

AL MANAR

FINANCING & LEASING



2011

Al Manar Financing and Leasing Company

K.S.C. (Closed)

and its Subsidiaries

State of Kuwait



INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION AND INDEPENDENT AUDITORS' REVIEW REPORT

FROM 1 JANUARY TO 30 SEPTEMBER 2011
(UNAUDITED)

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AL MANAR FINANCING AND LEASING COMPANY K.S.C. (CLOSED)

State of Kuwait

**Report on Review of Interim Condensed Consolidated
Financial Information to the Board of Directors**

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Al Manar Financing and Leasing Company K.S.C. (Closed) (“the Parent Company”) and its subsidiaries (together referred to as “the Group”) at 30 September 2011, and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Financial Reporting Standard, IAS 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

• ***Scope of Review***

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

• ***Basis for Qualified Conclusion***

The Group did not obtain any information for its associated company Qatar Finance House Company Q.P.S.C. at 30 September 2011, neither it accounted for the share of its results for the period then ended as required by International Financial Reporting Standards (refer to note 7).

- **Qualified Conclusion**

Based on our review, with the exception of the matters described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the accounting records. We further report that nothing has come to our attention indicating any contravention during the nine-month period ended 30 September 2011, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Parent Company memorandum and articles of association, or of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business and its related regulations, which might have materially affected the Group's activities or its financial position.

Jassim Ahmad Al-Fahad

License No. 53-A
Al-Fahad, Al-Wazzan & Co. Deloitte &
Touche

Kuwait, 18 December 2011

Dr. Saud Al-Humaidi

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International

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2011 (Unaudited)

	NOTE	30 September	31 December	30 September
		2011	2010	2010
		KD	(Audited) KD	KD
ASSETS				
Cash and cash equivalents		3,571,736	1,600,214	1,105,029
Accounts receivable	5	33,485,996	43,026,276	46,960,535
Financial assets at fair value through profit or loss	6	7,378,198	7,757,408	8,110,366
Investment in associate	7	3,755,538	3,755,538	3,373,994
Investment properties	9	2,017,981	1,163,240	2,675,601
Other receivables and prepayments	8	948,567	973,225	1,109,157
Due from related party	13	214,448	213,865	-
Intangible assets		5,101	9,073	19,736
Property and equipment		13,021	8,579	22,268
Total assets		51,390,586	58,507,418	63,376,686

LIABILITIES AND EQUITY

LIABILITIES				
Islamic Murabaha and Wakala payables	10	13,606,007	22,087,706	26,010,649
Accounts payable and other credit balances	11	2,300,965	1,897,237	1,443,294
Due to related party	13	-	-	1,447,463
Provision for staff indemnity		382,332	358,221	343,189
Total liabilities		16,289,304	24,343,164	29,244,595

EQUITY				
Share capital		30,874,759	30,874,759	30,874,759
Share premium		312,020	312,020	312,020
Statutory reserve		1,265,937	1,265,937	1,178,931
Voluntary reserve		1,243,823	1,243,823	1,156,817
Retained earnings/ (accumulated losses)		115,641	115,641	174,821
Non-controlling interest		1,289,102	352,074	434,743
Total equity		35,101,282	34,164,254	34,132,091
Total liabilities and equity		51,390,586	58,507,418	63,376,686

Bader Abdulla Al- Sumait
Chairman

Salah Mohamad Al-Wazzan
Vice Chairman

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January to 30 September 2011 (Unaudited)

	NOTE	Three months ended 30 September		Nine months ended 30 September	
		2011 KD	2010 KD	2011 KD	2010 KD
INCOME					
Finance revenues		1,107,626	1,245,999	3,281,930	4,881,934
Net investment loss		(55,201)	(155,760)	(338,644)	(486,020)
Share of results of associate	7	-	-	-	(252,947)
Recovery of impairment loss on investment properties	9	-	-	10,541	-
Other income		87,446	60,025	237,430	279,304
		1,139,871	1,150,264	3,191,257	4,422,271

EXPENSES					
Finance costs		(262,608)	(528,241)	(858,428)	(1,921,164)
General and administrative expenses		(365,810)	(341,614)	(1,171,151)	(1,264,413)
Provision for doubtful debts	5	(182,659)	(755,609)	(206,256)	(459,668)
		(811,077)	(1,625,464)	(2,235,835)	(3,645,245)

Profit / (loss) before (provisions) / reversal of provisions for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") and Zakat		328,794	(475,200)	955,422	777,026
(Provision) / reversal of provision for contribution to KFAS		(2,960)	4,752	(8,599)	(7,770)
(Provision) / reversal of provision for contribution to Zakat		(3,434)	4,752	(9,795)	(7,770)
Profit / (loss) for the period		322,400	(465,696)	937,028	761,486
Other comprehensive income					
Foreign currency translation adjustments		-	-	-	21,797
Other comprehensive income for the period		-	-	-	21,797
Total comprehensive income / (loss) for the period		322,400	(465,696)	937,028	783,283
Earnings / (loss) per share	12	1.04 Fils	(1.5 Fils)	3.03 Fils	2.47 Fils

