

Regulatory Story

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Shariah Capital, Inc
30 September 2010

Shariah Capital Inc. ("Shariah Capital" or "the Company")

Interim Results

The Board of Shariah Capital is pleased to announce Shariah Capital's interim results for the period ending 30 June 2010.

Shariah Capital is a U.S.-based company that creates and customises Shariah compliant financial products and platforms and provides Shariah consulting and advisory services primarily to financial institutions and investment firms with product initiatives directed to Islamic investors.

First Half 2010 Discussion

The Company maintained a committed focus to fundamentals during the first half of 2010. Notable achievements were as follows:

- With its Dubai joint venture partner, the Dubai Multi Commodities Centre Authority (DMCCA), the Company reconfirmed an approved business plan and budget for the continuation of its Middle East North Africa (MENA) institutional sales and marketing effort. This plan now calls for deploying seasoned professionals in the region to boost sales efforts.
- The Company and DMCCA also approved the establishment of a Dubai-based retail and *takaful* (Islamic insurance) initiative for the United Arab Emirates.

- DMCCA, seed investor in the award-winning DSAM Kauthar Funds, agreed to extend its lock up of \$100 million of seed capital with the Funds' managers until April 30, 2011.
- The Company successfully assumed full responsibility for the Al Safi Trust, the independent, managed account alternative investment platform launched in 2008 where Shariah Capital is the exclusive Shariah advisor. Now, Shariah Capital can promote Al Safi to attract new managers and funds to the platform, create structured products around these funds, and facilitate distribution channels for the platform's products.
- The Company increased revenues from its core business and prudently reduced costs. As a result, the Company significantly lowered its net loss from \$1,064,009 in 1H09 to \$62,685 in 2010. The Company continued to be exceedingly careful in its management and deployment of cash. As of 30 June 2010, its cash reserves remain a solid \$4.6 million.

Our commodity-focused DSAM Kauthar Funds continued to garner accolades. For example, Barclay Hedge ranked the DSAM Kauthar Gold Fund in its Top Ten of Metals & Mining Hedge Funds for 7 of the past 12 months ending 30 June 2010. Likewise, the DSAM Kauthar Commodity Fund, our fund-of-funds equally allocated among the four individual DSAM strategies, remains widely cited as one of the most innovative Islamic products to emerge over the last several years.

While the Company was pleased with its increased revenues and enforced cost controls, as well as the recognition from our DSAM Kauthar Funds' success, the sustained global economic downturn continued to negatively impact both the Company and the Company's business partners in the first half of 2010. Investment capital in the MENA region, like seed capital in the West, remained scarce. Gulf institutional investors, similar to investors in the West, conveyed a growing aversion to risk as hope for an early economic recovery faded.

While the DMCCA re-confirmed its commitment to our Dubai Shariah Asset Management (DSAM) joint venture by agreeing to maintain a minimum \$100 million of capital in the DSAM Kauthar Funds until at least 30 April 2011, circumstances in Dubai, the result of the continuing global downturn, required that DMCCA redeem a significant portion of its seed capital. Consequently, as a result of DMCCA redemptions, total assets under management for the DSAM Kauthar Funds decreased to approximately \$150 million at 30 June 2010 and to approximately \$104 million as of the date of this letter.

The Company continues to address the above circumstances by maintaining strict cost controls. These controls resulted in reduced expenditures for the Company year-on-year from 1H09 to 1H10. Despite challenges on many fronts, the Board is pleased with management's execution of the Company's strategy thus far in 2010.

Personnel

There were no personnel changes in 1H10.

Financial Review

During the six months ended 30 June 2010, Shariah Capital realised a net loss of \$62,685 compared to a loss of \$1,064,009 for the same period in 2009.

The Company generated first half revenues of \$706,189 compared to \$662,696 in 2009, the result of fee income principally from its Al Safi Trust and DSAM investment products. Expenses decreased to \$858,298 for 1H10, compared to expenses of \$1,517,945 for 1H09.

Earnings per share for the period ending 30 June 2010 showed a loss of less than \$0.01, as compared to a loss of \$0.02 for the same period in 2009.

Liquidity and Capital Resources

In addition to increasing revenues, the Company diligently reduced spending and conserved cash during the first half of 2010. As at June 30, 2010, the Company maintained cash and cash equivalents of over \$4.6 million. Management believes that the Company's assets are adequate to fulfill existing commitments and pursue additional new business opportunities for the foreseeable future. Unless an opportunity to acquire or participate in a synergistic business presents itself, management has no current intentions of seeking a capital raise.

