

**ISLAMIC FINANCIAL SECURITIES  
COMPANY (Q.S.C)**

**DOHA - QATAR**

**FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT FOR THE YEAR  
ENDED DECEMBER 31, 2008**

**ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

For the year ended December 31, 2008

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## **INDEPENDENT AUDITOR'S REPORT**

**The Shareholders**  
**Islamic Financial Securities Company (Q.S.C)**  
**Doha – Qatar**

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

We have audited the accompanying financial statements of Islamic Financial Securities Company (Q.S.C) (the "Company"), which comprise the balance sheet as at December 31, 2008 and the statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Company for the year ended December 31, 2007 were audited by another auditor whose report dated February 4, 2008 expressed an unqualified opinion.

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

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

### ***Auditor's Responsibility***

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

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

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of, the financial position of Islamic Financial Securities Company (Q.S.C) as of December 31, 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Other Legal and Regulatory Requirements**

Furthermore, in our opinion the financial statements provide the information required by the Qatar Commercial Companies' Law No. (5) of 2002 and the Company's Articles of Association. We are also of the opinion that proper books of account were maintained by the Company and the contents of the directors' report are in agreement with the Company's financial statements. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. To the best of our knowledge and belief and according to the information given to us, except for certain violation of Doha Securities Market rules, no contraventions of the Commercial Companies Law or the Company's Articles of Association were committed during the year which would materially affect the Company's activities or its financial position.

**For Deloitte & Touche**

**Doha - Qatar  
February 3, 2009**

**Muhammad Bahemia  
License No. 103**

**ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)**

**BALANCE SHEET**

As at December 31, 2008

	Notes	<u>2008</u> <b>QR</b>	<u>2007</u> <b>QR</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	5	<b>748,518,244</b>	224,272,406
Due from customers	6	--	4,761,560
Prepayments and other assets	7	<b>3,502,700</b>	4,070,877
		<u><b>752,020,944</b></u>	<u>233,104,843</u>
<b>Non-current assets</b>			
Available-for-sale investments	9	<b>4,742,188</b>	3,207,495
Property and equipment	8	<b>2,471,393</b>	4,154,577
		<u><b>7,213,581</b></u>	<u>7,362,072</u>
<b>Total assets</b>		<u><b>759,234,525</b></u>	<u>240,466,915</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Due to customers	10	<b>111,489,545</b>	200,176,682
Due to a related party from Mudaraba contracts	11	<b>600,150,000</b>	--
Accruals and other liabilities	12	<b>2,875,747</b>	1,379,291
		<u><b>714,515,292</b></u>	<u>201,555,972</u>
<b>Non-current liabilities</b>			
Employees' end of service benefits	13	<b>518,836</b>	371,166
<b>Total liabilities</b>		<u><b>715,034,128</b></u>	<u>201,927,138</u>
<b>Equity</b>			
Paid up share capital (50%)	14	<b>20,000,000</b>	20,000,000
Retained earnings		<b>185,476</b>	11,994,397
Legal Reserve	15	<b>7,341,941</b>	5,498,488
Fair value reserve		<b>72,980</b>	1,046,892
Proposed dividends		<b>16,600,000</b>	--
<b>Total equity</b>		<u><b>44,200,397</b></u>	<u>38,539,777</u>
<b>Total liabilities and equity</b>		<u><b>759,234,525</b></u>	<u>240,466,915</u>