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January to 30 September 2011 (Unaudited)

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Retained Foreign currency translation reserve	Retained earnings	Total
	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2011	30,874,759	312,020	1,265,937	1,243,823	115,641	352,074	34,164,254
Total comprehensive income for the period	-	-	-	-	-	937,028	937,028
Balance at 30 September 2011	30,874,759	312,020	1,265,937	1,243,823	115,641	1,289,102	35,101,282
Balance at 1 January 2010	30,874,759	312,020	1,178,931	1,156,817	153,024	(326,743)	33,348,808
Total comprehensive income for the period	-	-	-	-	21,797	761,486	783,283
Balance at 30 September 2010	30,874,759	312,020	1,178,931	1,156,817	174,821	434,743	34,132,091

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 January to 30 September 2011 (Unaudited)

	NOTE	Nine months ended 30 September	
		2011	2010
		KD	KD
OPERATING ACTIVITIES			
Profit for the period		937,028	761,486
Adjustments for:			
Depreciation and amortization		11,026	27,775
Recovery of impairment loss on investment property		(10,541)	-
Provision for doubtful debts		206,256	459,668
Change in fair value of financial assets at FVTPL		376,580	486,020
Loss on sale of financial assets at FVTPL		2,630	-
Share of results of associate		-	252,947
Dividend income		(40,566)	-
Finance cost		858,428	1,921,164
Provision for staff indemnity		56,636	67,046
		2,397,477	3,976,106
Accounts receivable		9,334,024	16,011,589
Other receivables and prepayments		24,658	(89,095)
Due from / to related party – net		(583)	31,129
Accounts payable and other credit balances		403,728	651,030
Payments of staff indemnity		(32,525)	(12,512)
Net cash generated by operating activities		12,126,779	20,568,247
INVESTING ACTIVITIES			
Purchase of financial assets at FVTPL		-	(32,540)
Purchase of investment properties		(844,200)	(670,000)
Dividend received		40,566	-
Purchase of property and equipment		(11,496)	(3,550)
Purchase of intangible assets		-	(2,480)
Net cash used in investing activities		(815,130)	(708,570)
FINANCING ACTIVITIES			
Net movement in Islamic Murabaha and Wakala payables		(8,481,699)	(19,263,430)
Finance cost paid		(858,428)	(1,921,164)
Net cash used in financing activities		(9,340,127)	(21,184,594)
Net increase / (decrease) in cash and cash equivalents		1,971,522	(1,324,917)
Cash and cash equivalents at beginning of the period		1,600,214	2,429,946
Cash and cash equivalents at end of the period		3,571,736	1,105,029

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the period from 1 January to 30 September 2011 (Unaudited)

1. FORMATION AND PRINCIPAL ACTIVITIES

Al Manar Financing and Leasing Company K.S.C. (Closed) (“the Parent Company”) was incorporated in the State of Kuwait in 2003 by the authorized letter of incorporation no. 4857 file 1 dated 6 December 2003.

The main activities of the Parent Company and its subsidiaries (together referred to as “the Group”) are represented in practicing all financing and investing activities according to the Islamic Share’a principles.

The Parent Company is regulated by the Central Bank of Kuwait.

The registered office of the Parent Company is P.O. Box 22828, Safat 13089, Kuwait.

The interim condensed consolidated financial information was authorized for issue by the Board of Directors on 18 December 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard No. 34, “Interim Financial Reporting” (IAS 34). This interim condensed consolidated financial information does not include all the information and notes required for full annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”) as modified for use by the Government of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRSs except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK requirement for a minimum general provision as described below.

Detailed information, is included in the consolidated financial statements and notes thereto in the Group’s consolidated financial statements for the year ended 31 December 2010.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included in the interim condensed consolidated financial information.

The operating results for the nine-month period ended 30 September 2011 are not necessarily indicative of the results that may be expected for the year ending 31 December 2011.

The interim condensed consolidated financial information has been prepared using the same accounting policies and methods of computation with those used in the preparation of the annual audited consolidated financial statements for the year ended 31 December 2010, except for changes resulting from amendments to IFRSs as mentioned below.

3. ADOPTION OF NEW AND REVISED STANDARDS

During the period, the Group has adopted all the standards effective for the annual periods beginning on or after 1 January 2011.

- ***IAS 24 (Revised) Related party disclosures***

The amended Standard clarified the definition of a related party and laid down additional requirement for disclosure of outstanding commitments to related parties. The adoption of the amendment did not have any impact on the financial position or performance of the Group but gave rise to additional disclosures in the interim condensed consolidated financial information.

