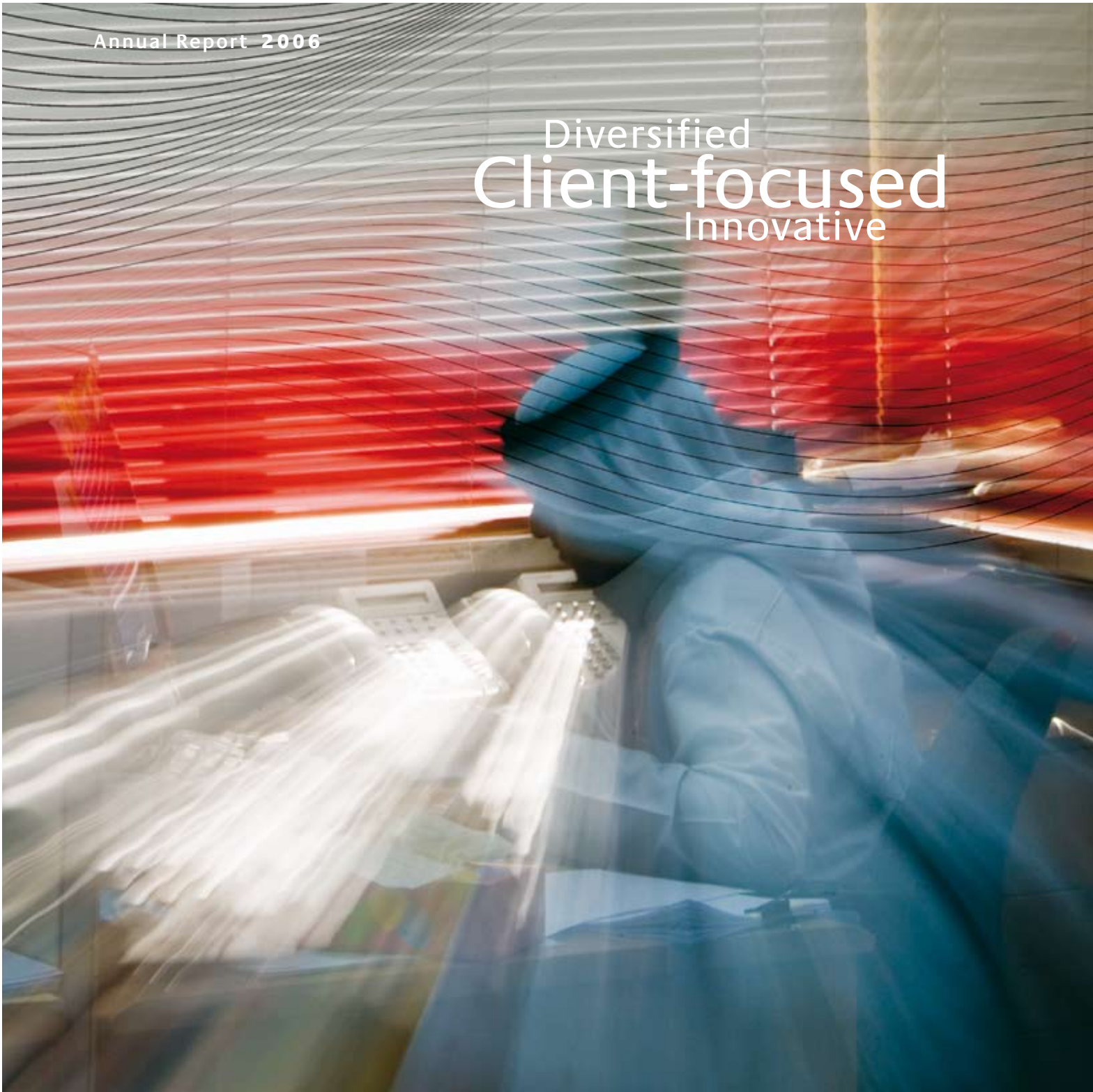


Annual Report 2006

Diversified
Client-focused
Innovative



The theme for this year's annual report underlines the consistent implementation of the Firm's client-focused strategy during 2006. Firstly, our growth continues to be fuelled by diversification – enhancing our broad range of products and services in order to serve a wider base of clients. Secondly, our enduring value proposition entails partnering with our clients to understand their needs and help them to achieve their objectives, primarily in the GCC and progressively in the Arab world. And thirdly, a total commitment to innovation continues to drive our activities and add value to all our stakeholders.



**H.H. Shaikh Khalifa Bin
Salman Al Khalifa**
The Prime Minister



**H.M. King Hamad
Bin Isa Al Khalifa**
The King of Bahrain



**H.H. Shaikh Salman
Bin Hamad Al Khalifa**
The Crown Prince and
Commander-in-Chief of the
Bahrain Defence Force

SICO is one of the leading GCC focused investment banks, with a presence in the major regional markets and with a dominant position in the brokerage, asset management and selective areas of investment banking and custody.

We strive to complement our core shareholders with their activities.

SICO's offerings are technically advanced, innovative and offer clear-cut advantages and improvements over our competitors.

We will continue to primarily expand through organic growth and acquisitions in GCC markets. SICO will generate to its shareholders a return that is at least equal to its peers.



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Securities & Investment Company (SICO) is a leading Bahrain-based financial institution offering a selective range of investment banking services, including asset management, brokerage, market-making and corporate finance, to clients across the GCC region.

Commencing operations in 1995, SICO obtained an investment banking licence from the Central Bank of Bahrain (CBB) in 1997. The Firm was listed on the Bahrain Stock Exchange in 2003 as a closed company. SICO has four wholly-owned subsidiaries: SICO Funds Company I, SICO Funds Company II and SICO Funds Company III, which are authorised by the CBB to carry out the business of collective investment schemes; and SICO Fund Services Company, which provides administration and custodian services.

SICO's shareholders comprise leading investment and commercial banks from across the GCC, as well as the two Bahrain pension funds.

Securities & Investment Company BSC (c)

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Manama, Kingdom of Bahrain

Telephone: +973 17 515 000

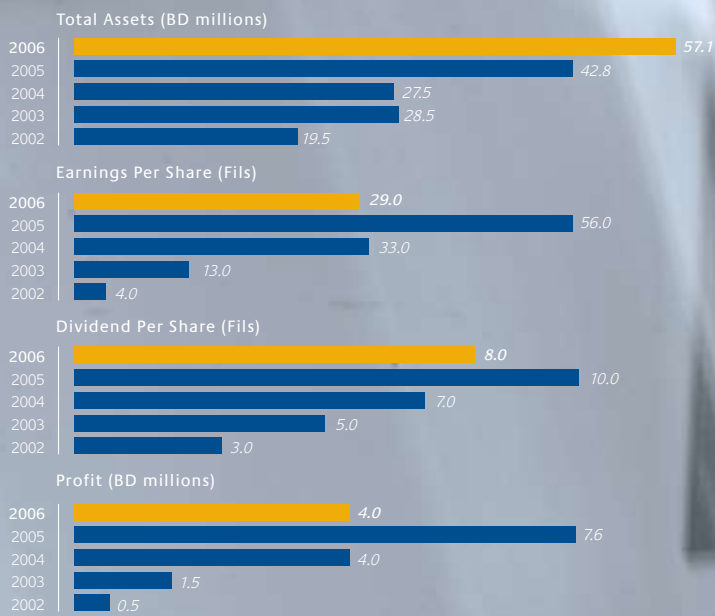
Facsimile: +973 17 514 000

Brokerage: +973 17 515 200

www.sico-bahrain.com

Financial Highlights

4

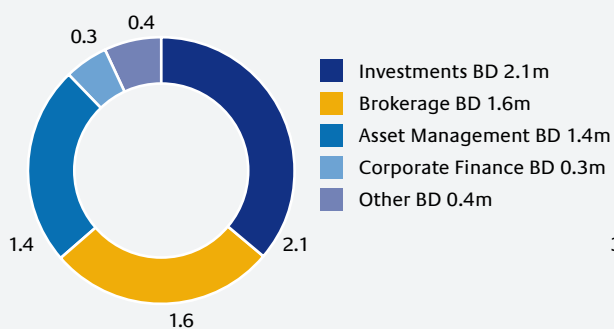


At a glance

(BD thousands except where indicated)	2006	2005	2004
Profit	4,045	7,639	4,136
Earnings per share	Fils 29	Fils 56	Fils 33
Dividends per share	Fils 8.0	Fils 10.0	Fils 7.0
Shareholders' funds	28,669	28,542	20,942
Total assets	57,119	42,713	27,456

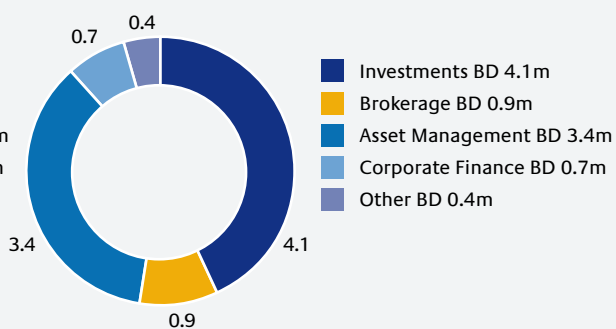
TOTAL REVENUE 2006

Year ended 31 December 2006 (BD millions)



TOTAL REVENUE 2005

Year ended 31 December 2005 (BD millions)



On behalf of the Board of Directors, it is my pleasure to present the eleventh annual report of Securities & Investment Company (SICO) for the year ended 31 December 2006. I am delighted to report that, despite extremely challenging market conditions, this proved to be another successful and eventful year for the Firm. Strong financial results and sound strategic progress were supported by significant business achievements and organisational developments.