**Khaled Bin Thani Bin Abdulla Al Thani**  
Chairman

**Abdul-Basit Ahmad Al-Sheibi**  
Managing Director

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)**

**STATEMENT OF INCOME**

For the year ended December 31, 2008

		<u>2008</u>	<u>2007</u>
	Notes	QR	QR
<b>Income</b>			
Brokerage and commission income	16	<b>42,889,301</b>	23,755,627
Brokerage and commission expense	16	<b>(14,859,553)</b>	(7,200,448)
<b>Brokerage and commission income, net</b>		<b>28,029,748</b>	16,555,179
Income from deposits with Islamic banks		<b>5,291,303</b>	4,027,031
Loss on investments	17	<b>(940,794)</b>	(636,707)
Other income		<b>269,612</b>	534,191
<b>Net operating profit</b>		<b>32,649,869</b>	20,479,694
<b>Expenses</b>			
General and administrative expenses	18	<b>(12,206,554)</b>	(8,113,390)
Depreciation expense	8	<b>(1,712,433)</b>	(1,708,710)
Finance and bank charges		<b>(296,350)</b>	(124,925)
<b>Total expenses</b>		<b>(14,215,337)</b>	(9,947,025)
<b>Net income for the year</b>		<b>18,434,532</b>	10,532,669
<b>Earnings per share</b>	20	<b>4.61</b>	2.63

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)**

**STATEMENT OF CHANGES IN EQUITY**

For the year ended December 31, 2008

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Legal reserve</u>	<u>Fair value reserve</u>	<u>Proposed dividends</u>	<u>Total</u>
	QR	QR	QR	QR		QR
<b>Balance at January 1, 2007 – As previously stated</b>	20,000,000	6,116,995	4,445,221	137,089	--	30,699,305
Board of directors remuneration (Note 3.1)	--	(402,000)	--	--	--	(402,000)
<b>Balance at January 1, 2007 - Restated</b>	<b>20,000,000</b>	<b>5,714,995</b>	<b>4,445,221</b>	<b>137,089</b>	<b>--</b>	<b>30,297,305</b>
Changes in fair value of available for sale investments	--	--	--	909,803	--	909,803
Profit for the year	--	10,532,669	--	--	--	10,532,669
Dividends paid for 2006	--	(3,200,000)	--	--	--	(3,200,000)
Transfer to reserve	--	(1,053,267)	1,053,267	--	--	--
<b>Balance at December 31, 2007</b>	<b>20,000,000</b>	<b>11,994,397</b>	<b>5,498,488</b>	<b>1,046,892</b>	<b>--</b>	<b>38,539,777</b>
Changes in fair value of available for sale	--	--	--	(973,912)	--	(973,912)
Profit for the year	--	18,434,532	--	--	--	18,434,532
Dividends paid for 2007	--	(11,800,000)	--	--	--	(11,800,000)
Transfer to reserves	--	(1,843,453)	1,843,453	--	--	--
Proposed dividends	--	(16,600,000)	--	--	16,600,000	--
<b>Balance at December 31, 2008</b>	<b>20,000,000</b>	<b>185,476</b>	<b>7,341,941</b>	<b>72,980</b>	<b>16,600,000</b>	<b>44,200,397</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)**

**STATEMENT OF CASH FLOWS**

For the year ended December 31, 2008

	Note	<u>2008</u>	<u>2007</u>
		<b>QR</b>	<b>QR</b>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>18,434,532</b>	10,532,669
Adjustments for:			
Depreciation		<b>1,712,433</b>	1,708,710
Finance cost		<b>296,350</b>	124,925
Revenues from deposits in Islamic Banks		<b>(5,291,303)</b>	(4,027,031)
Loss on sale of available-for-sale investments		<b>1,129,476</b>	636,707
Other investment income		<b>(188,682)</b>	--
Provision for employees end of service benefits		<b>178,101</b>	148,408
		<b>16,270,907</b>	9,124,388
Due from customers		<b>4,761,560</b>	(1,237,570)
Prepayments and other assets		<b>568,177</b>	(337,542)
Due to customers		<b>(88,687,136)</b>	44,461,577
Due to a related party		<b>600,150,000</b>	--
Accruals and other liabilities		<b>1,496,456</b>	(227,935)
		<b>534,559,964</b>	51,782,918
End of service benefits paid		<b>(30,431)</b>	(945)
Board of directors remuneration paid		<b>--</b>	(402,000)
<b>Net cash generated by operating activities</b>		<b>534,529,533</b>	51,379,973
<b>INVESTING ACTIVITIES</b>			
Purchases of property and equipment		<b>(229,995)</b>	(292,819)
Disposals of property and equipment		<b>200,746</b>	--
Purchase of available-for-sale investments		<b>(8,917,836)</b>	(5,217,440)
Proceeds from sale of available-for-sale investments		<b>5,279,755</b>	9,513,548
Revenues received from deposits with Islamic banks		<b>5,291,303</b>	4,027,031
Other investment income		<b>188,682</b>	--
<b>Net cash generated by investing activities</b>		<b>1,812,655</b>	8,030,320
<b>FINANCING ACTIVITIES</b>			
Finance costs paid		<b>(296,350)</b>	(124,925)
Dividends paid		<b>(11,800,000)</b>	(3,200,000)
<b>Net cash used in financing activities</b>		<b>(12,096,350)</b>	(3,324,925)
Net increase in cash and bank balances		<b>524,245,838</b>	56,085,368
Cash and bank balances at the beginning of the year		<b>224,272,406</b>	168,187,038
<b>Cash and bank balances at the end of the year</b>	5	<b>748,518,244</b>	224,272,406