- **IAS 34 Interim Financial Reporting**

Improvement to IAS 34 introduces the concept of “Significant events and transactions” to be disclosed in the interim financial report and clarifies how to apply this principle in respect of financial instruments and their fair values. Adoption of this improvement did not have any material impact on the financial position or performance of the Group.

4. JUDGEMENTS AND ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements at and for the year ended 31 December 2010.

5. ACCOUNTS RECEIVABLE

	30 September 2011	31 December 2010	30 September 2010
	(Audited)		
	KD	KD	KD
Gross receivables	52,657,091	64,393,958	68,350,527
Less: deferred revenues	(9,575,189)	(11,978,032)	(12,632,277)
Less: provision for doubtful debts	(9,595,906)	(9,389,650)	(8,757,715)
Accounts receivable – net	33,485,996	43,026,276	46,960,535

Receivables aging 90 days and below are fully performing. At 30 September 2011, gross receivables of KD 31,774,000 (31 December 2010: KD 40,157,000; 30 September 2010: KD 44,680,060) were fully performing. The Group follows the CBK requirements for calculating the provision for doubtful debts, which requires a general provision of 1% on all credit facilities net of certain categories of collateral, to which CBK instructions are applicable, and not subject to specific provision. Specific provision as per the CBK requirements is taken net of certain categories of collateral, to which CBK instructions are applicable, for receivables aging above 90 days.

- **Aging of impaired receivables**

	30 September 2011	31 December 2010	30 September 2010
	(Audited)		
	KD	KD	KD
91 – 180 days	2,515,742	4,404,993	6,602,825
181 – 360 days	2,458,487	5,905,104	3,927,401
More than 360 days	15,908,862	13,926,861	13,140,241
Total	20,883,091	24,236,958	23,670,467

• *Analysis of provision for doubtful debts*

	30 September 2011	31 December 2010 (Audited)	30 September 2010
	KD	KD	KD
Specific	9,328,723	9,055,148	8,392,544
General	267,183	334,502	365,171
Total	9,595,906	9,389,650	8,757,715

• *Movement in the provision for doubtful debts*

	Specific provision	General provision	Total
	KD	KD	KD
Balance at 1 January 2011	9,055,148	334,502	9,389,650
Charge / (recovery) during the period	273,575	(67,319)	206,256
Balance at 30 September 2011	9,328,723	267,183	9,595,906
Balance at 1 January 2010	7,790,154	507,893	8,298,047
Charge / (recovery) during the period	602,390	(142,722)	459,668
Balance at 30 September 2010	8,392,544	365,171	8,757,715

In determining the recoverability of accounts receivable, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The Group holds KD 11,650,756 (31 December 2010: KD 18,607,750, 30 September 2010: KD 17,340,053) as collateral over its accounts receivable. Management believes that there is no further credit provision required in excess of the provision for doubtful debts.

The carrying amounts of the Group's accounts receivable are denominated in KD and located in the State of Kuwait.

The accounts receivable include an amount of KD 22,045,793 (31 December 2010: KD 30,651,046, 30 September 2010: KD 33,262,609) pledged as collateral against Islamic Murabaha and Wakala payables (see note 10).

The maximum exposure to credit risk at the reporting date is the carrying amount of accounts receivable mentioned above.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2011	31 December 2010 (Audited)	30 September 2010
	KD	KD	KD
Investments in quoted local shares and funds	98,208	133,430	117,689
Investments in unquoted local shares and funds	6,987,326	7,340,502	7,709,201
Investments in unquoted foreign shares and funds	292,664	283,476	283,476
	7,378,198	7,757,408	8,110,366

7. INVESTMENT IN ASSOCIATE

The associated company is as follows:

Name of company	Country of incorporation	Percentage of ownership and voting power			Principal activity
		30 September 2011	31 Dec. 2010 Audited	30 September 2010	
Qatar Finance House	Qatar	20%	20%	20%	Financing activities

On 10 March 2008, the Group acquired 20% shareholding interest in Qatar Finance House Company Q.P.S.C., a company incorporated in Qatar, whose principal activities are carrying consumer and project financing activities in accordance with Islamic Shari'a Law. The Group's investment is equivalent to KD 3,755,538 at 30 September 2011 (31 December 2010: KD 3,755,538; 30 September 2010: KD 3,373,994) which includes goodwill arising on acquisition of KD 1,900,430 and is included in the investment in associate. The Group's accounting for its investment in associate at 30 September 2011 is based on the consolidated financial statements of the associate for the year ended 31 December 2010.