Economic and market background

The global economy continued to expand during the year. The effects of high oil prices were compensated by low interest rates and inflation levels, although these began to rise towards the end of the year, accompanied by continued fluctuations in exchange rates. Market conditions, while remaining reasonably healthy, still showed signs of volatility. The GCC economy maintained its robust growth, with higher oil prices fuelling enhanced liquidity levels, which enabled the region to accumulate a current account surplus estimated at US\$ 240 billion. As a result, public spending in major infrastructure and industrial projects was further increased, with regional governments and public sector entities increasingly tapping financial markets for their funding requirements. The year was marked, however, by a severe correction of the GCC stock markets, with the MSCI GCC Composite Index falling by 43 per cent, with only Oman and Bahrain showing modest gains.

Financial results

Despite such volatile and challenging market conditions, SICO achieved a strong financial performance in 2006. Although substantially down on the all time record results of 2005, the overall results were among the best in the Firm's history. Total revenues were BD 6.6 million compared with BD 9.7 million the previous year, with a consolidated net income of BD 4.0 million (2005: BD 7.6 million). Earnings per share fell by 48 per cent to

29 fils (2005: 56 fils) reflecting our reduced earnings, yielding a return on equity of 14.1 per cent and a return on assets of 7.1 per cent. Encouragingly, particularly with the serious corrections seen in the GCC markets, assets under management increased by 34 per cent to BD 132 million or US\$ 350 million (2005: BD 99 million or US\$ 262 million).

Strategic progress

These results confirm the continued success of the Firm's policy to diversify revenue streams. The adverse effect on SICO's own GCC equity investments was offset by a strong performance by the annuity streams of brokerage, corporate finance, and asset management.

The business achievements during the year also confirm that the Firm's overall strategy is working: to grow and diversify our business, pursue a client-focused business model, and maintain a disciplined approach to managing our expenses, risk and capital.

Business achievements

During 2006, SICO achieved a number of key milestones, set new industry records, and continued to expand its geographic coverage and diversify its range of products and services. The Firm retained its position as the leading market maker and broker-of-choice for large stock transactions on the Bahrain Stock Exchange, secured a number of important new mandates, launched a new equity fund, and increased assets under management by a considerable margin.

Institutional capability

Throughout the year, we continued to build the Firm's institutional capability: enhancing our corporate governance and risk management framework; maintaining our focus on expense discipline under challenging conditions; and continuing to broaden the balance sheet. In addition, we streamlined the Firm's operational structure and strengthened the management team with the creation of a new position

During 2006, we have retained our position as the leading market maker and broker-of-choice for large stock transactions on the Bahrain Stock Exchange; secured a number of important new mandates; launched a new equity fund, and increased assets under management by a considerable margin.

of Chief Operating Officer; recruited additional professionals to support our business growth; expanded our research facilities; and upgraded our IT systems.

Commitment to the Community

We continued to utilise our resources to support the community, with particular focus on education and social welfare. Among the projects we supported were purchasing a number of computers and printers to the Khawla Secondary Girls School, supporting the American Mission Hospital with equipment purchases, as well as Alia Early Intervention Centre, University of Bahrain, Sanabis Primary Boys School, Sabaa Primary Girls School, Bahrain Mobility International, Crown Prince International Scholarship Fund, Bahrain Investment Professional Society, Bahrain Down Syndrome Society, and the Kidney Patients Friendship Society.

We also enrolled a selective number of university students in our summer training programme.

Appropriations

Based on the Firm's 2006 financial results, the Board recommends the following appropriations for approval by the shareholders:

1. Transfer of BD 405 thousand to the General Reserve.
2. Transfer of BD 405 thousand to the Statutory Reserve.
3. Payment of a cash dividend of BD 1.113 million to shareholders, representing 8 per cent of paid-up capital and Employee Share grants reserve.
4. Directors' remuneration of BD 125 thousand.
5. BD 30 thousand to be spent on charitable, cultural and educational activities.

After appropriations, total shareholders' equity will be BD 28.7 million compared to BD 28.5 million in 2005.

Acknowledgements

The Firm's excellent progress during 2006 would not have been possible without the trust and partnership of



Shaikh Mohammed bin Isa Al Khalifa
Chairman

our clients; the commitment, dedication and integrity of our staff; and the longstanding support of our shareholders. On behalf of the Directors, I would like to take this opportunity to thank you all for contributing to another successful year for SICO.

As a final point, and on behalf of the shareholders, my fellow Board members and management, I would like to express my appreciation to His Majesty the King, His Highness the Prime Minister, and His Highness the Crown Prince, for their wise leadership and support of the financial sector. I would also like to thank the Ministry of Finance, the Ministry of Industry and Commerce, the Central Bank of Bahrain, and the Bahrain Stock Exchange for their continued guidance and support.

Shaikh Mohammed bin Isa Al Khalifa
Chairman of the Board

Board of Directors and Management Team

1. Shaikh Mohammed bin Isa Al Khalifa

Chairman

Represents the General Organisation for Social Insurance

2. Albert I. Kittaneh

Vice Chairman

Chairman of the Executive Committee

Represents the BMB Investment Bank and other shareholders

3. Hussain Al Hussaini

Director

Vice Chairman of the Executive Committee

Represents the National Bank of Bahrain

4. Abbas Ameeri

Director

Member of the Executive Committee

Represents the Gulf International Bank

5. Abdulaziz I. Al-Mulla

Director

Member of the Executive Committee

Represents the Gulf Investment Corporation

6. Anwar Abdulla Ghuloom

Director

Chairman of the Audit Committee

Represents the Pension Fund Commission

7. Mahmoud Al Zewam

Director

Member of the Audit Committee

Represents the Arab Banking Corporation

8. Abdul Karim Bucheery

Director

Member of the Audit Committee

Represents the Bank of Bahrain and Kuwait

9. Khalid Al Rumaihi

Director

Arab Investment Resources Company

1	2	3
4	5	6
7	8	9

Management Team

Anthony C. Mallis

Chief Executive Officer

Najla Al Shirawi

Chief Operating Officer and Treasurer

Hanan Sater

Financial Control

Nadia Khalil

Human Resources and Administration

Fadhel Makhloq

Brokerage

Shakeel Sarwar

Asset Management

T. Rajagopalan

Risk Management

Ramy Echo

Corporate Finance

Omran Ahmed

Marketing

Zain Al-Zayani

Corporate Communications

A.R. Srinivasan

Internal Audit

Brian D'Augiar

Research

Amal Al-Nasser

General Manager of SICO Funds Services Company



Overview

Given what can only be described as severely challenging market conditions, SICO performed well, both in terms of financial results and business achievements during 2006. The strong financial results reinforce the success of the Firm's decision to diversify revenue streams and increase fee-based revenue to balance proprietary income. From a business point of view, the Firm's policy to centre business development efforts and product focus on the GCC has continued to pay dividends in terms of sustained revenues, increased transactions, and an expanded client base. SICO's strategy remains based on serving the GCC region, expanding and diversifying the Firm's sources of revenue, and prudently broadening the balance sheet. Prospects for 2007 are encouraging, supported not only by the continued growth of the GCC economy and the development of the regional capital markets, but also by the Firm's more balanced earnings profile, diversified activities, enhanced institutional capability, and focused strategy.

The GCC markets started 2006 with a promising note after the substantial falls in most of the GCC markets save for Saudi Arabia. However, with the fall in the Saudi equity market in the first quarter of 2006 and the continued contraction in other GCC markets, the ground was set for a major corrective move. Such a major correction, with losses in the best-performing

(in million BD's)	2006	2005	2004
Total Income	6.581	9.705	5.467
Total Expenses	2.536	2.066	1.406
Operating Income	4.045	7.636	4.136
Total expenses as a % of total income	39	21	26
Staff and related cost as a % of operating income	27	20	35
Number of staff at year end	66	51	41



Anthony C. Mallis
Chief Executive Officer

markets of 2005 ranging between 35 and 52 per cent, was not totally unexpected, although perhaps more severe than anticipated. Market capitalisation had far outgrown the earnings growth in the regional markets, while market capitalisation to GDP ratios were at abnormally high levels, rendering such market growth unsustainable. However, looking ahead, the ongoing economic boom in the region has created enough wealth to offset any medium term bearish trend in the markets, and the fundamentals of GCC economies and corporates remain strong. The recent volatility in the markets is part of the development and maturity of any emerging capital market, but it is the ability to absorb these shocks, and how to handle them, that will determine the strength of the respective markets. We expect regional markets to show balanced growth in 2007, and we believe that the next stage of GCC markets' development, irrespective of how the indices perform, is for a deepening of those markets through a more robust and realistic regulatory framework, increased competition, more capital market issues, hedging instruments, and the development of a debt market.

Review of activities

The Firm's annuity revenues continued to increase in 2006, with our brokerage, asset management and corporate finances contributing particularly good results. This helped to offset the drop in performance by our proprietary activities, which were adversely affected by market conditions. The results for 2006 confirm that we have achieved an adequate balance between our business lines, with proprietary activities generating 21 per cent of our revenues, while our annuity streams contributed 68 per cent, with interest and other income accounting for 11 per cent of revenues. Balanced and diversified revenue generators will enable the firm to accommodate GCC market volatility in the future.