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS



# ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

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### 1. INCORPORATION AND ACTIVITIES

Islamic Financial Securities Company (Q.S.C) (the “Company”) is a Qatari Public Shareholding Company registered and incorporated in Qatar and engaged in the activity of trading as brokers in Doha Securities Market, in accordance with Islamic Sharia’a and establishing share broking companies. The Company is governed by the provisions of the Qatar Commercial Companies law No. 5 of 2002 and the Doha Securities Market regulations. The Company is registered in the Commercial Register under No. 26337.

On September 22, 2006, the Board of Directors resolved to transform the Company to a Public Qatari Shareholding Company. The Company obtained the approval of the Ministry of Economy & Commerce on December 26, 2006 and its legal structure was changed from a Closed to Public Shareholding Company on that date. The shares of the Company were listed on the Doha Securities Market on March 3, 2008.

On December 28, 2008, the General Assembly resolved to convert the Company into a Holding Company. The legal formalities in respect of the change are still in progress.

The financial statements were approved by the board of directors and authorised for issue on February 3, 2009.

### 2. ADOPTION OF NEW AND REVISED STANDARDS

#### Interpretations effective in the current period

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 *Group and Treasury Share Transactions* which is effective for annual periods beginning on or after March 1, 2007, IFRIC 12 *Service Concession Arrangements* which is effective for annual periods beginning on or after January 1, 2008 and IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* which is effective for annual periods beginning on or after January 1, 2008

The adoption of these Interpretations had no significant effect on the financial statements of the Company for the year ended December 31, 2008.

#### Standards and Interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

##### Revised Standards

- |   |  |
|---|--|
| • IAS 1 (Revised) <i>Presentation of Financial Statements</i> | Effective for annual periods beginning on or after January 1, 2009 |
| • IAS 23 (Revised) <i>Borrowing Costs</i>                     | Effective for annual periods beginning on or after January 1, 2009 |

# ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

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### 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

#### Standards and Interpretations in issue not yet effective (continued)

- |  |  |
|--|--|
| • IAS 27 (Revised) <i>Consolidated and Separate Financial Statements</i> | Effective for annual periods beginning on or after July 1, 2009    |
| • IAS 28 (Revised) <i>Investments in Associates</i>                      | Effective for annual periods beginning on or after July 1, 2009    |
| • IAS 31 (Revised) <i>Interests in Joint Ventures</i>                    | Effective for annual periods beginning on or after July 1, 2009    |
| • IAS 32 (Revised) <i>Financial Instruments: Presentation</i>            | Effective for annual periods beginning on or after January 1, 2009 |
| • IFRS 1 (Revised) <i>First time adoption</i>                            | Effective for annual periods beginning on or after January 1, 2009 |
| • IFRS 2 (Revised) <i>Share-based Payments</i>                           | Effective for annual periods beginning on or after January 1, 2009 |
| • IFRS 3 (Revised) <i>Business Combinations</i>                          | Effective for annual periods beginning on or after July 1, 2009    |

#### New Standard

- |                                    |   |
|------------------------------------|---|
| • IFRS 8 <i>Operating Segments</i> | Effective for annual periods beginning on or after 1 January 2009 |
|------------------------------------|---|

#### New Interpretation

- |  |  |
|--|--|
| • IFRIC 13 – <i>Customer loyalty Programmes</i>                    | Effective for annual periods beginning on or after July 1, 2008    |
| • IFRIC 15 - <i>Agreement for Construction of Real Estate</i>      | Effective for annual periods beginning on or after January 1, 2009 |
| • IFRIC 16 – <i>Hedges of Net Investment in Foreign Operations</i> | Effective for annual periods beginning on or after October 1, 2008 |

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

#### Basis of preparation

The financial statements have been prepared on the historical cost basis except for available for sale investments, which are measured at fair value. The principal accounting policies are set out below.