Outlook

Against the backdrop of global economic uncertainty, the Company does not expect a dramatic change in the cautious mood of Gulf institutional investors toward alternative investments during the second half of 2010.

However, based on our Funds' strong and compelling track records, we see some signs of interest. As a result, we consciously have taken a contrarian tact and increased our visibility in Dubai and the greater MENA region. Rather than reduce our presence, we plan to enhance it with selected, careful hires. We will pursue the opportunity to expand our business through new retail and *takaful* solutions rather than rely solely on the institutional market. We will re-double commitments to our local partners and local investors. If a global recovery begins to take shape by the end of 2010 or the beginning of 2011, we want our partners and investors to know that we are determined and dedicated to provide superior, Shariah compliant products from exceptional alternative investment managers.

As always, we are sincerely grateful to our shareholders for their continued confidence and support.

Eric Meyer
Chairman and CEO

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SHARIAH CAPITAL, INC.
BALANCE SHEETS

June 30,	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,615,588	\$ 2,473,463
Certificates of deposit	-	2,710,090
Fees receivable	306,059	369,464
Investment in DSAM Joint Venture	172,113	-
Due from related parties	50,399	47,281
Prepaid expenses and other current assets	57,950	50,388
Total current assets	5,202,109	5,650,686
Property and equipment, net	8,145	6,933
	5,210,254	\$ 5,657,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accrued expenses and other liabilities	\$ 134,027	\$ 221,030
Due to related parties	3,501	
Investment in DSAM Joint Venture		99,160
Total current liabilities	137,528	320,190
Stockholders' equity		
Common stock, \$.01 par value, 70,000,000 shares authorized; 61,744,132 shares issued at June 30, 2010 and 2009, respectively	617,441	617,441
Additional paid-in capital	12,585,957	12,193,722
Accumulated deficit	(8,025,329)	(7,388,834)
Treasury stock at cost, 73,900 and 42,450 shares at June 30, 2010 and 2009, respectively	(105,343)	(84,900)
Total stockholders' equity	5,072,726	5,337,429

\$ 5,657,619
 5,210,254

See accompanying notes to financial statements.

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**SHARIAH CAPITAL, INC.
 STATEMENTS OF OPERATIONS**

Periods Ended June 30,	2010	2009
Revenue		
Advisory fee income	\$ 661,191	\$ 624,950
Consulting fee income	44,998	37,746
Total revenue	<u>706,189</u>	<u>662,696</u>
Expenses		
Payroll and employee benefits	465,302	599,376
AIM expenses	41,648	45,392
Computer expenses	14,050	50,666
Depreciation	1,254	1,509
Insurance	29,965	31,136
Marketing	8,000	8,950
Office expense and supplies	7,916	9,194
Consulting and professional fees	207,837	243,861
Registrar fees	5,191	9,010
Rent	38,025	48,026
Other taxes	22,270	12,030
Stock-based compensation	2,172	445,984
Telephone	4,608	5,961
Travel and entertainment	10,060	6,850
Total expenses	<u>858,298</u>	<u>1,517,945</u>
Loss from operations	(152,109)	(855,249)
Other Income		
Interest and dividend income	23,831	21,479
Income (Loss) attributable to unconsolidated joint venture	<u>65,593</u>	<u>(230,239)</u>

Net loss	\$	\$	(1,064,009)
	(62,685)		
Loss per share, basic and diluted	\$	0.00	\$
			(0.02)
Weighted average shares outstanding, basic and diluted		60,344,132	60,244,132

See accompanying notes to financial statements.

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**SHARIAH CAPITAL, INC.
STATEMENTS OF CASH FLOWS**

Periods Ended June 30,	2010	2009
Cash flows from operating activities		
Net loss	\$ (62,685)	\$ (1,064,009)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	2,172	445,984
Income/loss attributable to unconsolidated joint venture	(65,593)	230,239
Unrealized appreciation/(depreciation)	-	1,507
Depreciation	1,254	1,509
Increase (decrease) in cash attributable to changes in operating assets and liabilities		
Fees receivable	128,673	(87,091)
Prepaid expenses and other current assets	(29,910)	21,273
Accrued expenses and other liabilities	30,494	74,100
Net cash used in operating activities	4,405	(376,488)