Expenses increased during the year, largely due to augmenting staffing levels from 51 to 66 people and adjusting existing employees' compensation in line with market levels. Expenses as a percentage of income increased from 21 per cent to 39 per cent, with staff cost as a percentage of total expense decreasing to 70 per cent (2005: 75 per cent). Staff cost as a percentage of total income increased to 27 per cent (2005: 16 per cent).

Balance sheet ratios temporarily weakened at year end, very largely due to substantial inflows into customer accounts for trading in securities on their behalf on GCC exchanges. These accounts are reduced subsequently in tandem with purchases of stock on clients' behalf.

SICO remains well capitalised and soundly financed. Shareholders' equity, including proposed appropriations, was BD 28.7 million compared to BD 28.5 million in the previous year. At the year-end, shareholders' equity as a percentage of total assets was 50 per cent, compared with 67 per cent at the end of 2005. The Firm's capital adequacy ratio as of the balance sheet date was 37.42 per cent compared to 33.70 per cent the previous year, based on full year average balances, and 30.97 per cent and 37.39 per cent respectively based on year end balances.

Investments and Treasury

During 2006, SICO maintained its position as the leading market maker on the Bahrain Stock Exchange, as it has since 1997, and also consolidated its position as one of the region's premier market makers. The Firm added new mandates, extended its geographic reach, and continued to invest in improving services. A key achievement was the mandate by AlBaraka Banking Group (ABG) to make a market on ABG shares on the Bahrain Stock Exchange and Dubai International Financial Exchange (DIFX). Constituting an important milestone for both SICO and the region's capital markets, this cross-border listing reflected the growing strength of SICO's activities on a regional basis, and the ongoing development of the GCC's capital markets. Significantly, it also represented the first listing of a Bahrain-based company, and the first Islamic financial institution to offer its shares, on the DIFX.

Volatile market conditions had an adverse effect on the revenues of SICO's proprietary business in 2006. Loss on trading securities amounted to BD 50 thousand compared to a gain of BD 2.6 million the previous year. At the same time, profit on the sale of securities available-for-sale increased to BD 1.5 million compared to BD 1.0 million in 2005. Concurrent to this, dividend income increased by 17 per cent to BD 59 thousand, compared to a loss in 2005.

The Firm's Treasury business enjoyed an excellent year in 2006, with clients' deposits, cash management and currency exchange contributing significantly to the robust growth in interest and forex income. Interest income from margin trading accounts and OD accounts grew to BD 730 thousand, more than four-fold, during the year (2005: BD 166 thousand).

Brokerage

Net income from brokerage activities increased by 55 per cent to BD 1.5 million in 2006 compared to BD 998 thousand the previous year, underlining SICO's position as the leading broker on the Bahrain Stock Exchange (BSE) for the eighth consecutive year. Market share by value of all trades on the BSE increased to 71 per cent (2005: 36 per cent), while the overall value of transactions increased by 284 per cent to reach BD 745 million.

The Firm also maintained its status as the broker of choice for large stock transactions. In 2006, SICO concluded the two largest transactions to take place on the BSE during the year, which involved the sale and purchase of shares in BBK and Shamil Bank.

SICO's pan-Gulf capabilities continued to complement the Firm's Bahrain-based brokerage activities. During 2006, an upgrade in coverage and service levels contributed to a substantial increase in activity on behalf of institutional and individual clients in GCC markets.

Asset Management

Assets under management by SICO grew significantly by 34 per cent in 2006, from BD 99 million to BD 132 million, due largely to the winning of new mandates and the launch of an additional investment fund during the year. Accordingly, management fees increased, helping to offset a lack of performance-based revenues due to adverse market conditions.

In 2006, the Firm won two new Islamic fund management mandates from leading GCC-based conventional and Islamic financial institutions. Also during the year, the Firm launched the SICO Gulf Equity Fund, which invests in equity securities listed on GCC stock markets, excluding Saudi Arabia.

Despite the volatility and corrections experienced by GCC markets during 2006, SICO's three equity funds performed well, with the two regional equity funds outperforming their relevant benchmarks by a significant margin. The Khaleej Equity Fund, which invests primarily in equity securities listed on GCC stock markets, was down by 13.9 per cent for the year compared to a drop of 45.9 per cent by the MSCI GCC Index. The SICO Gulf Equity Fund, which excludes the Saudi Arabian stock market, recorded a drop of 7.2 per cent since its launch in March 2006, compared to a fall of 19 per cent by the MSCI Ex-Saudi Index for the same period. The SICO Selected Securities Fund, which invests primarily in equity and debt securities listed or expected to be listed on the Bahrain Stock Exchange, ended the year 0.5 per cent down, not far off the 1.0 per cent gain registered by the BSE Index. This strong performance is attributable to the Firm's robust asset allocation model and bottom-up driven stock picking strategy. Portfolio managers focus on identifying companies that are fundamentally strong, and that are trading at less than their fair values.

Corporate Finance

The Firm's corporate finance and equity-debt origination business performed well during the year. SICO was involved in two groundbreaking IPOs for Islamic financial institutions, two private placements for regional telecommunications firms, and bond and rights issues for two longstanding Bahraini clients.

The Firm acted as mandated lead arranger for the initial public offering (IPO) of Al Salam Bank in Bahrain. Oversubscribed 63 times, and raising BD 2.7 million, this was the biggest IPO in the history of the Bahrain Stock Exchange (BSE). This landmark IPO also involved the introduction of an innovative new integrated application process, with subscribers being supplied with a BSE Investor Number to enable them to have their shares immediately ready for trading upon allotment.

Providing new and innovative regional investment opportunities for clients

During 2006, SICO maintained its position as the leading market maker on the Bahrain Stock Exchange since 1997, and also consolidated its position as one of the region's premier market-makers. This underlines the Firm's commitment to offer clients access to listed investment opportunities throughout the GCC.

A key achievement was the mandate by AlBaraka Banking Group (ABG) to make a market on ABG shares on the Bahrain Stock Exchange (BSE) and Dubai International Financial Exchange (DIFX).

Constituting an important milestone for both SICO and the region's capital markets, this concurrent listing reflected the growing strength of SICO's activities on a regional basis, and the ongoing development of the GCC's capital markets. Such cross-border listings on well-regulated regional exchanges provide new opportunities for investors in regional equities.

This mandate initiated the Firm's first dealing relationship with DIFX. At the same time, it represented the first listing of a Bahrain-based company, and the first Islamic financial institution to offer its shares, on the DIFX.


Providing leading brokerage services to our clients in Bahrain

In 2006, SICO was once again ranked as the leading broker in terms of the monetary value and volume of shares transacted on the Bahrain Stock Exchange (BSE).

Of the 13 brokerage firms included in these important annual rankings, this was the eighth consecutive year that SICO was placed first, underlining the Firm's continued market leadership and its status as the most active broker on the BSE.

Acting on behalf of its extensive institutional and retail client base from around the GCC region, SICO traded shares with a value approaching BD 745.8 million, representing nearly 71.3 per cent of the total trading value for the twelve-month period.

The Firm also maintained its status as the 'broker-of-choice' for large stock transactions. In 2006, SICO concluded the two largest block transactions to take place on the BSE during the year, which involved the sale and purchase of shares in BBK and Shamil Bank.



Assets under
management grew
significantly by
34.6% in 2006



SICO intends to
further expand its
regional research
capabilities

In a second groundbreaking transaction, SICO acted as co-manager for the listing of the European Islamic Investment Bank (EIIB) on the Alternative Investment market of the London Stock Exchange. Established in 2005 as the first independent Islamic investment bank to be authorised and regulated by the UK's Financial Services Authority, EIIB is the first institution to bridge the gap between Islamic and conventional markets.

Also during the year, SICO acted as financial adviser for a private placement for a new telecommunications company in Bahrain, and as the Bahrain placement agent for a private placement for one of Egypt's fastest growing telecoms firms.

Other key achievements include SICO's role as issue manager for a rights issue for Bahrain Cinema Company, which increased the company's capital by 15 per cent. Oversubscribed 1.26 times and raising BD 2.65 million, this was the second successful rights issue handled by SICO for the company. The Firm also acted as co-lead manager and co-underwriter for a BD 10 million five-year floating rate bond for Bahrain Commercial Facility Company (BCFC). This is the third bond issue handled by SICO for the company, underlining the Firm's enduring relationship with BCFC since 2001.

Research

Research remains an independent value-added service by SICO for its clients, and provides valuable support to the Firm's business units. During the year, SICO enhanced its research capabilities in line with its commitment to offer clients a superior platform and level of service. Research activities continued to focus primarily on Bahrain public listed companies, while selective coverage of other GCC markets was increased. With GCC stock markets becoming more integrated and complementary to each other, and with growing regional and global institutional interest, the Firm intends to further expand its regional equity research capabilities with a greater emphasis on a GCC sectors approach.

Custody and Administration

Through its wholly-owned subsidiary, SICO Funds Service Company, the Firm enjoys access to the fast growing custody and administration market in the GCC. Recently established, the Company has made a good start, growing in a consistent and measured fashion, and already generating a profit.

