa principles. The discount rate was estimated based on the average percentage of a weighted cost of capital for the investment banking industry determined on a pre-tax basis. This rate was further adjusted to reflect the market assessment of any risks specific to Gatehouse Bank for which future estimates of cash flows have been adjusted after appropriate discount rate as the bank is not listed in secondary capital market.

**Projected compounded annual growth rate of revenues**

Gatehouse Bank strategic business plan is for the bank to be active in following services:

- Real estate advisory
- Wealth management
- Mezzanine financing
- Investments in real estate projects

Gatehouse Bank’s board of directors approved the business plan and projection for the period from 2013 to 2017.

**Sensitivity to changes in assumptions**

Management believes that if projected growth rate of revenues is not achieved then the carrying value of the investment in Gatehouse Bank would exceed its recoverable amount.

- (e) The carrying value and market value of Al-Aman as at 31 December 2012 are KD 12,174,585 (2011: KD 13,898,053) and KD 4,842,791 (2011: KD 6,217,411) respectively. Other associates are not listed in any of the stock exchanges.
- (f) During the year, the group performed an impairment test on the remaining investments in associates which resulted in the recognition of an impairment loss of KD Nil (2011: KD 4,765,994 relating to Al-Aman). The management believes that there is no objective evidence on circumstances that indicates any future impairment in the value of its investment in associates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

**13 INVESTMENT IN ASSOCIATES (continued)**

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

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
<b>Share of associates' assets and liabilities:</b>		
Current assets	55,487,586	32,282,441
Non-current assets	9,472,487	25,567,282
Current liabilities	(28,788,036)	(11,114,846)
Non-current liabilities	(1,158,616)	(11,856,240)
Net assets	35,013,421	34,878,637
Goodwill	56,203,960	65,493,331
Elimination of downstream transaction	(549,402)	-
Impairment loss	-	(4,765,994)
Amortisation	(163,656)	-
	<u>90,504,323</u>	<u>95,605,974</u>
<b>Share of associates' revenue and results:</b>		
Revenue	2,859,054	1,600,719
Loss for the year	(432,279)	(757,303)
Impairment	-	(4,765,994)

**14 INVESTMENT PROPERTIES**

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
As at 1 January	531,090	534,995
Unrealised gain (loss)	5,132	(3,905)
As at 31 December	<u>536,222</u>	<u>531,090</u>

Investment properties are located in the Sultanate of Oman and are stated at fair value which has been determined based on sales comparison approach performed as at 31 December 2012 by two accredited independent valuers who are an industry specialist in valuing these types of investment properties.

For the valuation purpose, the group has selected the lower of these two valuations (2011: lower of the two valuations).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

15 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 2012	10,765,151	1,351,247	4,311,858	1,486,082	854,467	18,768,805
Additions	17,936	-	1,584,720	115,262	159,087	1,877,005
Disposals	-	-	(3,700)	(9,062)	(22,687)	(35,449)
As at 31 December 2012	<b>10,783,087</b>	<b>1,351,247</b>	<b>5,892,878</b>	<b>1,592,282</b>	<b>990,867</b>	<b>20,610,361</b>
<b>Depreciation:</b>						
As at 1 January 2012	-	495,368	2,301,134	1,123,102	543,685	4,463,289
Charge for the year	-	59,264	296,847	97,862	123,184	577,157
Disposals	-	-	(3,700)	(2,862)	(22,687)	(29,249)
As at 31 December 2012	-	<b>554,632</b>	<b>2,594,281</b>	<b>1,218,102</b>	<b>644,182</b>	<b>5,011,197</b>
<b>Net book value</b>						
As at 31 December 2012	<b>10,783,87</b>	<b>796,615</b>	<b>3,298,597</b>	<b>374,180</b>	<b>346,685</b>	<b>15,599,164</b>

	<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 13)	-	-	-	(1,057,161)	-	(1,057,161)
As at 31 December 2011	10,765,151	1,351,247	4,311,858	1,486,082	854,467	18,768,805
<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 13)	-	-	-	(576,467)	-	(576,467)
As at 31 December 2011	-	<b>495,368</b>	<b>2,301,134</b>	<b>1,123,102</b>	<b>543,685</b>	<b>4,463,289</b>
<b>Net book value</b>						
As at 31 December 2011	<b>10,765,151</b>	<b>855,879</b>	<b>2,010,724</b>	<b>362,980</b>	<b>310,782</b>	<b>14,305,516</b>

Depreciation charge for the year is allocated in the consolidated income statement as follows:

	<b>2012 KD</b>	<b>2011 KD</b>
Cost of sales from commercial activities	<b>344,966</b>	<b>357,994</b>
General and administration expenses	<b>232,191</b>	<b>552,327</b>
	<b>577,157</b>	<b>910,321</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

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

In accordance with International Accounting Standard ("IAS") 16: Property, plant and equipment, the management of the group has reviewed the useful lives of the property, plant and equipment considering the expected pattern of consumption of the future economic benefits embodied in the assets. The change in the useful lives, if any, is accounted for as a change in accounting estimates in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The useful life of building was changed from 10-20 years to 10-30 years and machinery, plant and equipment was changed from 3-10 years to 3-15 years. The impact on depreciation as a result of this change is a decrease in depreciation charge for the year by KD 92,894 and decrease in loss for the year by the same amount.

### 16 SHARE CAPITAL AND RESERVES

#### a) Share capital

The authorised, issued and paid up share capital comprises 680,000,000 (2011: 680,000,000) shares of 100 fils (2011: 100 fils) per share which was paid in cash.

#### b) Employees' share option reserve

During 2009, the parent company cancelled 2,500,000 equity-settled share options to eligible employees under the employee share option scheme. The vesting of 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 2012 and 31 December 2011.

#### c) Statutory reserve

In accordance with 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 losses have been incurred during the year.

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.

#### d) Treasury share reserve

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

### 17 TREASURY SHARES

	<i>2012</i>	<i>2011</i>
Number of treasury shares	<b>42,280,000</b>	42,280,000
Percentage of share capital	<b>6.2%</b>	6.2%
Market value (KD)	<b>2,092,860</b>	5,496,400

### 18 MURABAHA PAYABLES

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
Current	<b>46,396,494</b>	55,109,223
Non-current	<b>6,075,000</b>	500,653
	<b>52,471,494</b>	55,609,876

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

**18 MURABAHA PAYABLES (continued)**

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

Short-term facilities carry profit rates varying from 5% to 6% (2011: 5% to 6.5%). Long-term facilities carry profit rates varying 5.9% (2011: 6% to 7.5%) per annum.

In addition, certain murabaha payable facilities amounting to KD 43,352,021 (2011: KD 43,352,021) are secured against financial assets at fair value through income statement and financial assets available for sale amounting to KD 1,909,473 and KD 911,689 respectively (2011: KD 2,094,373 and KD 548,260) (Notes 11 and 12).

During the current year, murabaha payables amounting to KD 43,352,021 were matured and became past due. Murabaha creditor has filed legal case against the parent company for the recovery of the past due murabaha payables [Note 27 (b)].

**19 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Advances received from customers	9,732,312	8,672,454
Payable under sale and deferred purchase agreement	-	7,130,505
Trade and notes payable	1,171,245	1,365,113
Staff payables	110,664	127,207
Other payables	769,441	990,155
Accruals	3,350,511	3,758,388
	<u>15,134,173</u>	<u>22,043,822</u>

**20 EMPLOYEES' END OF SERVICE BENEFITS**

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

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
As at 1 January	1,073,977	1,689,167
Charge for the year	101,100	141,812
Paid during the year	(403,373)	(742,609)
Relating to loss of control of a subsidiary	-	(14,393)
As at 31 December	<u>771,704</u>	<u>1,073,977</u>

**21 TAXATION**

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
National Labour Support Tax ("NLST")	-	1,152,177
Zakat	-	517,832
	<u>-</u>	<u>1,670,009</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

**22 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>Associates KD</i>	<i>Other related parties KD</i>	<i>Total KD</i>	<i>Other related parties 2011 KD</i>
<b>Consolidated income statement:</b>				
Dividends	-	22,608	<b>22,608</b>	86,706
Investment services income	-	66,259	<b>66,259</b>	59,235
<b>Consolidated statement of financial position:</b>				
Accounts receivable and prepayments	-	-	-	210,237
Murabaha payable	6,075,000	-	<b>6,075,000</b>	-
<b>Consolidated statement of changes in equity:</b>				
Loss on sale of an equity interest in a subsidiary	-	(255,897)	<b>(255,897)</b>	-
<b>Transactions:</b>				
Sale of equity interest in a subsidiary	-	500,000	<b>500,000</b>	-
Sale of priority rights in a subsidiary (Note 13)	1,299,690	-	<b>1,299,690</b>	-
			<b>2012 KD</b>	<b>2011 KD</b>
<b>Key management compensation:</b>				
Salaries and other short term benefits			<b>622,929</b>	719,637
Employees' end of services benefits			<b>90,926</b>	75,627
			<b>713,855</b>	<b>795,264</b>

During the year, the parent company has sold a number of 5,000,000 priority rights to subscribe in the capital increase of subsidiary company, Global Securities House for Economic & Financial Consultancy K.S.C. (Closed) to a related party without any consideration (Note 4).