8. OTHER RECEIVABLES AND PREPAYMENTS

	30 September 2011	31 December 2010 (Audited)	30 September 2010
	KD	KD	KD
Prepaid expenses	26,950	28,489	38,874
Staff receivables and deductions	22,871	40,167	42,495
Refundable deposits	313,095	312,825	312,825
Advance against investment in associate	499,075	499,075	499,075
Other debit balances	86,576	92,669	215,888
	948,567	973,225	1,109,157

9. INVESTMENT PROPERTIES

The Group's investment properties' details are as follows:

- A plot of land in Mahboola - Kuwait acquired through a Musharaka agreement in 2008 at a cost of KD 510,000 representing 83.6% ownership. The average fair value was last obtained at 30 June 2011 and amounts for the Group's stake KD 503,781 (31 December 2010: KD 493,240; 30 September 2010: KD 481,310).
- A plot of land in Fahaheel – Kuwait acquired in 2010 at a cost of KD 670,000. The average fair value was last obtained at 30 June 2011 and amounts to KD 732,500 (31 December 2010: KD 724,163; 30 September 2010: KD 718,988).
- A plot of land in Al Mangaf – Kuwait acquired in 2011 at a cost of KD 844,200. The average fair value was last obtained at 30 June 2011 and amounts to KD 879,237 (31 December 2010: nil; 30 September 2010: nil).

The fair values of the investment properties have been arrived on the basis of a valuation carried out by independent valuers that are not related to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

10. ISLAMIC MURABAHA AND WAKALA PAYABLES

Islamic Murabaha and Wakala payables are guaranteed by assigning receivables amounting to KD 22,045,793 (31 December 2010: KD 30,651,046, 30 September 2010: KD 33,262,609) (see note 5).

The average cost on Islamic Murabaha and Wakala payables is 7.04% (31 December 2010: 7.28%, 30 September 2010: 7.41%).

11. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	30 September	31 December	30 September
	2011	2010	2010
	(Audited)		
	KD	KD	KD
Trade payables	1,749,544	1,279,340	852,797
Accrued salaries and other staff accruals	177,777	201,919	164,359
Accrued dividends	256,526	257,816	258,496
Provision for KFAS	36,700	80,135	80,074
Provision for Zakat	21,788	21,925	20,299
Others	58,630	56,102	67,269
	2,300,965	1,897,237	1,443,294

12. EARNINGS / (LOSS) PER SHARE

Earnings / (loss) per share are calculated based on the profit / (loss) for the period divided by the weighted average number of shares outstanding during the period as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	KD	KD	KD	KD
Profit / (loss) for the period	322,400	(465,696)	937,028	761,486
Weighted average number of the Parent Company's outstanding shares	308,747,590	308,747,590	308,747,590	308,747,590
Earnings / (loss) per share	1.04 Fils	(1.5 Fils)	3.03 Fils	2.47 Fils

13. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties consist of major shareholders, directors and executive officers of the Group, their families and companies of which they are the principal owners. All related party transactions approximate arms length terms and are approved by the Group's management.

The related party balances and transactions included in the interim condensed consolidated financial information are as follows:

	30 September 2011	31 December 2010 (Audited)	30 September 2010
		KD	KD
a) Accounts receivable	53,557	72,888	101,633
b) Investments managed by major shareholder	6,954,990	7,310,329	7,691,357
c) Due from related party (Qatar Finance House Company QPSC)	214,448	213,865	192,505
d) Due to related party (Qatar Finance House Company QPSC)	-	-	1,639,968
e) Compensation of key management personnel			
Salaries and other short term benefits	388,465	506,071	406,184
Termination benefits	198,891	201,587	184,349
	587,356	707,658	590,533

14. SEGMENTAL INFORMATION

Operating segments are to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The operating segments are divided into two major business segments. Business segments are distinguishable components of the Group that provide products or services subject to risks and returns different from those of other business segments.

	30 September 2011			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	3,420,085	(328,103)	99,275	3,191,257
Segment expenses	(1,064,684)	-	(1,189,545)	(2,254,229)
Segment results	2,355,401	(328,103)	(1,090,270)	937,028
Segment assets	37,057,732	13,650,792	682,062	51,390,586
Segment liabilities	13,606,007	-	2,683,297	16,289,304

	30 September 2010			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	5,079,898	(738,967)	81,340	4,422,271
Segment expenses	(2,380,832)	-	(1,279,953)	(3,660,785)
Segment results	2,699,066	(738,967)	(1,198,613)	761,486
Segment assets	48,065,564	14,659,036	652,086	63,376,686
Segment liabilities	26,010,649	1,639,968	1,593,978	29,244,595

15. ANNUAL GENERAL ASSEMBLY

The Annual General Assembly held on 18 July 2011, approved the consolidated financial statements for the year ended 31 December 2010.

16. FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements for the year ended 31 December 2010.

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2011