Human Resources

In 2006, SICO created a new position of Chief Operating Officer (COO) as part of its continuous commitment to strengthening its management team and streamlining its operating structure. The COO is responsible for managing the Firm's day-to-day activities and driving the next phase of business growth. This will enable the Chief Executive Officer to focus greater time and attention to issues of strategy, major relationships, and control.

In order to support the Firm's continued business growth, additional young professionals were recruited during the year to join the SICO team, increasing staff strength from 51 to 66 people. The Firm continued to make a substantial investment in training and development, providing staff with every opportunity to enhance their knowledge and skills, and realise their full potential. At the same time, staff remuneration was adjusted in line with market levels.

Information Technology

Utilisation of the latest information and communications technology (ICT) is a key business enabler for SICO. During the year, the Firm's IT capability was further upgraded to enhance client service, improve efficiency, and enhance risk and control systems. Plans are currently being reviewed to replace the Firm's core ICT system in 2007.

Outlook

The Firm's results continue to confirm the benefits of a consistent strategy and robust business model. For 2006, this resulted in a strengthened market position and growth in service revenues, higher volumes, improved mix and strong operational performance, which enabled SICO to enhance product diversification and maintain profitability.

These achievements have also supported the Firm's endeavours to establish a wider operational platform from which to take full advantage of the new business opportunities afforded by the growth momentum of the GCC economy, and to cater for the forecasted continued recovery and future growth of the GCC markets. The Firm enters 2007 with a strong pipeline of business and enhanced operational efficiency, better equipped to face the challenges ahead. These factors underpin Management's expectations of continued growth and improved profitability.

The severe corrections experienced by the GCC stock markets in 2006, and the lessons learned by investors and issuers alike, constitute an important phase in the development of a vibrant capital market in the region. The challenge now is to improve investor education, adopt greater transparency and regulatory control, deepen sophistication, and encourage greater interconnectivity between markets. With these developments, aided by strong underlying economic drivers and business fundamentals, GCC capital markets will continue to grow and mature, thereby providing SICO with greater opportunities to expand its role.

Providing clients with diversified and risk-averse investment returns

Despite the volatility and corrections experienced by GCC stock markets during the year, SICO's equity funds performed well compared to market indices and similar funds.

The Khaleej Equity Fund, which invests primarily in equity securities listed on GCC stock markets, outperformed the MSCI GCC Index by 32 per cent. The Gulf Equity Fund (excluding the Saudi Arabian stock market) which was launched in March 2006, outperformed the MSCI GCC ex-Saudi Index by 23.4 per cent. The Selected Securities Fund, which invests principally in equity and debt securities listed or expected to be listed on the Bahrain Stock Exchange (BSE), performed almost on par with the BSE All Share index.

This strong performance is attributable to the Firm's conservative asset allocation and bottom-up driven stock picking strategy. SICO's portfolio managers focus on identifying companies that are fundamentally strong, and that are trading at less than their fair values. Such an approach will continue to provide the Firm's clients with diversified, risk-averse and stable returns over the medium to long term.

Providing clients with innovative, leading-edge corporate finance services

As a leading provider of corporate finance services in Bahrain, SICO strives to create financing alternatives for our clients that are innovative and effective. During 2006, the Firm was involved in two groundbreaking IPOs for Islamic Financial Institutions.

SICO was mandated lead manager for the IPO of Al Salam Bank in the Kingdom of Bahrain. Oversubscribed 63 times and raising a record BD 2.7 billion, this was the largest IPO in the history of the Bahrain Stock Exchange (BSE). This landmark transaction involved the introduction of an innovative new integrated application process, with subscribers being supplied with a BSE Investor Number to enable them to have their shares immediately ready for trading upon allotment.

In a second groundbreaking transaction, SICO acted as co-leader for the listing of the European Islamic Investment Bank (EIIB) on the Alternative Investment Market of the London Stock Exchange. Established in 2005, EIIB is the first independent Islamic investment bank to be authorised and regulated by the UK's Financial Services Authority.



The Firm's results
continue to confirm
the benefits of a
consistent strategy
and robust business
model

Risk management is the process of identifying the principal business risks facing the Firm, establishing appropriate controls to manage those risks, and ensuring that appropriate monitoring and reporting processes are in place. The Firm's process is consistent with prudent management required of a large financial organisation, but also balances cost against risk within the constraints of the Firm's risk appetite.

The Firm is exposed to a wide variety of risks such as reputational, market, credit, operational, legal and regulatory risks. The Board considers reputational risk as the most significant risk for a business operating in the financial services sector.

Awareness of the importance of the Firm's reputation underpins our control culture. This risk could emanate as a result of a failure of financial, operational or compliance controls.

The Risk Management strategy currently adopted is based on a simplified framework for active banks with non-complex transactions. It is a structured and disciplined approach aligning business strategy, processes, people, technology, and knowledge with the purpose of evaluating and managing the risks that SICO faces.

There is a well-established organisational structure to determine strategy, risk appetite, tolerance levels, planning and budgeting. Detailed budgets and plans, which are reviewed in light of the Firm's strategy and financial plans, are flexed to take account of potential adverse conditions, and are subject to rigorous testing at the management and Board levels. Detailed monthly accounts are produced, and variances and trends are closely monitored.

Management reports each month to the Board or Executive Committee on performance and key issues affecting the Firm.

An independent Risk Management Unit provides leadership, direction and coordination of the efforts in managing the risks. It provides a holistic, integrated, future-focused, and process-oriented approach to enable the Firm to balance its key business risks and opportunities with the intent of maximising returns and shareholder value.

Market Risk

Market Risk is the risk of loss in the value of a financial instrument due to an adverse fluctuation in the equity prices, interest rates, foreign exchange rates, whether arising out of factors affecting a specific instrument or the market in general.

Equity Price Risk

The Firm's trading and available-for-sale portfolios are affected by equity price risk. This risk is mitigated by managing the portfolios within duly approved asset allocation matrix guidelines and other investment limits.

Interest Rate Risk

The debt instruments, placements, borrowings and call deposits are subject to interest rate risk. The Treasury Unit carefully monitors these exposures in order to mitigate this risk. However, the Treasury does not actively trade in money market instruments and therefore, these exposures are not hedged; furthermore, SICO does not trade speculatively in derivatives.

Foreign Exchange Rate Risk

SICO's exposure to currency risk is minimal because a substantial portion of the Firm's business is transacted in Bahraini Dinar, other GCC currencies, and US Dollar. The Bahraini Dinar and other GCC currencies are pegged to the US Dollar.

Liquidity Risk and Funding

Liquidity Risk is the risk that the Firm is unable to meet its financial obligations as they fall due. It may result from an inability to sell a financial asset quickly at close to its fair value, or from inability to raise funds quickly without undue cost. This risk arises principally from proprietary trading and investments, brokerage, asset management, and underwriting obligation. The Treasury Unit manages this risk by monitoring settlement obligations and maintaining sufficient liquid assets including call deposits and short term placements. Liquidity position is monitored weekly by the SICC and during the meetings of the Firm's Executive Committee and Board.

Credit Risk

The Firm is subject to credit risk mainly in its brokerage activities and issuer price risk in proprietary portfolios. These risks are monitored and controlled by means of exposure limits approved in accordance with well-defined policies and procedures, by the SICC, Executive Committee or Board, as appropriate. Additionally, SICO strictly adheres to the large exposure norms prescribed by the Central Bank of Bahrain.

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal processes, systems and people or external events. Unlike market or credit risks, which are systemic in nature, operational risk is Firm-specific and is inherent in the day-to-day operations of any bank. It includes a very broad spectrum of risks that could arise from a variety of reasons including, but not limited to, deficient transaction processing, business practices, employment practices and systems failures, and damage to physical assets. It also includes the risk of internal and external fraud.

The Firm has a very conservative control consciousness and adopts a number of mechanisms to manage this risk. These include a well-defined organisational structure, policies and procedures guidelines, segregation of duties, approval authorities, reconciliations, and tolerance limits for exposures. Internal Audit and Regulatory Compliance Unit provides valuable support in this control activity.

Assets under Management has a range of controls to support the quality of the investment process and is supervised by an Asset Management Committee. These are supported by strict operational controls to safeguard clients' assets, and there are regular reviews of investment management performance.

Corporate Finance activity is exposed to legal and reputational risk. Obtaining the necessary legal and regulatory approvals mitigates this risk. Advisory and underwriting matters are monitored and controlled by the SICC.

SICO is committed to upholding the highest standards of corporate governance. This comprises complying with regulatory requirements, protecting the rights and interests of all stakeholders, and achieving organisational efficiency. During 2006, the Board conducted a thorough review of the Firm's policies for corporate governance, internal controls, risk management and compliance, in accordance with the latest rules and guidelines from the Central Bank of Bahrain (CBB).

Responsibilities

The Board of Directors is accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Firm's shareholders.

The Board has appointed two Committees to assist it in carrying out its responsibilities. The Internal Audit function reports directly to the Board through the Audit Committee. The Board delegates the authority for management of the business to the Chief Executive Officer, who is supported by two Management Committees.

Members of the Board and the Executive Management team are listed in the front section of this annual report.

Framework

SICO's corporate governance framework comprises a code of business conduct; operational policies and procedures; internal controls and risk management systems; internal and external audit and compliance procedures; effective communications and transparent disclosure; and measurement and accountability.