Assets amounting to KD 2,021,140 (2011: KD 4,131,630) are being managed by the parent company on behalf of related parties.



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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

#### 23 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		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	KD	KD	KD	KD	KD	KD	KD	KD
Segment revenue	36,092	31,755,012	1,845,217	16,621,826	10,634,575	9,333,269	12,515,884	57,710,107
Segment results	(786,644)	40,000,819	783,325	16,430,110	1,543,572	954,606	1,540,253	57,385,535
Unallocated expenses							(447,587)	(134,491)
Share in result of associates							(432,279)	(757,303)
Murabaha payable costs							(797,654)	(5,717,224)
Taxation							-	(1,670,009)
(Loss) profit for the year							(137,267)	49,106,508
Assets:								
Segment assets	21,608,341	24,422,583	-	320,376	9,545,830	6,854,601	31,154,171	31,597,560
Investment in associates	13,155,427	13,898,053	77,348,896	81,707,921	-	-	90,504,323	95,605,974
Others	8,433,108	3,769,697	-	-	-	994,891	8,433,108	4,764,588
	43,196,876	42,090,333	77,348,896	82,028,297	9,545,830	7,849,492	130,091,602	131,968,122

The Securities House K.S.C. (Closed) and Subsidiaries  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
As at 31 December 2012

**23 SEGMENTAL ANALYSIS (continued)**

	Proprietary investment management		Asset management and advisory services		Commercial trading activities		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	KD	KD	KD	KD	KD	KD	KD	KD
<b>Liabilities:</b>								
Account payable and accruals	13,080,576	20,086,264	-	-	2,053,597	1,957,558	15,134,173	22,043,822
Murabaha payables	51,547,225	55,109,223	-	500,653	924,269	-	52,471,494	55,609,876
Employees' end of service benefits	9,438	727,220	321,355	-	440,911	346,757	771,704	1,073,977
	<u>64,637,239</u>	<u>75,922,707</u>	<u>321,355</u>	<u>500,653</u>	<u>3,418,777</u>	<u>2,304,315</u>	<u>68,377,371</u>	<u>78,727,675</u>
<b>Other segmental information:</b>								
Capital expenditure	-	79,793	-	-	1,877,005	289,282	1,877,005	369,075
Depreciation (Note 15)	-	353,024	37,400	78,666	539,757	478,631	577,157	910,321
Impairment loss on financial assets available for sale (Note 12)	562,619	1,103,703	-	-	-	-	562,619	1,103,703
Impairment loss of investment in an associate (Note 13)	-	4,765,994	-	-	-	-	-	4,765,994

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities as defined in Note 4.

The fair values of financial instruments except financial assets available for sale stated in Note 12, 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 2012</i>	<i>Level 1 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
<i>Financial assets at fair value through income statement:</i>			
Quoted equity securities	575,153	-	575,153
Unquoted equity securities	-	5,386,791	5,386,791
	<u>575,153</u>	<u>5,386,791</u>	<u>5,961,944</u>
<i>As at 31 December 2011</i>	<i>Level 1 KD</i>	<i>Level 3 KD</i>	<i>Total 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
	<u>646,899</u>	<u>6,527,735</u>	<u>7,174,634</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

24 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>As at 1 January 2012 KD</i>	<i>Loss recorded in the consolidated income statement KD</i>	<i>Net purchases, sales and settlements KD</i>	<i>As at 31 December 2012 KD</i>
<i>Financial assets at fair value through income statement</i>				
Unquoted equity securities	<u>6,527,735</u>	<u>(386,952)</u>	<u>(753,992)</u>	<u>5,386,791</u>
	<i>As at 1 January 2011 KD</i>	<i>Loss recorded in the consolidated income statement KD</i>	<i>Net purchases, sales and settlements KD</i>	<i>As at 31 December 2011 KD</i>
<i>Financial assets at fair value through income statement</i>				
Unquoted equity securities	<u>71,848,855</u>	<u>(759,827)</u>	<u>(64,561,293)</u>	<u>6,527,735</u>

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

The level 3 hierarchy of fair value is 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	Fair value		Unrealised loss	
	<i>2012 KD</i>	<i>2011 KD</i>	<i>2012 KD</i>	<i>2011 KD</i>
Net assets or book value	<u>5,386,791</u>	<u>6,527,735</u>	<u>(386,952)</u>	<u>(759,827)</u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