Cash flows from investing activities

Purchase of certificates of deposit	-	(1,160,005)
Redemptions of certificates of deposit	2,725,722	231,498
Purchase of property and equipment	(2,936)	-
Investment in DSAM Joint Venture	(108,861)	(137,478)
Net cash provided by (used in) investing activities	2,613,925	(1,065,985)
Cash Flows from financing activities		
Due from related parties	61,128	133,399
Due to related parties	3,501	-
Net cash provided by financing activities	64,629	133,399
Net change in cash and cash equivalents	2,682,959	(1,309,074)
Cash and cash equivalents, beginning of year	1,932,629	3,782,537
Cash and cash equivalents, end of year	\$ 4,615,588	\$ 2,473,463
Supplemental disclosures of cash flows information:		
Cash paid for income taxes	\$ 2,270	\$ 12,030

1. Nature of operations

Shariah Capital, Inc. (the "Company") was incorporated on September 6, 2006 as a Delaware Corporation. The Company creates and customizes Shariah-compliant financial products and platforms and provides Shariah consulting and advisory services primarily to financial institutions and investment management firms with product initiatives directed to Islamic investors in the Middle East and Far East and, specifically to, Islamic institutional and high net worth investors. The Company has built proprietary solutions endorsed by prominent Shariah scholars that enable hedge fund and other alternative investment managers to manage their portfolios consistent with their existing strategies and processes while complying with Shariah. The Company is exploring business opportunities with financial and investment management firms in Europe, Asia and the United States.

2. Summary of significant accounting policies

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

These financial statements were approved by management and available for issuance on September 29, 2010. Subsequent events have been evaluated through this date.

Reclassifications

For comparability, certain 2009 amounts have been reclassified to conform to the financial statement presentation used in the December 31, 2009 audited financial statements. For example, certain expenses related to maintenance (data feeds) have now been included in computer expenses.

Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents include cash held in banks and money market funds with original maturities of three months or less. In certain financial institutions, the Company maintains cash balances that, at times, may exceed federally insured limits. The Company has not experienced any losses on these accounts, and believes it is not subject to any significant credit risk.

Fees Receivable and Allowance for Doubtful Accounts

Fees receivable consist of advisory fees and consulting fees. Advisory fees are based on the percentage of the net assets of the fund for which the Company serves as the Shariah advisor. Consulting fees primarily consist of up-front non-refundable fees earned upon the commencement of the engagement, pursuant to the service agreements, a progress fee based upon completion of certain deliverables, and a final payment based upon the completion of the consulting and advisory services. Advisory fees and consulting fees are recognized in the year they are earned. On a periodic basis, the Company evaluates its fees receivable and determines if an allowance for doubtful accounts is necessary, based on the history of collections and current credit conditions. No allowance for doubtful accounts is deemed necessary at June 30, 2010 and June 30, 2009.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. The Company provides for depreciation utilizing the straight-line method over the estimated useful lives of the related assets. Computer equipment is depreciated using an estimated useful life of five years. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-Lived Assets

The Company accounts for long-lived assets under GAAP which requires the Company to review for impairment of long-lived assets, whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. When such an event occurs, management determines whether there has been an impairment by comparing the anticipated undiscounted future net cash flows to the related asset's carrying value. If an asset is considered impaired, the asset is written down to fair value, which is determined based either on discounted cash flows or appraised value, depending on the nature of the asset. The Company did not have any impairment losses on long-lived assets for the six month periods ended June 30, 2010 and June 30, 2009.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Stock-Based Compensation

GAAP requires an entity to measure the cost of employees services received in exchange for stock-based awards based on the grant date fair value of the awards. The grant date fair value of employee restricted stock-based awards will be estimated based on the market price of the Company's stock on the date of the grant. All stock-based awards granted to employees are recognized as compensation expense over the service period (generally the vesting period) in the financial statements based on their fair values established at the time the awards are granted. GAAP requires the Company to estimate the future forfeitures which has an impact on stock-based compensation expense. GAAP also requires the realization of tax benefits in excess of amounts recognized for financial reporting purposes to be recognized as a financing activity rather than an operating activity in the statements of cash flows.

If an award is modified after the grant date, incremental compensation expense, if any, will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before modification.

For non-employee stock-based awards, the Company recognizes an expense in accordance with GAAP and values the stock-based award on the fair value of the grant date of the award with subsequent adjustments based on the fair value of the award as it vests. The fair value of the restricted stock-based award is estimated based on the market price of the Company's stock.

Income Taxes

The Company is responsible for minimum taxes to the States of Delaware and Connecticut. Due to losses incurred for the years ended December 31, 2009 and 2008, no income tax provision for Federal taxes has been recorded in the accompanying financial statements.

