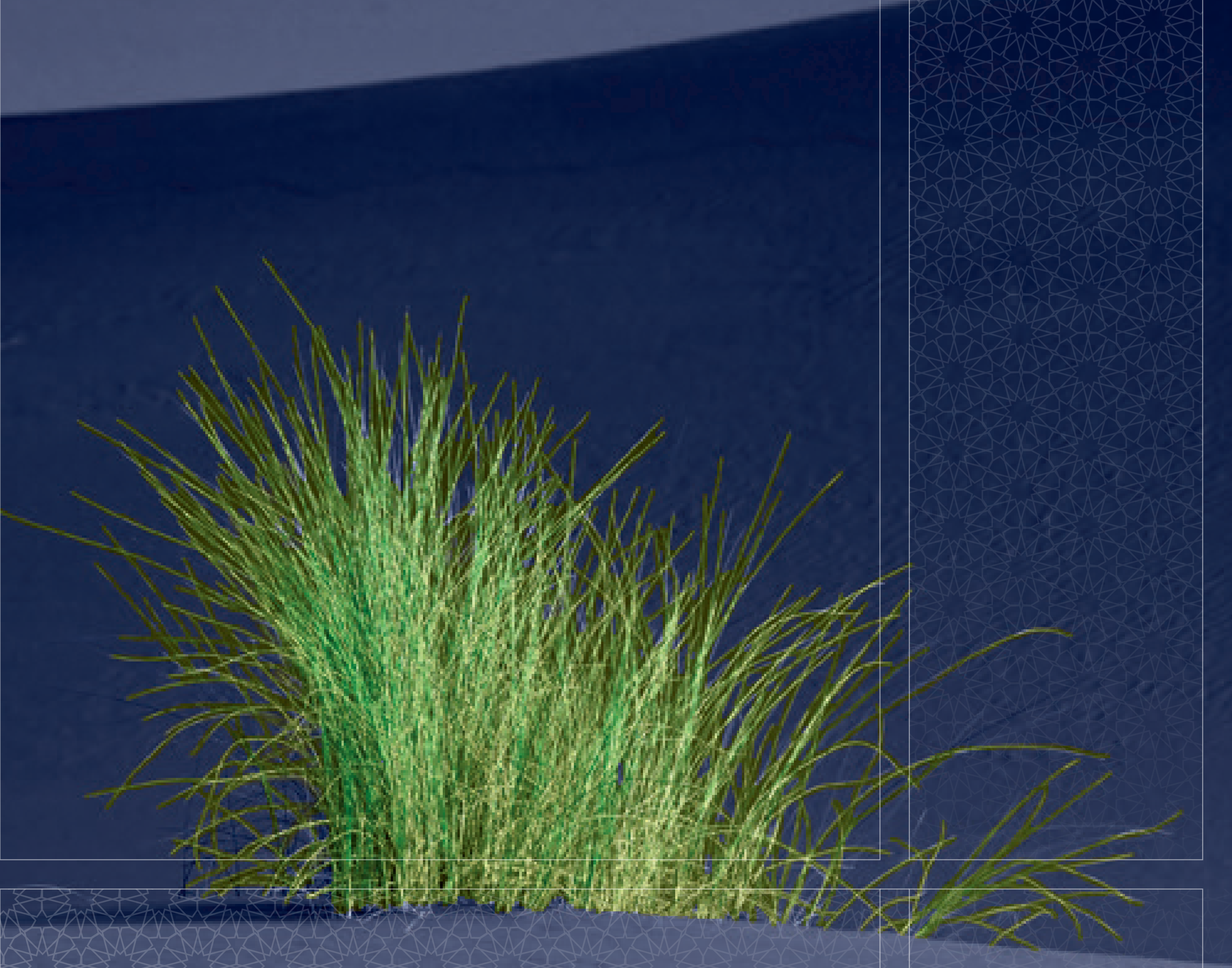
Alkhabeer Capital

Financial Statements

For the year ended 31 December 2010



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Independent Auditor'S Report

The Shareholders
Alkhabeer Capital
Jeddah, Saudi Arabia

We Have Audited The Accompanying Financial Statements Of Alkhabeer Capital ("The Company") Which Comprise The Balance Sheet As At 31 December 2010 And Related Statements Of Income, Changes In Shareholders' Equity And Cash Flow For The Year Then Ended And Attached Notes I Through 24 Which From An Integral Part Of These Financial Statements.