Code of Business Conduct

SICO conducts itself in accordance with the highest standards of ethical behaviour. A Code of Business Conduct has been developed to govern the personal and professional conduct of all stakeholders.

Compliance

As a licensed investment bank and listed company, SICO has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Stock Exchange.

Communications

SICO conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, corporate website, and regular announcements in the appropriate local media.

Board Committees

Executive Committee

Objective

To exercise the powers of the Board of Directors on matters of an important or urgent nature that arise between scheduled Board meetings.

Members

Mr. Albert Kittaneh	Chairman
Mr. Hussain Al Hussaini	Vice Chairman
Mr. Abbas Ameeri	Member
Mr. Abdulaziz Al Mulla	Member

Audit Committee

Objective

To review the Firm's financial reporting process, internal controls, risk management systems, and process for monitoring compliance with policies, procedures, laws, and regulations, and the Bank's own Code of Business Conduct.

Members

Mr. Anwar Abdulla Ghuloom	Chairman
Mr. Mahmoud Zewam	Member
Mr. Abdul Karim Bucheery	Member

Management Committees

Restricted Management Committee

Objective

To review the overall performance of each division against targets; review and decide on the implementation implications of new initiatives and products; and contribute to developing an ongoing strategy for the Firm.

Members

Chief Executive Officer
Chief Operating Officer
Head of Brokerage
Head of Asset Management
Financial Controller
Head of Operations

Asset Management Committee

Objective

To review the investment strategy of the Firm's funds and portfolios; review and approve asset allocations; and review maturity mismatches, funding costs, foreign exchange risks, and credit concentration by country and industry/sector.

Members

Chief Executive Officer	Chairman
Chief Operating Officer	Vice Chairman
Head of Brokerage	Member
Head of Asset Management	Member
Head of Research	Member
Head of Risk Management	Member
Internal Auditor	Permanent Invitee
Head of Marketing	Permanent Invitee

SICO Investment & Credit Committee (SICC)

Objective

Approves investments within its discretionary powers as delegated by the Board and recommends healthy investments and risk management practices for consideration by the Executive Committee for those investments which exceed its discretionary powers. Also monitors the investment activities.

Members

Chief Executive Officer	Chairman
Chief Operating Officer	Voting Member
Financial Controller	Voting Member
Head of Brokerage	Voting Member
Head of Asset Management	Voting Member
Head of Corporate Finance	Voting Member
Head of Risk Management	Voting Member
Head of Marketing	Voting Member
Head of Corporate Communications	Non-Voting Member
Head of Operations	Non-Voting Member
Head of Research	Non-Voting Member
Head of IT	Non-Voting Member



Independent Auditors' Report to the Shareholders of Securities and Investment Company BSC(c), Manama, Kingdom of Bahrain

23 January 2007

We have audited the accompanying consolidated financial statements of Securities and Investment Company BSC(c) ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the financial statements

The Directors of the company are responsible for the preparation and fair presentation of these consolidated 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments,

we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards

Report on other legal and regulatory requirements

In addition, in our opinion, the company has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the company's license or its memorandum and articles of association having occurred during the year ended 31 December 2006 that might have had a material effect on the business of the company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Financial Results

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Consolidated Balance Sheet

as at 31 December 2006

		<i>Bahraini Dinars '000</i>	
	Notes	2006	2005
Assets			
Cash and bank		5,082	1,236
Call deposits	3	517	4,375
Placements with banks	3	25,399	7,298
Trading securities	4	12,011	10,933
Available-for-sale securities	5	11,369	11,622
Furniture and equipment	6	140	114
Fees receivable		204	2,689
Other assets	7	2,397	4,446
Total assets		57,119	42,713
Liabilities			
Bank overdraft	8	58	611
Short-term borrowings	9	1,693	2,500
Customer accounts	10	25,660	9,716
Other liabilities	11	1,039	1,344
Total liabilities		28,450	14,171
Equity			
Share capital	12	13,910	13,750
Statutory reserve	13	1,807	902
General reserve	14	1,666	902
Employee share grants		-	104
Available-for-sale securities revaluation reserve		648	3,229
Retained earnings		10,638	9,655
Total equity		28,669	28,542
Total liabilities and equity		57,119	42,713



Shaikh Mohammed Bin Isa Al Khalifa
Chairman



Albert I. Kittaneh
Vice Chairman and Chairman
of the Executive Committee



Anthony C. Mallis
Chief Executive Officer

The Board of Directors approved the consolidated financial statements consisting of pages 24 to 50 on 23 January 2007.

Consolidated Income Statement

for the year ended 31 December 2006

		Bahraini Dinars '000	
	Notes	2006	2005
Income			
Interest income		1,238	431
Interest expense		(508)	(265)
Net interest income		730	166
Net (loss)/ gain on trading securities	15	(50)	2,572
Gain on sale of available-for-sale securities		1,550	998
Dividend income		593	505
Asset management income		1,423	3,439
Brokerage and other income	16	2,335	2,025
		5,851	9,539
Total income		6,581	9,705
Expenses			
Staff and related expenses	17	1,786	1,542
General and administrative expenses	18	680	470
Depreciation	6	70	54
Total expenses		2,536	2,066
Net income for the year		4,045	7,639
Earnings per share (fils)		29	56



Shaikh Mohammed Bin Isa Al Khalifa
Chairman



Albert I. Kittaneh
Vice Chairman and Chairman
of the Executive Committee



Anthony C. Mallis
Chief Executive Officer

The consolidated financial statements consist of pages 24 to 50.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2006

Bahraini Dinars '000

	Share capital	Statutory reserve	General reserve	Available-for-sale securities revaluation reserve	Employee share grants	Retained earnings	Total equity
As at 1 January 2006	13,750	902	902	3,229	104	9,655	28,542
Available-for-sale securities							
Net changes in fair value	-	-	-	(1,031)	-	-	(1,031)
Net amount transferred to profit or loss on disposal	-	-	-	(1,550)	-	-	(1,550)
Total recognised income and expense directly in equity	-	-	-	(2,581)	-	-	(2,581)
Net income for the year	-	-	-	-	-	4,045	4,045
Total recognised income and expense for the year	-	-	-	(2,581)	-	4,045	1,464
Dividends for 2005	-	-	-	-	-	(1,384)	(1,384)
Transfer to general reserve for 2005	-	-	764	-	-	(764)	-
Remuneration paid to directors for 2005	-	-	-	-	-	(150)	(150)
Employee share grants for 2005	-	-	-	-	197	-	197
Issue of shares to employees scheme	160	141	-	-	(301)	-	-
Transfer to statutory reserve for the year 2005	-	764	-	-	-	(764)	-
Balance at 31 December 2006	13,910	1,807	1,666	648	-	10,638	28,669
As at 1 January 2005	12,500	488	488	2,384	-	5,089	20,949
Available-for-sale securities							
Net change in fair value	-	-	-	1,843	-	-	1,843
Net amount transferred to profit or loss	-	-	-	(998)	-	-	(998)
Total recognised income and expense directly in equity	-	-	-	845	-	-	845
Net income for the year	-	-	-	-	-	7,639	7,639
Total recognised income and expense for the year	-	-	-	845	-	7,639	8,484
Dividends for 2004	-	-	-	-	-	(875)	(875)
Transfer to general reserve for 2004	-	-	414	-	-	(414)	-
Bonus shares issued during the year 2005	1,250	-	-	-	-	(1,250)	-
Remuneration paid to Directors for 2004	-	-	-	-	-	(120)	(120)
Employee share grants for 2004	-	-	-	-	104	-	104
Transfer to statutory reserve for 2004	-	414	-	-	-	(414)	-
Balance at 31 December 2005	13,750	902	902	3,229	104	9,655	28,542

The consolidated financial statements consist of pages 24 to 50.

Consolidated Statement of Cash Flows

for the year ended 31 December 2006

	<i>Bahraini Dinars '000</i>	
	2006	2005
Operating activities		
Net interest received	681	156
Sale of trading securities	8,822	15,440
Purchase of trading securities	(9,950)	(14,902)
Sale of available-for-sale securities	4,078	1,966
Purchase of available-for-sale securities	(4,856)	(2,851)
Net increase in customer accounts	15,944	5,281
Dividends received	593	505
Brokerage and other fees received	8,334	2,383
Payments for staff and related expenses	(1,671)	(1,403)
Payments for general and administrative expenses	(896)	(538)
Cash flows from operating activities	21,079	6,037
Investing activities		
Capital expenditure on furniture and equipment	(96)	(90)
Cash flows from investing activities	(96)	(90)
Financing activities		
Short-term borrowings	(807)	1,000
Dividends paid	(1,384)	(875)
Directors' remuneration paid	(150)	(120)
Cash flow from financing activities	(2,341)	5
Net increase in cash and cash equivalents	18,642	5,952
Cash and cash equivalents at the beginning of the year	12,298	6,346
Cash and cash equivalents at the end of the year	30,940	12,298
Represented by:		
Cash and bank	5,082	1,236
Call deposits	517	4,375
Short-term placements (with original maturities of 3 months or less)	25,399	7,298
Bank overdraft	(58)	(611)
Total cash and cash equivalents as at 31 December	30,940	12,298

The consolidated financial statements consist of pages 24 to 50.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

1. Status and objectives

Securities and Investment Company BSC(c) ("the Company") is a closed joint stock company registered in Bahrain under commercial registration number 33469 on 11 February 1995. The Company commenced its operations in July 1995. In September 1997, the Company obtained an investment banking licence from the Central Bank of Bahrain. On 7 May 2003, the Company was listed on the Bahrain Stock Exchange as a closed company.