These financial statements are presented in Qatari Riyals (QR), which is the Company’s functional currency.

# ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Financial assets**

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: cash and bank balances, available-for-sale investments and due from customers. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For quoted shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of income.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale equity securities, impairment losses previously recognised through the statement of income are not reversed through the statement of income. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

# ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Available for sale investments*

The Company's investments in equity securities are classified as available for sale investments and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the fair value reserve with the exception of impairment losses. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is taken to the statement of income.

Dividends are recognised in the statement of income when the Company's right to receive the dividends is established.

#### **Financial liabilities and equity instruments issued by the Company**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### **Property and equipment**

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use. The estimated useful lives, residual values and depreciation methods are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of income.

# ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Impairment of tangible assets**

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. 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. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of income.

#### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **Employees end of service benefits**

A provision is made for employees end of service benefits which are payable on completion of employment. The provision is calculated in accordance with Qatari Labour Law based on employees' salaries and accumulated periods of service.

The Company pay contributions to the General Authority of Retirement & Pension as a percentage of the Qatari employees' salaries, in compliance with Law Number 24 of 2002.

# ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

#### *i) Commissions*

Commission income from brokerage activities is recognized when the purchase or sale transactions are executed. It is calculated in accordance with rates stated by Doha Securities Market.

Commission income is reduced by commission rebates.

#### *ii) Dividend Income*

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

#### *iii) Profit from Deposits in Islamic Banks*

Profit is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

#### **Translation of foreign currencies**

Foreign currency transactions are translated into Qatari Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the fair value reserve in equity.

#### **Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 3.1 PRIOR YEAR'S ADJUSTMENT

Effective from 2007, the Company changed its accounting policy with regard to the treatment of the Board of Directors remuneration. Previously, the remuneration was shown as an appropriation of retained earnings. A provision for the 2007 remuneration has been taken in the income statement for 2007. 2006 remuneration paid in 2007 was adjusted against opening retained earnings as of January 1, 2007.

## ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

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#### 4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are affected prospectively.

##### **Critical judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

##### *Classification of investments*

Management decides, on the acquisition of an investment, whether to classify it as available for sale or financial assets at fair value through profit or loss. The Company classifies investments as financial assets at fair value through profit or loss if the investment is classified as held for trading and upon initial recognition it is designated by the Company as at fair value through profit or loss. All other investments are classified as available for sale.

##### *Impairment of available for sale investments*

The Company follows the guidance of IAS 39 "Financial Instruments: Recognition and measurement" to determine when an available for sale investment is impaired. This determination requires significant judgment. In making this judgement, the Company assesses, among other factors, whether objective evidence of impairment exists. Objective evidence for an investment includes information about significant changes with an adverse effect that have taken place in the economic market in which the investee company operates and indicates that the investment may have suffered a significant or prolonged decline in the fair value below its cost.

**ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2008

**5. CASH AND BANK BALANCES**

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks and term deposits with original maturities of three months or less, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows:

	<u>2008</u>	<u>2007</u>
	<b>QR</b>	<b>QR</b>
Current accounts	<b>467,875</b>	66,373,959
Time deposits	<b>748,050,369</b>	157,898,447
	<b>748,518,244</b>	224,272,406

The effective profit rate on time deposits ranges from 2.5 to 6.5% per annum.