Management's Responsibility for The Financial Statements

Management Is Responsible For The Preparation And Fair Presentation Of These Financial Statements In Accordance With Generally Accepted Accounting Standards In The Kingdom Of Saudi Arabia And In Compliance With Article 123 Of The Regulations For Companies And Company›S Articles Of Association And For Such Internal Control As Management Determines Is Necessary To Enable The Preparation Of Financial Statement That Are Free From Material Misstatement, Whether Due To Fraud Or Error. Management Has Provided Us With All The Information And Explanations That We Require Relating To Our Audit Of These Financial Statements.

Auditors' Responsibility

Our Responsibility Is To Express An Opinion On These Financial Statements Based On Our Audit. We Conducted Our Audit In Accordance With Generally Accepted Auditing Standards In The Kingdom Of Saudi Arabia. Those Standards Require That We Comply With Relevant Ethical Requirements And Plan And Perform The Audit To Obtain Reasonable Assurance Whether The Financial Statements Are Free Of Material Misstatement.

An Audit Involves Performing Procedures To Obtain Audit Evidence About The Amounts And Disclosures In The Financial Statements. The Procedures Depend On Our Judgment, Including The Assessment Of The Risk Of Material Misstatement Of The Financial Statements, Whether Due To Fraud Or Error. In Making Those Risk Assessments, We Consider Internal Controls Relevant To The Entity›S Preparation And Fair Presentation Of The Financial Statements In Order To Design Audit Procedures That Are Appropriate In The Circumstances, But Not For The Purpose Of Expressing An Opinion On The Effectiveness Of The Entity›S Internal Controls. 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 Financial Statement.

We Believe That The Audit Evidence We Have Obtained Is Sufficient And Appropriate To Provide A Basis For Our Opinion.

Opinion

In our opinion, the financial statements taken as a whole:

1- Present fairly, in all material respects, the financial position of the Company as at 31 December 2010 and the results of its operations and cash flows for the year then ended, in accordance with general accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and

2- Comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Al Sadhan:

Ebrahim Oboud Baeshen
License No. 382

C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Al Sadhan

Jeddah, February 20, 2011G
Corresponding to Rabi Awwal 17, 1432H

Balance Sheet

As at 31 December 2010

	Note	**2010 (SR '000)**	2009 (SR '000)
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	**36,215**	257,146
Trade Receivables	5	**6,070**	4,172
Investments	6	**327,436**	109,527
Due from Related Parties	17	**9,087**	10,533
Prepayments and Other Assets	7	**4,950**	7,914
		383,758	389,292
Non-Current Assets			
Property and Equipment	8	**22,496**	7,876
TOTAL ASSETS		**406,254**	397,168
LIABILITIES			
Current Liabilities			
Advance from Customers		**1,200**	2,250
Accrued Expenses and Other Liabilities	9	**5,176**	1,196
Accrued Zakat and Income Tax	15	**1,384**	6,771
		7,760	10,217
Non-Current Liabilities			
Employee's End of Service Benefits		**3,266**	2,724
Total Liabilities		**11,026**	12,941
SHAREHOLDERS' EQUITY			
Share Capital	10	**414,311**	414,311
Statutory Reserve	11	**1,122**	22
Accumulated Losses		**(20,205)**	(30,106)
Total Shareholders' Equity		**395,228**	384,227
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**406,254**	397,168

 The accompanying notes 1 to 24 form an integral part of these Financial Statements.