The Company complies with the provisions of GAAP which requires an asset and liability approach to financial reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.

In accordance with GAAP, the Company is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. state and local jurisdictions. Generally the Company is no

longer subject to income tax examinations by major taxing authorities for years before 2006. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in the Company recording a tax liability that reduces retained earnings. This policy has been applied to all existing tax positions upon the Company's initial adoption for the year ended December 31, 2008. Based on its analysis, the Company has determined that the adoption of this policy did not have a material impact on the Company's financial statements upon adoption. However, the Company's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income taxes payable, if assessed. No interest or penalties have been assessed for the six month periods ended June 30, 2010 and June 30, 2009.

Valuation of Investments in Securities at Fair Value - Definition and Hierarchy

In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. In accordance with GAAP, a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Valuation Techniques

The Company values investments in mutual funds, which are included in cash and cash equivalents, based on the quoted market price of the net asset value of shares held at year end. Certificates of deposits are based on a market value pricing model.

Loss Per Share

Loss per share is based on the weighted average number of common shares outstanding. The Company complies with GAAP, which requires dual presentation of basic and diluted earnings per share on the face of the statement of operations. Basic loss per share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average common shares outstanding for the year.

The unvested weighted average of the restricted stock granted to employees of 1,400,000 and 1,500,000 for the six month periods ended June 30, 2010 and June 30, 2009, respectively, are antidilutive and have been excluded from the computation of loss per share.

Treasury Stock

During December 2009, the Company acquired 31,450 shares of common stock for approximately \$0.65 from an employee. During December 2008, the Company acquired 42,450 shares of common stock for approximately \$2.00 from an employee relating to the vesting of certain restricted stock which is held as treasury stock by the Company.

3. Property and equipment

Property and equipment consists of the following at June 30, 2010 and 2009:

	2010	2009
Computer equipment	14,184	15,094
Less accumulated depreciation	<u>6,039</u>	<u>8,161</u>
	8,145	6,933

Depreciation expense amounted to approximately \$1,300 and \$1,500 for the six month periods ended June 30, 2010 and 2009, respectively.

4. Fair value measurements

The Company's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GAAP. See Note 2 for a discussion of the Company's significant accounting policies.

The following table presents information about the Company's assets measured at fair value as of June 30, 2010 and 2009:

	2010 Quoted Prices in Active Markets for Identical Assets (Level 1)	2009 Quoted Prices in Active Markets for Identical Assets (Level 2)
Assets (at fair value)		
Investment in mutual funds	\$-	\$-
Certificates of deposit	\$-	\$2,710,090

5. Stock-based compensation

The Company granted 2,700,000 shares of restricted stock on December 7, 2006 to several employees, which had an initial vesting schedule of over three years. The fair value of the shares on the grant date was \$2,700,000. In December 2007, the Company amended the terms of the granted restricted stock awards. The amendment increased the December 7, 2006 shares for certain employees by 5% or 47,500 shares, and extended the vesting period from December 7, 2007 to March 31, 2008, subject to earlier acceleration at the option of the Company. In December 2008, the Company amended the terms of the granted restricted stock awards for two of its employees. The amendment extended the vesting date for 600,000 shares of common stock from December 7, 2008 to December 7, 2009. In December 2009, the Company amended the terms of the granted restricted stock awards for two of its employees. The amendment extended the vesting date for 1,400,000 shares of common stock from December 7, 2009 to December 7, 2010.

The fair value of each restricted stock award was estimated on the date of grant or the date of modification, if there was an additional incremental compensation cost, based on the market price of the Company's stock at that date.

Stock-based compensation expense amounted to approximately \$2,000 and \$446,000 for the six month periods ended June 30, 2010 and 2009, respectively. The stock-based compensation expense to be recognized in future periods is approximately \$2,000 at June 30, 2010 and is expected to be recognized over the remaining vesting periods.

6. Income taxes

The Company has available net operating loss carry forward of approximately \$5,858,228 to offset future taxable income expiring at various dates through 2029.

The Company has a deferred tax asset of approximately \$2,100,000 and \$3,385,000 at December 31, 2009 and 2008, respectively, and has recorded a tax benefit of approximately \$2,100,000 and \$3,385,000 for the years ended December 31, 2009 and 2008, respectively. In recognition of the uncertainty regarding the ultimate amount of income tax benefit to be derived, the Company has recorded a valuation allowance at June 30, 2010 and 2009 for the full amount of the deferred tax asset.