The primary objectives of the Company are:

- To act as a market maker at the Bahrain Stock Exchange;
- To assist in the development of the securities market in Bahrain by researching and promoting financial instruments and other investment vehicles;
- To arrange the issuance of bonds for developmental and investment purposes;
- To act as investment agents, trustees and intermediaries;
- To establish and manage investment and financial funds and portfolios;
- To offer financial advisory and underwriting services, such as advising corporations and family businesses on going public, and structuring transactions for privatisation programmes, mergers and acquisitions.

The Company invests in securities in the Bahrain, GCC and global markets for its own account. It is an active broker in the Bahrain Stock Exchange and offers discretionary portfolio management services and margin trading to customers.

The Company has three wholly owned subsidiaries authorized & approved by the Central Bank of Bahrain to carry on the business of collective investment schemes:

- SICO Funds Company BSC (c) ("**Funds Company**") . The Funds Company has launched SICO Selected Securities Fund ("SSSF"), the SICO Assured International Fund ("SAIF") and the 'Khaleej Equity Fund'.
- SICO Funds Company II BSC (c)
- SICO Funds Company III BSC (c) launched SICO Gulf Equity Fund

The Company has also another wholly owned subsidiary company SICO Fund Services Company BSC (c) which provides custody and administration services.

2. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for trading securities and available-for-sale securities, which are stated at fair value in accordance with International Accounting Standard 39, Financial Instruments - Recognition and Measurement (IAS 39).

The investments in subsidiaries are carried at cost in the financial statements of the parent company.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year.

2. Significant accounting policies (continued)

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, (collectively “the Group”). All inter-company balances and transactions have been eliminated on consolidation.

Subsidiaries are those enterprises controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control by the parent commences until the date the control ceases.

Use of estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the balance sheet date.

The use of estimates and assumptions is principally limited to the determination of impairment provisions for available for sale securities. The estimates and assumptions relating to provisions for impairment are described in more detail below in the accounting policy on provisions for impairment.

Foreign currencies

Items included in the financial statements of the company and its subsidiaries are measured based on the currency of the primary environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahraini Dinars, representing the group’s functional and presentation currency.

Transactions in foreign currencies are converted to Bahraini Dinars at rates of exchange prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Bahraini Dinars at the market rates of exchange prevailing at the balance sheet date. Realised and unrealised foreign exchange profits and losses are included in other income except with regards to available for sale securities which are taken to equity.

Securities

Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost, including transaction costs, and subsequently remeasured to fair value based on quoted market prices or amounts derived from cash flow models as appropriate. Realised and unrealised gains and losses are included in the income statement. Interest earned on trading securities is included in interest income.

Available-for-sale securities comprises listed shares, managed funds and debt securities that are intended to be held for other than short term. Available-for-sale securities are initially recognised at fair value and subsequently remeasured to fair value based on quoted market prices or amounts derived from discounted cash flow models as appropriate. Unrealised gains and losses arising from changes in the fair values of available-for-sale securities are recognised in a separate revaluation reserve in the equity. The cumulative fair value adjustments on available for-sale securities which are sold or otherwise disposed of, or become impaired, and which had previously been recognised in the equity, are transferred to the consolidated statement of income.

2. Significant accounting policies (continued)

Furniture and equipment

Furniture and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Depreciation is provided on cost by the straight-line method, which is intended to write off the cost of the assets over their expected useful life of three years.

Provisions for Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Employee benefits

(i) Bahraini Employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits are charged to income in the year to which they relate.

(ii) Expatriate Employees

Expatriate employees are entitled to a leaving indemnity under the Bahrain Labour Law for the Private Sector 1976 based on length of service and final salary and other allowances paid. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard (IAS) 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the balance sheet date.

(iii) Share- Based Compensation

The Company operates a discretionary share plan, which is designed to provide competitive long term incentives, is a cash-settled share based payment scheme. The total amount to be expensed ratably over the vesting period of five years is determined by reference to the fair value of the shares determined at the grant date and re-measured at every year end over the vesting period.

2. Significant accounting policies (continued)

Income

Interest income is recognised in the income statement as it accrues, using the effective interest rate method.

Asset management income and brokerage income are recognised when earned.

Dividend income is recognised when the right to receive the dividend is established.

Dividends

Dividends payable to shareholders are recognised as a liability in the period in which such dividends are declared.

Cash and cash equivalents

For the purpose of the consolidated cash flows, cash and cash equivalents comprise of cash and bank balances, call deposits and placements with banks that have an original maturity of three months or less.

Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date, i.e., the date on which the Group commits to purchase or sell the financial asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Fiduciary activities

The group administers and manages assets owned by clients which are not reflected in the consolidated financial statements. Asset management fees are earned for providing investment management services and for managing mutual fund products. Asset administration fees are earned for providing custodial services. Fees are recognised as the services are provided.

3. Call deposits and placements with banks

Call deposits and placements are with banks of good credit standing and earn interest at prevailing rates.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2006

4. Trading securities

	<i>Bahraini Dinars '000</i>	
	2006	2005
Listed shares	4,388	3,195
Managed funds	6,418	5,519
Debt securities	1,205	2,219
Carrying value at 31 December	12,011	10,933

5. Available-for-sale securities

	<i>Bahraini Dinars '000</i>	
	2006	2005
Listed shares	6,239	7,288
Managed funds	4,255	3,368
Debt securities	875	966
Carrying value at 31 December	11,369	11,622

6. Furniture and equipment

	<i>Bahraini Dinars '000</i>	
	2006	2005
Cost as at 1 January	437	363
Additions	96	90
Disposals	(13)	(16)
Cost at 31 December	520	437
Depreciation as at 1 January	323	284
Charge for the year	70	54
Disposals	(13)	(15)
Depreciation as at 31 December	380	323
Net book value at 31 December	140	114
Cost of fully depreciated assets in use	277	217

Furniture and equipment comprises furniture, fixtures and fittings, office equipment, computer hardware and software and vehicles.

7. Other assets

	<i>Bahraini Dinars '000</i>	
	2006	2005
Receivables from clients and brokers	1,806	3,610
Other receivables	414	135
Subscription for securities	-	566
Prepaid expenses	45	52
Interest receivable	82	33
Guarantee deposit with the Bahrain Stock Exchange	50	50
At 31 December 2006	2,397	4,446

8. Bank overdraft

The bank overdraft bears interest at prevailing market rates.

	<i>Bahraini Dinars '000</i>	
	2006	2005
Bank overdrafts	58	611
At 31 December 2006	58	611

9. Short-term borrowings

	<i>Bahraini Dinars '000</i>	
	2006	2005
Borrowings from a local non-bank institution	750	2,500
Bank borrowings	943	-
Total as at 31 December	1,693	2,500

These Borrowings are unsecured with interest at prevailing market rates.

10. Customer accounts

This represents the net advances received from customers for trading in securities on their behalf on the Bahrain Stock Exchange and other GCC exchanges. Interest expense on these accounts during the year was 375 (2005: 163)

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2006

34 **11. Other liabilities**

	<i>Bahraini Dinars '000</i>	
	2006	2005
Accrued expenses	591	93
Provision for employee indemnities	68	69
Other payables	380	1,182
Total as at 31 December	1,039	1,344

12. Share capital

	<i>Bahraini Dinars '000</i>	
	2006	2005
Authorised share capital		
500,000,000 shares of 100 fils each	50,000	50,000
Issued and fully paid		
At 1 January	13,750	12,500
Issue of shares to trustees	160	-
Bonus issue during the year	-	1,250
At 31 December	13,910	13,750

During 2006, the company issued 1,597,261 shares of 100 fils each under the employees share option plan for the year 2004 and 2005 to HSBC Trustee (C.I) Limited. These shares were issued at a premium of 68 fils and 108 fils each for 2004 and 2005 respectively.

The Board of Directors has proposed a cash dividend 8 fils per share of 100 fils nominal value, a 8% dividend (2005: 10 fils per share of 100 fils nominal value, a dividend of 10%). Directors remuneration of BD 125,000 (2005: BD 150,000) is also proposed. Proposed appropriations and the director's committee fees are in accordance with the Company's Articles of association and are subject to approval by the shareholders at the Annual General Meeting.