Statement of Income

For the Year Ended 31 December 2010

	Note	**2010 (SR '000)**	2009 (SR '000)
Fees Income	12	**5,999**	19,952
Unrealised Gain on Trading Investments	6	**45,127**	1,940
Realised Gain on Trading Investment	6	**2,949**	13,741
Income from Murabaha Deposits		**733**	2,660
Total Operating Income		**54,808**	38,293
Selling and Marketing Expenses	13	**(3,094)**	(2,115)
General and Administrative Expenses	14	**(40,704)**	(35,943)
Total Operating Expenses		**(43,798)**	(38,058)
Operating Income		**11,010**	235
Other Expenses		**(9)**	(17)
Net Income		**11,001**	218
Earnings per Share (SR)	18	**0.2589**	0.0051

Statement of Cash Flows

For the Year Ended 31 December 2010

	2010 (SR '000)	2009 (SR '000)
OPERATING ACTIVITIES		
Net Income	**11,001**	218
Adjustments to Reconcile Net Income to Net Cash:		
Unrealized Gain on Investments	**(45,127)**	(1,940)
Realized Gain on Investments	**(2,949)**	(13,741)
Depreciation	**2,597**	2,299
Provision for End of Service Benefits	**1,386**	1,248
Loss on Disposal of Property and Equipment	**9**	17
	(33,083)	(11,899)
Net (Increase) Decrease in Operating Assets:		
Trade Receivables	**(1,898)**	(3,997)
Due from Related Parties	**2,830**	13,460
Prepayment and Other Assets	**2,963**	4,551
Net Increase (Decrease) in Operating Liabilities:		
Accrued Expenses and Other Liabilities	**4,053**	(1,080)
End of Service Benefits Paid	**(844)**	(567)
Zakat Paid	**(6,771)**	-
Advance from Customers	**(1,050)**	-
Net Cash (Used in)/Provided from Operating Activities	**(33,800)**	468
INVESTING ACTIVITIES		
Purchase of Property and Equipment	**(17,340)**	(3,779)
Proceeds from Disposal of Property and Equipment	**42**	10
Purchase of Investments	**(199,119)**	(100,000)
Proceeds from Disposal of Investments	**29,286**	20,907
Net Cash Used in Investing Activities	**(187,131)**	(82,862)
Net Decrease in Cash and Cash Equivalents	**(220,931)**	(82,394)
Cash and Cash Equivalents at the Beginning of the Year	**257,146**	339,540
Cash and Cash Equivalents at the End of the Year	**36,215**	257,146

 The accompanying notes 1 to 24 form an integral part of these Financial Statements.

Statement of Changes in Shareholders’ Equity

For the Year Ended 31 December 2010

	Share capital	Statutory reserve	Accumulated loss	Total
Balance at 1 January 2009	414,311	-	(30,302)	384,009
Net Income for the Year	-	-	218	218
Transferred to Statutory Reserve	-	22	(22)	-
Zakat and Income Tax	-	-	(6,771)	(6,771)
Zakat and Income Tax Reimbursable from Shareholders	-	-	6,771	6,771
Balance at 31 December 2009	414,311	22	(30,106)	384,227
Net Income for the Year	-	-	11,001	11,001
Transferred to Statutory Reserve	-	1,100	(1,100)	-
Zakat and Income Tax	-	-	(1,384)	(1,384)
Zakat and Income Tax Reimbursable from Shareholders	-	-	1,384	1,384
Balance at 31 December 2010	**414,311**	**1,122**	**(20,205)**	**395,228**

Notes to the Financial Statements

31 December 2010

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Alkhabeer Capital (the “Company” or “AKC”) is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030177445 dated 14 Rabi Awal 1429H corresponding to 22 March 2008.