### 25 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.

#### 25.1 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 2012 KD</i>	<i>Gross maximum exposure 2011 KD</i>
Bank balances and short-term murabaha investments:		
- Local banks and financial institutions	6,653,809	3,672,433
- Foreign banks and financial institutions	1,243,077	1,092,155
	<u>7,896,886</u>	<u>4,764,588</u>
Trade receivables from local public sector:		
- Industrial sector	643,069	820,741
Trade receivables from local private sector:		
- Industrial sector	1,660,391	1,556,067
- Real estate sector	176,565	371,174
	<u>1,836,956</u>	<u>1,927,241</u>
<b>Total exposure to credit risk</b>	<u><u>10,376,911</u></u>	<u><u>7,512,570</u></u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

### 25 RISK MANAGEMENT (continued)

#### 25.1 CREDIT RISK (continued)

##### *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 2012 and 31 December 2011.

##### *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 2012, the provision for impaired and doubtful receivables is KD 161,894 (31 December 2011: KD 157,360) (Note 9). Any difference between the amounts actually collected in future period and the amounts expected will be recognised in the consolidated income statement.

#### 25.2 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. 88% of the group's borrowings will mature in less than one year at 31 December 2012 (2011: 91%) 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.

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:

<b>31 December 2012</b>	<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	46,396,494	-	-	6,075,000	52,471,494
Future profit payable	151,377	-	-	-	151,377
Accounts payable and accruals	-	5,286,670	9,847,503	-	15,134,173
<b>Total financial liabilities</b>	<b>46,547,871</b>	<b>5,286,670</b>	<b>9,847,503</b>	<b>6,075,000</b>	<b>67,757,044</b>
<b>Commitments (Note 27)</b>	-	-	<b>289,953</b>	-	<b>289,953</b>
<b>31 December 2011</b>	<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 (Note 27)</b>	-	-	<b>289,953</b>	-	<b>289,953</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

**25 RISK MANAGEMENT (continued)**

**25.3 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 23, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

**25.3.1 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.

**25.3.2 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:

	<i>Change in currency rate by 3%</i>			
	<i>31 December 2012</i>		<i>31 December 2011</i>	
<i>Currency</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	276,323	-	142,695	68,892
GBP	-	1,108,282	2,291,290	67,087
AED	-	-	202	-
Euro	63,273	-	44,938	-

**25.3.3 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:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

25 RISK MANAGEMENT (continued)

25.3 MARKET RISK (continued)

25.3.3 Equity price risk (continued)

Market index	Change in equity market index by 5%			
	Effect on profit for the year 2012 KD	Effect on other comprehensive income for the year 2012 KD	Effect on profit for the year 2011 KD	Effect on other comprehensive income for the year 2011 KD
		-		-
	-	-	-	-
Kuwait	-	-	-	32,345

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.

25.3.4 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.

25.4 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:

Geographic region	2012 KD	2011 KD
- Kuwait	50,131,179	44,504,296
- Bahrain	3,614,652	3,581,525
- United Kingdom	74,578,184	79,281,498
- United Arab Emirates	-	6,722
- United States of America	745,361	2,358,346
- Saudi Arabia	-	1,545
- France	748,826	1,437,485
- Other	273,400	796,705
	<u>130,091,602</u>	<u>131,968,122</u>



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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

#### 25 RISK MANAGEMENT (continued)

##### 25.4 CONCENTRATIONS (continued)

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

	2012 KD	2011 KD
<b>Industry sector</b>		
- Banks and financial and investment institutions	93,755,483	98,286,572
- Real estate	2,533,021	4,335,294
- Services	1,630,311	1,348,195
- Oil and gas	1,593,508	280,900
- Manufacturing	280,900	550,770
- Food and agriculture	317,991	-
- Information technology	336,720	274,860
- Others	777,295	268,942
	<u>101,225,229</u>	<u>105,345,533</u>