12. Share capital (continued)

	<i>Bahraini Dinars '000</i>	
	2006	2005
Directors' remuneration	125	150
Directors' Committee Fees	20	23
Proposed dividend	1,113	1,385
Statutory reserve	405	764
General reserve	405	764
	2,068	3,086

The shareholders are:	2006		2005	
	Capital	Percentage	Capital	Percentage
Pension Fund Commission	3,107.5	22.4	3,107.5	22.6
General Organisation for Social Insurance	2,200	15.8	2,200	16.0
Bank of Bahrain and Kuwait BSC	1,375	9.9	1,100	8.0
National Bank of Bahrain BSC	1,100	7.9	1,100	8.0
Arab Investment Resources Company EC	1,100	7.9	1,100	8.0
Gulf International Bank BSC	1,100	7.9	1,100	8.0
Arab Banking Corporation BSC	1,100	7.9	1,100	8.0
Gulf Investment Corporation GSC	1,100	7.9	1,100	8.0
Ahli United Bank (Bahrain) BSC	605	4.3	605	4.4
Bahrain Middle East Bank EC	412.5	3	412.5	3.0
Bahraini Saudi Bank BSC	275	2	275	2.0
Bahrain International Bank BSC(c)	-	-	275	2.0
TAIB Bank BSC	275	1.9	275	2.0
HSBC Trustee (C.I) Limited	160	1.2	-	-
	13,910	100.0	13,750	100.0

Based on these financial statements, the Net Asset Value per share is BD 0.206 (2005: BD 0.208)

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2006

13. Statutory Reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The board of directors have proposed a transfer of BD 405K (2005: BD 764K) to the statutory reserve during the current year. This is subject to the approval of the shareholders at the Annual General Meeting. In the current year, the transfer to the statutory reserve is made in the year of approval by the shareholders at the Annual General Meeting. Comparatives have been restated accordingly to account for the transfer to the statutory reserve in the year of approval by the shareholders. During the year the share premium of BD 141K arising from the issue of shares under employee share option plan has been adjusted to statutory reserve.

14. General Reserve

In accordance with the Company's Articles of Association and the recommendations of the Board of Directors, specific amounts are transferred to the general reserve in the current year. The reserve carries no restriction in its distribution. The board of directors have proposed a transfer of BD 405K (2005: BD 764K) to the general reserve in the current year. This is subject to the approval of the shareholders at the Annual General Meeting.

15. Gain on trading securities

	<i>Bahraini Dinars '000</i>	
	2006	2005
Realised (loss)/ gain from sales of trading securities	(266)	1,695
Unrealised gain representing fair value adjustments	216	877
	(50)	2,572

16. Brokerage and other income

	<i>Bahraini Dinars '000</i>	
	2006	2005
Brokerage income	1,613	933
Investment banking income	339	703
Marketing income	12	168
Other income	371	221
	2,335	2,025

17. Staff and related expenses

As at 31 December 2006, the Group employed 49 (2005: 39) Bahrainis and 17 (2005: 12) expatriates.

The Group's contributions for the year to the General Organisation for Social Insurance in respect of its employees amounted to 60 (2005: 44).

Other liabilities include a provision of 68 (2005: 69) for the unfunded obligation relating to leaving indemnities payable to expatriate employees.

18. General and administrative expenses

	<i>Bahraini Dinars '000</i>	
	2006	2005
Rent	113	89
Marketing	158	145
Other operating expenses	409	236
	680	470

19. Related parties

Key Management Personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The key management personnel comprise of the members of the board of directors and the chief executive officer.

Compensation paid/ payable to key management personnel are as follows:

	<i>Bahraini Dinars '000</i>	
	2006	2005
Short term benefits	468	529
Post employment benefits	11	13
Equity compensation benefits	49	65
	528	607

General and administrative expenses include 24 (2005: 23) towards attendance fees and other related expenses for members of the Board and Executive Committee.

Asset management income includes 236 (2005: 1,461) being fees charged to discretionary portfolio management clients who are the shareholders of the Company. Fees receivable includes Nil (2005: 1,212) being fees receivable from two shareholders.

Asset management income includes 404 (2005: 1,637) being fees income from own Funds. As at 31 December 2006 other assets include 92 (2005: 1,299) representing amounts receivable from own Funds.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2006

38 **19. Related parties (continued)**

The Company has invested in the SICO Selected Securities Fund an amount of 506 (2005: 531), in the Khaleej Equity Fund 625 (2005: 751) and in the SICO Assured International Fund Nil (2005: 567) at market value under available-for-sale securities category.

The Group has invested in the Khaleej Equity Fund an amount of 165 (2005: 198) at market value under trading category.

The Group has obtained short term borrowing amounting to BD 750 (2005: 2,500) from a non-bank shareholder of the Company and also has unutilized short term credit facilities from other bank shareholders.

The Group has banking relationships and makes deposits and placements with certain of its shareholders that are local banks. All such transactions are in the ordinary course of business and on normal commercial terms.

The Group also provides discretionary portfolio management account services to two of its shareholders in the ordinary course of business. These services are provided on normal commercial terms and conditions and the related funds are held by the Group in a fiduciary capacity.

20. Concentration of investments and industry profile

(a) Distribution by sector

Bahraini Dinars '000

As at 31 December 2006	Trading securities	Available-for-sale securities	2006 Total
Commercial banks	992	1,516	2,508
Other banks	636	2,575	3,211
Insurance	15	-	15
Services	1,582	1,362	2,944
Managed funds	6,418	4,255	10,673
Government bonds	-	286	286
Others	2,368	1,375	3,743
Total	12,011	11,369	23,380

20. Concentration of investments and industry profile (continued)

(a) Distribution by sector (continued)

Bahraini Dinars '000

As at 31 December 2005	Trading securities	Available-for-sale securities	2005 Total
Commercial banks	840	2,199	3,039
Other banks	222	1,879	2,101
Insurance	58	-	58
Services	718	1,238	1,956
Managed funds	5,518	3,369	8,887
Government bonds	377	284	661
Others	3,200	2,653	5,853
Total	10,933	11,622	22,555

(b) Geographical distribution

Bahraini Dinars '000

As at 31 December 2006	Trading securities	Available-for-sale securities	2006 Total
GCC countries	6,097	9,415	15,512
USA	1,525	1,883	3,408
Europe	2,459	71	2,530
Middle East and North Africa	1,930	-	1,930
Total	12,011	11,369	23,380

As at 31 December 2005	Trading securities	Available-for-sale securities	2005 Total
GCC countries	6,096	11,622	17,718
USA	1,329	-	1,329
Europe	2,242	-	2,242
Middle East and North Africa	1,266	-	1,266
Total	10,933	11,622	22,555

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2006

21. Maturity profile of assets, liabilities and equity

Bahraini Dinars '000

As at 31 December 2006	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank	5,082	-	-	5,082
Call deposits	517	-	-	517
Placements with banks	25,399	-	-	25,399
Trading securities	10,806	1,205	-	12,011
Available-for-sale securities	476	400	10,493	11,369
Plant and equipment	-	140	-	140
Fees receivable	204	-	-	204
Other assets	2,397	-	-	2,397
Total assets	44,881	1,745	10,493	57,119
Liabilities				
Bank overdrafts	58	-	-	58
Short term borrowings	1,693	-	-	1,693
Customer accounts	25,660	-	-	25,660
Other liabilities	1,039	-	-	1,039
Total liabilities	28,450	-	-	28,450
Equity	-	-	28,669	28,669
Total liabilities and equity	28,430	-	28,669	57,119
Liquidity gap	16,431	1,745	(18,176)	
Cumulative liquidity gap	16,431	18,176	-	

21. Maturity profile of assets, liabilities and equity (continued)

Bahraini Dinars '000

As at 31 December 2005	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank	1,236	-	-	1,236
Call deposits	4,375	-	-	4,375
Placements with banks	7,298	-	-	7,298
Trading securities	8,892	1,181	860	10,933
Available-for-sale securities	150	723	10,749	11,622
Plant and equipment	-	114	-	114
Fees receivable	2,689	-	-	2,689
Other assets	4,446	-	-	4,446
Total assets	29,086	2,018	11,609	42,713
Liabilities				
Bank overdrafts	611	-	-	611
Short term borrowings	2,500	-	-	2,500
Customer accounts	9,716	-	-	9,716
Other liabilities	1,344	-	-	1,344
Total liabilities	14,171	-	-	14,171
Equity	-	-	28,542	28,542
Total liabilities and equity	14,171	-	28,542	42,713
Liquidity gap	14,915	2,018	(16,933)	
Cumulative liquidity gap	14,915	16,933	-	

22. Contingencies, commitments and memorandum accounts

Investment commitment

The Company has committed to invest in SICO Selected Securities Fund a minimum of 5% of the fund's net asset value and 10% of the net assets value of the Khaleej Equity Fund at any time throughout its life.

	<i>Bahraini Dinars '000</i>	
	2006	2005
Funds under management (net asset value)		
SICO Selected Securities Fund	5,926	7,350
Khaleej Equity Fund	11,916	21,591
SICO Gulf Equity Fund	11,548	-
Discretionary Portfolio Management Account	102,382	69,711

The Company is the fund manager for "SICO Selected Securities Fund" launched in April-May 1998, "Khaleej Equity Fund" launched in March 2004 and for the "SICO Gulf Equity Fund" launched in March 2006 by SICO Funds Company EC, which is a wholly owned subsidiary of the Company. The net asset value of the SICO Selected Securities Fund, Khaleej Equity Fund and SICO Gulf Equity Fund are based on audited accounts as at 31 December 2006.

The funds under discretionary portfolio management account were held in trust or in a fiduciary capacity and are not treated as assets of the Group and, accordingly, have not been included in the consolidated financial statements.

	<i>Bahraini Dinars '000</i>	
	2006	2005
Securities under management custody	236,548	257,526

The Company provides custodianship and nominee services in respect of marketable securities. At 31 December 2006, marketable securities amounting to 236,548 (2005: 257,526) were held by the Company as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to 117,363 (2005: 147,403) were registered in the name of the Company.