The Commercial Registration was amended on 14 Shawal 1430H corresponding to 5 October 2009 by virtue of which the name of the Company was amended from Alkhabeer Merchant Finance Corporation to Alkhabeer Capital.

The principal activities of the Company is to conduct arranging, managing, advising, custody and underwriting activities, as defined in the licence issued by the Capital Market Authority (the “CMA”) dated 3 Rabi a’ Thani 1429H, corresponding to 09 April 2008. The Company is owned 98.50% by local shareholders and 1.50% by foreign shareholders.

The Company’s registered office is located at the following address:

Alkhabeer Capital
Al-Madina Road, P.O. Box 128289
Jeddah, Saudi Arabia

2. BASIS OF PREPARATION

These Financial Statements are prepared in accordance with generally accepted accounting principles in Kingdom of Saudi Arabia issued by the Saudi Organisation of Certified Public Accountants (“SOCPA”).

These Financial Statements are prepared under the historical cost convention modified to include the measurement of fair value of trading investments.

These Financial Statements are presented in Saudi Riyals (SR), being the functional currency of the Company and is rounded off to the nearest thousand.

The preparation of Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In preparing these Financial Statements, the judgments made by the management in applying accounting policies include provision against doubtful receivables and useful lives of property and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES

The Significant Accounting policies adopted are as follows:

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other maintenance and normal repairs related expenditures are charged to income as and when incurred.

Depreciation is charged to the statement of income applying the straight line method whereby the cost of an asset is written-off over its estimated useful life.

The estimated useful lives of the principal classes of assets are as follows:

	Years
Building	25
Furniture and Fixtures	4
Leasehold Improvements	4
Office and Computer Equipment	3-4
Vehicles	5

During the current year, the company has purchased its Head Office building in Jeddah. The estimated useful life of the building is 25 years.

Gains or losses on sale or retirement of property and equipment are included in the Statement of Income.

Trading Investments

Trading investments represent, investments in short term discretionary portfolio and Funds managed by the Company, which are readily marketable, and are initially recognised at cost and subsequently re-measured at fair value. The resultant realised and unrealised gains and losses are recognised in the Statement of Income. Where partial holdings are sold, the cost of investments is calculated on a weighted average basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Financial assets and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset›s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Trade Receivables

Trade receivables are carried at original invoice amount less estimate for doubtful receivables. Bad debts are written off when identified.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses.

Revenue Recognition

Fixed fees received under Financial Services Agreements are non-refundable. These are initially recorded as unearned income and subsequently earned when the related milestones have been met or the agreement terminated by the client.

Success fees are recognized when the related financing has been successfully raised for the client.

Management and custody fees are recognized on a time apportioned basis.

Finance income on Murabaha placements/deposits is recognised on a time apportioned basis.

Employees' End of Services Benefits

Benefits payable to employees of the Company at the end of their services are accrued in accordance with the Saudi Arabian Labour Regulations and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services terminated at the Balance Sheet date.

Zakat and Income Tax

Zakat and Income Tax, computed in accordance with the Saudi Arabian fiscal regulations, are accrued and charged to retained earnings. The shareholders will reimburse Zakat and Income Tax from the proceeds of future appropriations.

Cash and Cash Equivalents

Cash and Cash Equivalents comprise current accounts with banks and highly liquid investments with maturities of three months or less from the acquisition date, which are available to the Company without any restrictions.

Foreign Currencies

Transactions denominated in foreign currencies are translated to Saudi Arabian Riyals at exchange rates prevalent at the date of the transaction. Monetary Assets and Liabilities denominated in foreign currencies at the reporting date are translated to Saudi Arabian Riyals at the exchange rate at that date. Exchange differences arising on translation are charged to the Statement of Income, as appropriate.