**6. DUE FROM CUSTOMERS**

	<u>2008</u>	<u>2007</u>
	<b>QR</b>	<b>QR</b>
Due from customers	--	4,761,560
	--	4,761,560

*Aging of past due but not impaired*

	<u>2008</u>	<u>2007</u>
	<b>QR</b>	<b>QR</b>
1 – 7 days	--	4,761,560
Total	--	4,761,560

**7. PREPAYMENTS AND OTHER ASSETS**

	<u>2008</u>	<u>2007</u>
	<b>QR</b>	<b>QR</b>
Refundable deposits	<b>2,000,150</b>	2,000,075
Accrued revenues from deposits with Islamic banks	<b>964,749</b>	1,458,728
Prepaid expenses	<b>515,327</b>	493,216
Others	<b>22,474</b>	118,858
	<b>3,502,700</b>	4,070,877



ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

**8. PROPERTY AND EQUIPMENT**

	<b>Office equipment</b>	<b>Furniture and fixtures</b>	<b>Decorations</b>	<b>Motor vehicles</b>	<b>Total</b>
	<b>QR</b>	<b>QR</b>	<b>QR</b>	<b>QR</b>	<b>QR</b>
<b>Cost</b>					
At January 1, 2007	5,533,973	647,681	962,868	23,777	7,168,299
Additions	<u>150,419</u>	<u>60,375</u>	<u>82,025</u>	<u>--</u>	<u>292,819</u>
At January 1, 2008	5,684,392	708,056	1,044,893	23,777	7,461,118
Additions	185,425	--	44,570	--	229,995
Disposals	<u>(401,500)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(401,500)</u>
<b>At December 31, 2008</b>	<b><u>5,468,317</u></b>	<b><u>708,056</u></b>	<b><u>1,089,463</u></b>	<b><u>23,777</u></b>	<b><u>7,289,613</u></b>
<b>Accumulated depreciation</b>					
At January 1, 2007	1,195,072	182,193	207,341	13,225	1,597,831
Charge for the year	<u>1,377,559</u>	<u>131,113</u>	<u>195,283</u>	<u>4,755</u>	<u>1,708,710</u>
At January 1, 2008	2,572,631	313,306	402,624	17,980	3,306,541
Charge for the year	1,383,417	127,905	196,356	4,755	1,712,433
Disposals	<u>(200,754)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(200,754)</u>
<b>At December 31, 2008</b>	<b><u>3,755,294</u></b>	<b><u>441,211</u></b>	<b><u>598,980</u></b>	<b><u>22,735</u></b>	<b><u>4,818,220</u></b>
Net book value as at					
<b>At December 31, 2008</b>	<b><u>1,713,023</u></b>	<b><u>266,845</u></b>	<b><u>490,483</u></b>	<b><u>1,042</u></b>	<b><u>2,471,393</u></b>
At December 31, 2007	<u>3,111,761</u>	<u>394,750</u>	<u>642,269</u>	<u>5,797</u>	<u>4,154,577</u>

The following useful lives are used in the calculation of depreciation:

- Office equipment 20%-25%
- Furniture and fixtures 20%
- Decorations 20%
- Motor vehicles 20%

**9. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2008</b>	<b>2007</b>
	<b>QR</b>	<b>QR</b>
At January 1	<b>3,207,495</b>	7,230,507
Additions	<b>8,917,836</b>	5,217,440
Disposals	<b>(6,409,231)</b>	(10,150,255)
Changes in fair value	<b>(973,912)</b>	909,803
<b>At December 31</b>	<b><u>4,742,188</u></b>	<u>3,207,495</u>

**ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2008

**9. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)**

Available-for-sale investments include the following:

	<u>2008</u>	<u>2007</u>
	<b>QR</b>	<b>QR</b>
<b>Listed securities (At fair value)</b>		
Equity securities – Qatar	<b>1,762,408</b>	2,157,495
<b>Unlisted securities (At cost)</b>		
Equity securities – Qatar	<b>2,760,000</b>	1,050,000
Equity securities – Syria	<b>219,780</b>	--
	<b><u>4,742,188</u></b>	<b><u>3,207,495</u></b>

Available-for-sale investments are denominated in the following currencies:

	<u>2008</u>	<u>2007</u>
	<b>QR</b>	<b>QR</b>
Qatari Riyals	<b>4,522,408</b>	3,207,495
Other currencies	<b>219,780</b>	--
	<b><u>4,742,188</u></b>	<b><u>3,207,495</u></b>

**10. DUE TO CUSTOMERS**

	<u>2008</u>	<u>2007</u>
	<b>QR</b>	<b>QR</b>
Customer funds	<b><u>111,489,545</u></b>	<b><u>200,176,681</u></b>

Customer funds represent amounts deposited by customers against trading transactions performed by them.

# ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

### 11. RELATED PARTY TRANSACTIONS

Related parties represent the shareholders, directors and key management personnel of the Company and companies controlled, jointly controlled or significantly influenced by those parties.

<i>Balances arising from business transactions</i>	<u>2008</u> QR	<u>2007</u> QR
Mudaraba I (i)	<b>200,000,000</b>	--
Mudaraba II (ii)	<b>100,000,000</b>	--
Mudaraba III (iii)	<b>100,000,000</b>	--
Mudaraba IV (iv)	<b>200,150,000</b>	--
	<b><u>600,150,000</u></b>	<u>--</u>

- (i) During the year, the Company entered into a Mudaraba agreement with Qatar International Islamic Bank (the “bank”), whereby the Company invests an amount of QR. 200 million on behalf of the bank for one year for a share of 4.5% of the Mudaraba investment income.
- (ii) During the year, the Company entered into a Mudaraba agreement with Qatar International Islamic Bank (the “bank”), whereby the Company invests an amount of QR. 100 million on behalf of the bank for three months for a share of 6.25% of the Mudaraba investment income.
- (iii) During the year, the Company entered into a Mudaraba agreement with Qatar International Islamic Bank (the “bank”), whereby the Company invests an amount of QR. 100 million on behalf of the bank for three months for a share of 6.25% of the Mudaraba investment income.
- (iv) During the year, the Company entered into a Mudaraba agreement with Qatar International Islamic Bank (the “bank”), whereby the Company invests an amount of QR. 200 million on behalf of the bank for six months for a share of 6.5% of the Mudaraba investment income.

The following transactions were carried out with related parties:

	<u>2008</u> QR	<u>2007</u> QR
Brokerage and commission income	<b><u>3,000,099</u></b>	<u>2,882,093</u>
Returned commissions	<b><u>11,747,715</u></b>	<u>1,445,269</u>

Pricing policies and terms of these transactions are approved by the Company’s management.

**ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2008

**11. RELATED PARTY TRANSACTIONS***Compensation of key management personnel*

The remuneration of members of key management during the year was as follows:

	<u>2008</u>	<u>2007</u>
	QR	QR
Short-term benefits	<u>1,432,000</u>	<u>1,039,000</u>

**12. ACCRUALS AND OTHER LIABILITIES**

	<u>2008</u>	<u>2007</u>
	QR	QR
Accrued expenses	2,859,266	1,108,256
Others	16,481	271,035
	<u>2,875,747</u>	<u>1,379,291</u>

**13. EMPLOYEES END OF SERVICE BENEFITS**

	<u>2008</u>	<u>2007</u>
	QR	QR
At January 1	371,166	223,703
Additions	178,101	148,408
Payments	(30,431)	(945)
At December 31	<u>518,836</u>	<u>371,166</u>

**14. PAID UP SHARE CAPITAL**

	<u>2008</u>	<u>2007</u>
	QR	QR
Authorised and issued share capital 4,000,000 shares of nominal value QR. 10 each	<u>40,000,000</u>	<u>40,000,000</u>
50% paid	<u>20,000,000</u>	<u>20,000,000</u>

**15. LEGAL RESERVE**

As required by the Qatari Commercial Companies Law No. 5 of 2002 and the Company's Articles of Association, 10% of the profit for the year is to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution.

**ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2008

**16. COMMISSIONS**

*Commission income:*

Commission income comprises commission raised on share purchase and all transactions less discounts and commissions offered to clients.

*Commission expenses:*

Commission expenses comprise fees paid to the Doha Securities Market and other direct brokerage costs.