23. Group information

The Group comprises of Securities and Investment Company BSC (c) (the Parent Company) and the following wholly owned subsidiaries:

Bahraini Dinars '000

Subsidiary	Capital	Date of incorporation	Activity
SICO Funds Company BSC (c)	50	21 March 1998	Umbrella company for SICO mutual funds
SICO Funds Services Company BSC (c)	400	29 Dec 2004	Custody and administration services
SICO Funds Company II BSC (c)	1	26 September 2005	Umbrella company for SICO mutual funds
SICO Funds Company III BSC (c)	1	18 January 2006	Umbrella company for SICO mutual funds

The following is a summary of the parent company's financial statements

Parent company balance sheet as at 31 December 2006

Bahraini Dinars '000

As at 31 December	2006	2005
Assets		
Cash and bank	4,713	1,183
Call deposits	516	3,574
Placements with banks	25,070	7,272
Trading securities	12,011	10,933
Available-for-sale securities	11,369	11,622
Investment in subsidiaries	452	452
Plant and equipment	133	102
Fees receivable	204	2,689
Other assets	2,272	4,374
Total assets	56,740	42,201
Liabilities		
Bank overdraft	58	611
Short term borrowings	1,693	2,500
Customer accounts	25,660	9,716
Other liabilities	726	823
Total liabilities	28,137	13,650

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2006

23. Group information (continued)

Parent company balance sheet as at 31 December 2006 (continued)

	<i>Bahraini Dinars '000</i>	
As at 31 December	2006	2005
Equity		
Share capital	13,910	13,750
Statutory reserve	1,807	902
General reserve	1,666	902
Available-for-sale securities revaluation reserve	648	3,229
Retained earnings	10,572	9,664
Employee share grant reserves	-	104
Total equity	28,603	28,551
Total liabilities and equity	56,740	42,201

Parent company income statement for the year ended 31 December 2006

	<i>Bahraini Dinars '000</i>	
Year ended 31 December	2006	2005
Income		
Interest income	1,222	422
Interest expense	(508)	(265)
Net interest income	714	157
Gain on trading securities	(50)	2,572
Gain on sale of available-for-sale securities	1,550	998
Dividend income	593	505
Asset management income	1,355	3,410
Brokerage and other income	2,207	1,960
Total income	6,369	9,602

23. Group information (continued)

Parent company income statement for the year ended 31 December 2006 (continued)

	<i>Bahraini Dinars '000</i>	
Year ended 31 December	2006	2005
Operating expenses		
Staff and related expenses	1,786	1,492
General and administrative expenses	550	421
Depreciation	64	49
Total expenses	2,400	1,962
Net income for the year	3,969	7,640

24. Financial instruments and management of risk

Financial assets of the Group include cash and cash equivalents, placements, trading securities, available-for-sale securities and other assets.

Financial liabilities of the Group include due to banks, short term borrowings, accounts payable, customer accounts and accrued expenses.

Accounting policies for financial assets and liabilities are set out in note 2.

These financial instruments expose the Group to varying degrees of risk including credit risk, interest rate risk, liquidity risk, market risk and currency risk.

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

The Group limits its credit risk by applying well-defined credit policies and procedures laid down by the Board of Directors and Executive Committee.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group minimizes its exposure to interest rate risk by careful monitoring of exposures. Placements and call deposits with banks are at fixed interest rates and mature within three months. Total liabilities include customer advances that bear interest at prevailing market rates.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2006

24. Financial instruments and management of risk (continued)
Interest rate reprising profile

Bahraini Dinars '000

2006	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank		-	-	5,082	5,082
Call deposits		517	-	-	517
Placements with banks	5.35	25,399	-	-	25,399
Trading securities	5.00	-	43	11,968	12,011
Available-for-sale securities	4.18	476	400	10,493	11,369
Plant and equipment		-	-	140	140
Fees receivable		-	-	204	204
Other assets		-	-	2,397	2,397
Total assets		26,392	443	30,284	57,119
Bank overdrafts	9.75	58	-	-	58
Short term borrowings	5.61	1,693	-	-	1,693
Customer accounts	3.87	24,147	-	1,513	25,660
Other liabilities		-	-	1,039	1,039
Total liabilities		25,898	-	2,552	28,450
Equity		-	-	28,669	28,669
Total liabilities and equity		25,898	-	31,221	57,119
Interest rate sensitivity gap		494	443	(937)	-
Cumulative interest rate sensitivity gap		494	937	-	-

24. Financial instruments and management of risk (continued)

Bahraini Dinars '000

2005	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank		-	-	1,236	1,236
Call deposits	*	4,375	-	-	4,375
Placements with banks	4.46	7,298	-	-	7,298
Trading securities	3.28	99	2,038	8,796	10,933
Available-for-sale securities	4.39	150	725	10,747	11,622
Plant and equipment		-	-	114	114
Fees receivable		-	-	2,689	2,689
Other assets		-	-	4,446	4,446
Total assets		11,922	2,763	28,028	42,713
Bank overdrafts	8.50	611	-	-	611
Short term borrowings	4.72	2,500	-	-	2,500
Customer accounts	3.25	4,269	-	5,447	9,716
Other liabilities		-	-	1,344	1,344
Total liabilities		7,380	-	6,791	14,171
Equity		-	-	28,542	28,542
Total liabilities and equity		7,380	-	35,333	42,713
Interest rate sensitivity gap		4,542	2,763	(7,305)	-
Cumulative interest rate sensitivity gap		4,542	7,305	-	-

* At 31 December 2006 the effective interest rate on Bahraini Dinar call deposits was 4.625 – 4.875% p.a. (2005: 3.125 – 3.375% p.a.) and on USD call deposits was 5.75 – 5.00 % p.a. (2005: 3.25 – 3.50 % p.a.).

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments.

At present, the Group's liquidity risk exposure is minimal because a high proportion of funds is placed with banks as short-term deposits and, on maturity, deposits are transferred to current accounts based on expected requirements.

24. Financial instruments and management of risk (continued)

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether these changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group, as part of its normal operations, is exposed to market risk with regard to its investments in trading and available-for-sale securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio and Market Making Policies and Guidelines set by the Executive Committee and the Group's management.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group has short-term fixed deposits and investments in securities in

United States Dollars. Since the Bahraini Dinar is effectively pegged to the US Dollar, currency risk is minimal.

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. Differences can therefore arise between the book values under the historical cost method and fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair values of the assets are shown in the following notes:

Trading securities (note 4), available-for-sale securities (note 5).

The fair value of the Group's other financial assets and liabilities are not materially different from their carrying values.

25. Capital adequacy

The capital adequacy ratio has been calculated in accordance with the guidelines of the Central Bank of Bahrain (CBB), incorporating both credit risk and market risk.

The market risk is computed as per the guidelines of the CBB. The measure of market risk so computed is multiplied by 12.5, the reciprocal of the 8 percent minimum capital ratio, to arrive at the market risk weighted exposure. The market risk-weighted assets are then added to the credit risk-weighted assets to arrive at the Group's total risk-weighted exposure, which is used for the purpose of computing the capital adequacy ratio.

25. Capital adequacy (continued)

Details of the Group's calculations as at 31 December are shown below.

	<i>Bahraini Dinars '000</i>	
	2006	2005
Based on year end balances		
Tier 1 Capital	22,997	18,574
Tier 2 Capital	4,805	6,124
Total capital base (tier 1 + tier 2)	27,802	24,698
Credit risk-weighted assets	19,993	20,326
Market risk-weighted assets	69,788	45,725
Total risk-weighted assets	89,781	66,051
Capital adequacy ratio	30.97	37.39

The details of the Group's capital adequacy ratio computations on the basis of annual average tier 1 and tier 2 capital and annual average credit risk weighted assets are shown below.

	<i>Bahraini Dinars '000</i>	
	2006	2005
Based on full year average balances		
Average tier 1 Capital	22,852	17,494
Average tier 2 Capital	3,815	5,107
Total capital base (tier 1 + tier 2)	26,667	22,601
Average credit risk-weighted assets	21,208	17,236
Average market risk-weighted assets	50,051	49,644
Total risk-weighted assets	71,259	66,880
Capital adequacy ratio (%)	37.42	33.79

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2006

26. Significant net open foreign currency positions

	<i>Bahraini Dinars '000</i>	
	2006	2005
US Dollar (long position) – unhedged	36,058	13,200
KWD (long position) – unhedged	3,954	6,295
SAR	1,805	2,041

The Bahraini Dinar is effectively pegged to the US Dollar at USD 1 = BD 0.377

27. New international financial reporting standards and interpretations not yet adopted

During the year the following new/amended IFRS's and interpretations have been issued which are not yet mandatory for adoption by the Group:

- IFRS 7 Financial instruments: Disclosures becomes effective for financial years beginning on or after 1st January 2007.
- IAS 1 Presentation of Financial Statements (amended) becomes effective for financial years beginning on or after 1st January 2007.
- IFRIC 9 Reassessment of Embedded Derivatives becomes effective for financial years beginning on or after 1st June 2006.
- IFRIC 10 Interim Financial Reporting and Impairment becomes effective for financial years beginning on or after 1st November 2006.

The adoption of these standards and interpretations are not expected to have any material impact on the consolidated balance sheet and income statement.

28. Comparative figures

Comparative figures have been reclassified to conform with the current year's presentation. Such reclassification has not affected the reported net profit, net assets or equity