Offsetting

Financial Assets and Liabilities are offset and reported net in the Balance Sheet when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Trade Date Accounting

All regular way purchases and sales of Financial Assets are recognized/ derecognized on the trade date (i.e. the date that the Company commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of Financial Assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

4. CASH AND CASH EQUIVALENTS

	2010 (SR '000)	2009 (SR '000)
Cash at Bank - Current Accounts	**11,227**	34,117
Shari'a Compliant Murabaha Placements	**24,988**	223,029
	36,215	257,146

5. TRADE RECEIVABLES

	2010 (SR '000)	2009 (SR '000)
Receivable for Services	7,720	8,302
Provision for Doubtful Receivables	(1,650)	(4,130)
	6,070	4,172

6. INVESTMENTS

Trading Investments

	2010 (SR '000)	2009 (SR '000)
Investments in Funds Managed by the Company	298,428	26,940
Short Term Investments	29,008	82,587
	327,436	109,527

Trading Investments relating to short terms investments, as at 31 December 2010, include investment in a discretionary portfolio managed by a related party through an investment management agreement (Note 17).

The movement in the trading investments during the year ended 31 December 2010 is as follows:

	(SR'000)
Balance at the Beginning of the Year	109,527
Purchased	249,119
Sold	(79,286)
Realized Gain	2,949
Unrealized Gain (Note 6.1)	45,127
Balance at End of the Year	327,436

The evaluation of the investments in Funds managed by the Company is according to Net Asset Valuations obtained from the Fund Manager and the gain/loss is charged to the Statement of Income.

6.1. Unrealized Gains on Trading Investments

The unrealized gains of SR 45.13 million in the Statement of Income include an amount of SR 17.61 million that is earned from the Investment Funds of which AKC is an investor. However, as this amount has not been distributed to AKC by the Investment Funds, it appears unrealized at AKC's level.

7. PREPAYMENTS AND OTHER ASSETS

	2010 (SR '000)	2009 (SR '000)
Advances	1,937	1,433
Prepayments	750	1,062
Staff Loans	195	129
Accrued Income on Murabaha Deposits/ Placements	21	153
Others	2,047	5,137
	4,950	7,914

Notes to the Financial Statements

31 December 2010 (Continued)

8. PROPERTY AND EQUIPMENT

	Land (SR '000)	Building (SR '000)	Leasehold Improvements (SR '000)	Office and Computer equipment (SR '000)	Furniture and Fixtures (SR '000)	Vehicles (SR '000)	Total (SR '000)
Cost:							
At the Beginning of Year	-	-	6,730	4,200	940	320	12,190
Transfers	-	5,000	(5,000)	-	-	-	-
Additions	6,966	9,234	52	860	44	183	17,339
Disposals	-	-	-	(50)	(4)	(153)	(207)
At the End of Year	6,966	14,234	1,782	5,010	980	350	29,322
Accumulated depreciation:							
At the Beginning of Year	-	-	2,508	1,422	291	93	4,314
Depreciation	-	390	578	1,322	236	71	2,597
Transfers	-	2,530	(2,530)	-	-	-	-
Released on disposal	-	-	-	(28)	(3)	(54)	(85)
At the End of Year	-	2,920	556	2,716	524	110	6,826
Net Book Value December 31 2010	**6,966**	**11,314**	**1,226**	**2,294**	**456**	**240**	**22,496**
Net Book Value December 31 2009	-	-	4,222	2,778	649	227	7,876

Additions to Land and Building include SR 16.20 million during the year which are in the name of a Shareholder of the Company. The Company is in the process of transferring the title deeds to its name.

During the current year, depreciation amounting to SR 128,000 was charged to a related party of the company (Alkhabeer International) (Note 17).

Notes to the Financial Statements

31 December 2010 (Continued)

9. ACCRUED EXPENSES AND OTHER LIABILITIES

	2010 (SR '000)	2009 (SR '000)
Employee Related Accruals	**-**	440
Payable for Services	**378**	547
Provision for Fund Technical Services	**4,600**	-
Others	**198**	209
	5,176	1,196

10. SHARE CAPITAL

The Share Capital of the Company amounting to SR 414,310,475 is divided into 42,493,382 shares of SAR 10 each, net of transaction cost of SR 10,623,345.