#### 26 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:

2012	Up to 1 year KD	Over 1 year KD	Total KD
<b>Assets:</b>			
Bank balances and cash	6,653,809	-	6,653,809
Short-term murabaha investments	1,243,077	-	1,243,077
Accounts receivable and prepayments	3,146,932	-	3,146,932
Inventories	2,226,221	-	2,226,221
Financial assets at fair value through income statement	-	5,961,944	5,961,944
Financial assets available for sale	-	4,219,910	4,219,910
Investment in associates	-	90,504,323	90,504,323
Investment properties	-	536,222	536,222
Property, plant and equipment	-	15,599,164	15,599,164
<b>Total assets</b>	<u>13,270,039</u>	<u>116,821,563</u>	<u>130,091,602</u>
<b>Liabilities:</b>			
Murabaha payables	46,396,494	6,075,000	52,471,494
Accounts payable and accruals	15,134,173	-	15,134,173
Employees' end of service benefits	-	771,704	771,704
<b>Total liabilities</b>	<u>61,530,667</u>	<u>6,846,704</u>	<u>68,377,371</u>
<b>LIQUIDITY (GAP) SURPLUS</b>	<u>(48,260,628)</u>	<u>109,974,859</u>	<u>61,714,231</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

**26 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

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>
<b>LIQUIDITY (GAP) SURPLUS</b>	<b>(59,836,068)</b>	<b>113,076,515</b>	<b>53,240,447</b>

**27 COMMITMENTS AND CONTINGENT LIABILITIES**

**a) Commitment**

As at 31 December 2012, the group's bankers have given bank guarantees amounting to KD 289,953 (2011: KD 289,953).

**b) Contingent liabilities**

During the current year, one of the major murabaha creditor (the "plaintiff") has filed four legal cases against the parent company (the "defendant") claiming the settlement of due certain murabaha payables amounting to KD 43,352,021. Until the date of approval of these consolidated financial statements, the final court decision on the abovementioned legal cases is still pending as follows:

- Two legal cases relating to the due murabaha payables of KD 3,775,889 and KD 4,239,342 were transferred on 10 January 2013 and 19 February 2013, respectively, to the Experts Department at the Ministry of Justice for final hearing.
- The final hearing date related to the legal case pertaining to the due murabaha payable of KD 99,360 was postponed from 27 March 2013 to 19 June 2012.
- With respect of the four legal cases, related to the due murabaha payable of KD 35,237,430, the first instance court decision came in favor of the plaintiff on 13 December 2012 obligating the parent company to settle the due balance in addition to an amount of KD 50 for legal charges. On 13 February 2013, the parent company filed an appeal against this decision. On 24 April 2013, the court decision came supporting the first instance decision in favor of the plaintiff. The management is in process of appealing against the ruling before the cassation court.

Therefore, with respect to the expected results of those lawsuits, the legal counselor of the parent company is of the opinion that all the lawsuits filed by the plaintiff, tends to be referred to the Experts Department at the Ministry of Justice to discuss many aspects of the appeal submitted by the parent company to the court, some of which are legal while others are regulatory. Although final results of this dispute cannot be reliably guaranteed and that all results are possible, it is expected that the reports submitted by the Experts Department in the Ministry of Justice will be in favor of the parent company and it is also expected that the litigation will continue between the two parties for a relatively long period, not less than three years.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

### 27 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

#### c) Contingent liabilities (continued)

Based on the foregoing, as the value of the abovementioned claims filed against the parent company is recorded originally in the books of the parent company within murabaha payables, the parent company need not to record any provisions or recognise any additional potential liabilities in the consolidated financial statements for the year ended 31 December 2012 as a result of these lawsuits.

### 28 FIDUCIARY ASSETS

In its capacity as manager of portfolios and funds belonging to third parties, the parent company manages investments and bank accounts amounting to KD 18,092,439 (2011: KD 39,689,347) in its own name as a nominee on behalf of 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 253,489 for the year ended 31 December 2012 (2011: KD 306,039).

### 29 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 2012 is 2.98 fils (2011: 2.9 fils) per share.

In accordance with Law No. 46 of 2006 and as a result of the loss for the year, the group has not deducted a provision of 1% of net loss subject to zakat for the year ended 31 December 2012 (2011: the group has deducted a provision of 1% of net profit, as a result of profit generated for the year).

Responsibility for payment of unsettled zakat amounting to 2.9 fils (2011: 2.2 fils) per share lies with the shareholders and not the parent company.

### 30 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 2012 and 31 December 2011.

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 represents equity attributable to the equity holders of the parent company.

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Murabaha payable	52,471,494	55,609,876
Accounts payable and accruals	15,134,173	22,043,822
Employees' end of service benefits	771,704	1,073,977
Less: Cash and cash equivalents	<u>(7,896,886)</u>	<u>(4,764,588)</u>
Net debt	<u>60,480,485</u>	<u>73,963,087</u>
Equity attributable to the equity holders of the parent company	<u>55,756,718</u>	<u>52,742,498</u>
Capital and net debt	<u>116,237,203</u>	<u>126,705,585</u>
Gearing ratio	<u>52%</u>	<u>58%</u>