**17. LOSS ON INVESTMENTS**

	<u>2008</u>	<u>2007</u>
	QR	QR
Loss from sale of available-for-sale investments	(1,129,476)	(636,707)
Other investment income	<u>188,682</u>	--
	<u>(940,794)</u>	<u>(636,707)</u>

**18. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2008</u>	<u>2007</u>
	QR	QR
Salaries and other staff costs	5,928,084	3,749,253
Rental charges	1,044,520	990,268
Board of directors and Sharia'a board remuneration	1,720,000	700,000
DSM penalties	1,030,300	--
Communication expenses	540,870	566,582
Marketing and advertising expenses	327,595	114,900
Electronic connection fees	349,826	700,000
Travelling expenses	201,926	79,440
Professional and legal fees	185,000	142,500
Insurance	112,191	99,918
Miscellaneous expenses	<u>766,242</u>	<u>970,529</u>
	<u>12,206,554</u>	<u>8,113,390</u>

**19. EARNINGS PER SHARE**

Earnings per share are calculated by dividing the net income for the year over the weighted average number of ordinary shares outstanding during the year as follows:

	<u>2008</u>	<u>2007</u>
Net income for the year (QR.)	18,434,532	10,532,669
Weighted average number of shares	<u>4,000,000</u>	<u>4,000,000</u>
Earnings per share (QR.)	<u>4.61</u>	<u>2.63</u>

# ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

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### 20. DIVIDEND PAID

During the year, a cash dividend per share of QR 5.9 amounting to QR 11,800,000 was paid from 2007 profits, equivalent to 59% of the paid up share capital (2007: QR 3,200,000 from 2006 profits, equivalent to 16% of the paid up share capital).

The Board of Directors in their meeting held on February 3, 2009 proposed cash dividends of QR. 16.6 million (83% of the paid up capital). QR. 10 million of the proposed cash dividends will be used to settle 50% of the unpaid portion of the issued capital. This proposal is subject to the shareholders' approval in their annual general assembly meeting.

### 21. FINANCIAL INSTRUMENTS

#### Profit margin risk exposures

Profit margin risk represents the exposure the Company faces to changes in profit margin on its financial assets and liabilities.

The Company is exposed to profit margin risk on its fixed deposits. A 1% increase or decrease in the profit margin on the fixed deposits will result in an increase or decrease of QR 1,480,504 in the assets and profit and loss.

#### Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company does not hedge its exposure to currency risk, however, management is of the opinion that the Company's exposure to currency risk is minimal as almost all of its financial instruments are denominated in Qatari Riyals.

#### Capital risk

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of equity, comprising issued capital, reserves and retained earnings.

#### Categories of financial instruments

	<u>2008</u>	<u>2007</u>
	QR	QR
<b>Financial assets</b>		
Cash and bank balances	<b>748,518,244</b>	224,272,406
Due from customers	--	4,761,560
Available for sale investments	<b>4,742,188</b>	3,207,495
<b>Financial liabilities</b>		
Due to customers	<b>111,489,545</b>	176,682
Due to a related party	<b>600,150,000</b>	--

# ISLAMIC FINANCIAL SECURITIES COMPANY (Q.S.C)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

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### 21. FINANCIAL INSTRUMENTS (CONTINUED)

#### Market risk

Market risk is the risk that changes in market prices, as equity prices 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.

An increase or decrease of 10% in market value of the Company's available-for-sale investments is expected to result in an increase or decrease of QR. 474,219 in the assets and equity of the Company.

#### Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its liabilities and commitments when they fall due. Due to the nature of operations, management is of the opinion that the Company's exposure to liquidity risk is minimal. All financial liabilities are due within one year.

#### Fair value of financial instruments

The fair value of financial instruments traded in active markets (such as available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The management is of opinion that the fair value of such financial instruments approximates its nominal value.

### 22. COMMITMENTS AND CONTINGENT LIABILITIES

The Company had the following contingent liabilities outstanding at December 31:

	<u>2008</u>	<u>2007</u>
	QR	QR
Letters of guarantee	<u>692,500,000</u>	<u>92,500,000</u>

### 23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.