11. STATUTORY RESERVE

In accordance with the Saudi Arabian Regulations for Companies, the Company is required to transfer at least ten percent of Net Income to a Statutory Reserve until such reserve equals fifty percent of paid-up capital. The Reserve is not available for distribution.

12. FEES INCOME

	2010 (SR '000)	2009 (SR '000)
Arranging	**2,156**	14,785
Advisory	**1,467**	4,516
Others	**2,376**	651
	5,999	19,952

13. SELLING AND MARKETING EXPENSES

	2010 (SR '000)	2009 (SR '000)
Salaries and Benefits	**3,007**	2,003
Others	**87**	112
	3,094	2,115

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2010 (SR '000)	2009 (SR '000)
Salaries and Benefits	**22,818**	26,408
Rent and Premise Related Expenses	**567**	1,324
Depreciation	**2,469**	2,299
Business Travel	**1,855**	1,191
Legal and Consultancy	**3,665**	2,494
Communication	**491**	393
Repair and Maintenance	**424**	338
Office Supplies	**255**	336
Utilities	**374**	310
Insurance	**336**	347
Provision for Doubtful Receivables	**1,402**	-
Provision for Fund Technical Services	**4,600**	-
Others	**1,448**	503
	40,704	35,943

15. ACCRUED ZAKAT AND INCOME TAX

Charge for the year

	2010 (SR '000)	2009 (SR '000)
Zakat	**1,354**	6,768
Income Tax	**30**	3
	1,384	6,771

Zakat

Zakat charge for the year ended December 31, 2010 is based on the Zakat base which has the following significant components with regards to the local shareholders' share:

	2010 (SR '000)	2009 (SR '000)
Equity at Beginning of the Year	**408,118**	419,686
Add: Adjustments	**21,341**	8,500
Less: Deductions	**(375,312)**	(157,477)

15. ACCRUED ZAKAT AND INCOME TAX (continued)

Income Tax

Income tax charge for the year ended December 31, 2010 is based on the adjusted taxable income calculated on the portion of equity owned by the foreign shareholder. The significant tax adjustments made to accounting net income relate to depreciation, employee termination benefits and provision against doubtful receivables.

Status of Assessments

Zakat and income tax return has been submitted to the Department of Zakat and Income Tax (DZIT) for the year ended 31 December 2009. The Company received assessment relating to the return filed for the period ended 31 December 2008. However, the Company disagreed with the DZIT assessment and filed an appeal against this assessment for the additional charge levied of SR 10.4 million, which has not been booked in the financial statements. The major difference of the amended assessment relates to the inclusion of the pre-incorporation capital held in escrow account as chargeable asset well before the official establishment and registration of the Company. The Company believes it has valuable grounds for its appeal and has appealed to higher authorities as appropriate.

16. ACQUISITION OF AFFILIATE

On 6 November 2010, the Extra Ordinary General Assembly of the Company approved unanimously to increase the Capital of the Company from SR 424.9 million to SR 813.2 million through the issuance of additional 38,826,911 shares with a par value of SR 10 per share. The increased Capital will be used to acquire 99.99% of Alkhabeer International Company B.S.C. (c), a Bahraini Investment Company licensed by the Central Bank of Bahrain.

17. RELATED PARTY TRANSACTIONS AND BALANCES

17.1. Al Khabeer International B.S.C. (c) (AKI):

The Company has the following agreements with AKI. The financial impact of these agreements is disclosed in the table below part of Note 17:

Investment Management Agreement:

The Company signed an Investment Management Agreement with AKI by virtue of which, AKI will provide Investment Management Services to the Company, within the parameters of pre-defined investment criteria, for an indefinite period.