7. Commitments and contingencies

Operating Leases

In February 2010, the Company entered into an operating lease for its corporate office in Connecticut, which expires in January 2011, with an optional one year extension. Rent expense amounted to approximately \$38,000 and \$48,000 for the six month periods ended June 30, 2010 and 2009, respectively.

The minimum annual rental payments are as follows:

Year ending December 31,	
2010	\$36,000
2011	<u>\$6,000</u>
	\$42,000

Employment Agreements

The Company entered into employment agreements with its management employees effective December 7, 2006, whereby annual salaries aggregate \$1,050,000. The agreements have no termination date; however, they provide for six to twelve months-notice of termination and annual salaries to be paid through the termination date. In addition, the agreement with the Chairman and Chief Executive Officer of the Company provides for a \$650,000 termination fee.

In January, 2010, in an effort to reduce costs, two executive officers reduced their base annual salary by \$25,000 and \$50,000 respectively, thereby saving the Company \$75,000 in base salary expense for fiscal year 2010.

The Company made a non-recourse loan of \$50,000 to an employee and member of the Board of Directors in January, 2010, which loan is secured by 100,000 shares of stock in the Company.

Non-Executive Director Service Agreement

A non-executive director for the Company received compensation of \$7,500 and \$4,800 for the six month periods ending June 30, 2010 and 2009, respectively, for serving as a member on the Board of Directors of the Company.

8. Related party transactions

During 2008, the Company and other enterprises formed the Al Safi Trust, a Cayman Islands trust with related sub-trusts ("Al Safi"). Al Safi is a Shariah-compliant alternative investment platform, and the first platform to provide an infrastructure for long and short-term Shariah-compliant investments. The Company is the Shariah adviser and receives a Shariah advisory fee based on the net asset value of all Al Safi sub-trusts. In 2008, four sub-trusts were formed on Al Safi, each of which was seeded with \$50,000,000 by the Dubai Multi Commodities Centre Authority ("DMCCA"). Advisory fee income from Al Safi amounted to approximately \$661,000 and \$625,000 for the six month periods ended June 30, 2010 and 2009, respectively. Consulting fee income from Al Safi amounted to approximately \$10,000 and \$13,000 for the six month periods ended June 30, 2010 and 2009, respectively.

In connection with forming the Al Safi Trust, the Company announced a joint venture with DMCCA. The joint venture entity, Dubai Shariah Asset Management Company, Ltd. ("DSAM") is owned 51 percent by Dubai Commodity Asset Management ("DCAM"), which is wholly owned by DMCCA, and 49 percent by the Company. The investment is accounted for under the equity method of accounting for long-term investments.

DSAM develops and manages Shariah-compliant investment products focused on commodities. DSAM has the right to assess a fee based on a percentage of the net asset value of the four sub-trusts seeded by the DMCCA (exclusive of capital invested by the DMCCA).

The Company is the Shariah adviser to DMCCA for related Shariah-compliant investments. Consulting fee income from the DMCCA amounted to approximately \$35,000 and \$25,000 for the six month periods ended June 30, 2010 and 2009, respectively.

DCAM and the Company each pay expenses on behalf of DSAM and these payments are considered capital contributions to DSAM.

The Company's income (loss) attributable to DSAM amounted to approximately, \$66,000 and \$(230,000), for the six month periods ended June 30, 2010 and 2009, respectively and is included in the accompanying statements of operations.

The Company had a payable to DMCCA in the amount of approximately \$4,000 at June 30, 2010 and had a receivable from DMCCA in the amount of approximately \$47,000 at June 30, 2009, based on the allocation of expenses from DSAM. The receivable amount was subsequently repaid by DMCCA in January 2010.

Subsequent to December 31, 2009, the DMCCA issued a letter committing to maintain investment capital (net of investment losses) of no less than \$100,000,000 in sub-trusts of Al Safi Trust through April 30, 2011. The DMCCA redeemed a portion of its investment capital at the end of the first quarter of 2010 and an additional portion of investment capital at the beginning of the third quarter of 2010. The assets under management in the Al Safi Trust are in excess of \$104,000,000 as of September 18, 2010.

9. Major customers

The Company had advisory fee income from one related party that accounted for 100% of the Company's total advisory fee income for the six month periods ended June 30, 2010 and 2009.

The Company had consulting fee income from two related parties that accounted for approximately 100% of the Company's total consulting fee income for the six month periods ended June 30, 2010 and 2009.

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