Mutual Services and Co-operation Agreement:

The Company signed a Mutual Services and Co-operation Agreement with AKI for mutual introduction of business, distribution of funds, collaboration of products and corroboration on processes & infrastructure, for an indefinite period.

Additionally, the Company also acts as the Fund Manager and Unit holder of the various funds floated by the asset management division of the Company.

17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant related party transactions during the year and balances arising there from are described as under:

Transaction with	Nature of transaction	Amount of transaction during the year		Closing balance Receivable/(Payable)	
		2010 SR'000	2009 SR'000	**2010 SR'000**	2009 SR'000
Al Khabeer International Bahrain BSC (c)	Operating expense net off investment advisory investment management fee and payments received	**(3,585)**	(19,170)	**-**	3,585
	Investments disposed by the Company and realized gain thereon	**(53,579)**	82,587	**29,008**	82,587
Funds	Investments acquired/disposed by the Company and realized/unrealized gain/loss thereon	**271,489**	26,940	**298,428**	26,940
	Management fees and Custody fees	**730**	87	**907**	177
	Pre-incorporation expenses	**25**	-	**25**	-
Shareholders	Zakat and tax	**1,384**	6,771	**8,155**	6,771

17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant related party transactions during the year and balances arising there from are described as under:

17.2. Remuneration to Directors:

Key management personnel of the Company comprise of key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is as follows:

	2010 (SR 000)	2009 (SR 000)
Salaries and Other Short Term Benefits	**2,304**	2,242
Post-employment Benefits	**175**	175

18. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. There has been no movement in Company›s number of shares during the year from 1 January 2010 through 31 December 2010. Weighted average number of ordinary shares outstanding during the year ended 31 December 2010 was 42,493,382 (2009: 42,493,382) shares of SR 10 each.

19. RISK MANAGEMENT

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. At 31 December 2010, the Company is not exposed to any significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on regular basis.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at 31 December 2010, based on contractual payment dates and current market rates.

Year ended 31 December 2010	Less than 3 months	3 to 12 Months	1 to 5 years	Total SR'000
Accrued Expenses and Other Liabilities	256	320	4,600	5,176

Market risk

Market risk is the risk that changes in market prices, rates, equity prices and foreign exchange rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Company's exposure to profit rate risk primarily arises from its placements with banks in Saudi Riyals, which mature within 90 days.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals in Saudi Riyals.

Notes to the Financial Statements

31 December 2010 (Continued)

20. CAPITAL MANAGEMENT

The Company's objectives when managing capital is to comply with the capital requirements set by the CMA to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

The Company monitors the adequacy of its capital using the ratios and weights established by the CMA. These ratios measure capital adequacy by comparing the Company's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. The CMA requires maintaining a net capital greater or equal to minimum net capital required.

The minimum capital requirement is the greater of (i) SR50 million or (ii) 5% of the higher of reported total revenue for the preceding twelve months or the annualized reported monthly revenue for the most recent month or (iii) 10% aggregate indebtedness, plus the amount by which the sum of net balance owed to the Company by any single party exceeds 50% of the greatest of the above.

The Company calculates net capital by adjusting the shareholders' equity for items that (i) is not readily convertible to cash, (ii) market risk charges and (iii) short positions that are not secured.

	2010 (SR 000)	2009 (SR 000)
Alkhabeer Capital	**236,369**	254,716
Minimum Net Capital Required	**50,000**	50,000

21. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The company's financial assets consist of cash and cash equivalents, trading investments and its financial liabilities consist of accruals and other payables. The fair values of financial instruments are not materially different from their carrying values.

22. OFF BALANCE SHEET ITEMS

	2010 (SR 000)	2009 (SR 000)
Custody and Assets under Management - Clients Accounts	**208,493**	147,498

23. COMPARATIVE FIGURES

Certain figures of prior period have been reclassified to conform to the current year's presentation.

24. GENERAL

The Financial Statements were authorized by the Board of Directors in their meeting held on 20 February 2011.