



*The
Investment Dar*

Annual Report 1996

AUDITORS' REPORT

To the Shareholders of
Investment Dar Company KSC (Closed)
Kuwait.

We have audited the accompanying balance sheet of Investment Dar Company K.S.C (Closed), Kuwait as at December 31, 1996 and its related statements of income and appropriation and cash flows for the first period from date of incorporation to December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 1996, and the results of its operations and its cash flows for the period then ended in accordance with International Accounting Standards. The financial statements include disclosures required by the Commercial Companies Law and the Company's Articles of Association.

Also, in our opinion, proper books of accounts have been kept, physical inventory was duly carried out and the financial information contained in the director's report agrees with the books of account. We obtained all the information and explanations which we deemed necessary for the purpose of our audit. To the best of our knowledge and belief no violation of the Commercial Companies Law and the Company's Articles of Association having a material effect on the business of the Company or its financial position have occurred during the period.

We further report that, during the course of our audit, we have not become aware of any violations of the provision of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the period ended December 31, 1996.



Bader A. Al- Wazzan
Licence No. 62 A
of Bader & Co. Coopers & Lybrand

Kuwait, January 25, 1997

BALANCE SHEET

As at December 31, 1996

	<u>Note</u>	<u>1996 KD</u>
Assets		
Cash in hand and at banks		1,126,889
Murabaha investments	4	5,615,372
Debtors and other debit balances	5	37,157,299
Motor vehicles inventory	6	677,631
Fixed assets	7	<u>177,340</u>
Total assets		<u>44,754,531</u>
Liabilities and shareholders' equity		
Liabilities		
Creditors and other credit balances		2,345,578
Murabaha payables by instalments	8	19,352,751
Deferred profit	9	4,768,081
Shareholders dividend	10	<u>1,738,000</u>
		<u>28,204,410</u>
Shareholders' equity		
Share capital		15,800,000
Statutory reserve	11	265,144
Voluntary reserve	12	265,144
Retained earnings	13	<u>219,833</u>
Total shareholders' equity		<u>16,550,121</u>
Total liabilities and shareholders' equity		<u>44,754,531</u>

The accompanying notes form an integral part of these financial statements.



Ahmed A. Al - Dosari
General Manager



Adnan A. Al - Musallem
Managing Director



Naser M. Al - Sayer
Chairman

STATEMENT OF INCOME AND APPROPRIATIONS

For the period from August 27, 1995 (Date of incorporation) to December 31, 1996

	<u>Note</u>	<u>1996</u> <u>KD</u>
Revenue		
Gross profit for the period	14	2,758,870
Income from Murabaha investment		<u>1,026,280</u>
		<u>3,785,150</u>
Expenses and other charges		
General and administrative		1,266,860
Provision for doubtful debts		875,000
Depreciation		<u>56,253</u>
		<u>2,198,113</u>
Net profit for the period		1,587,037
Pre-incorporation profit	15	<u>1,064,399</u>
Net profit		<u>2,651,436</u>
Proposed Appropriations:	19	
Transfer to statutory reserve	12	265,144
Transfer to voluntary reserve	13	265,144
Kuwait Foundation for the Advancement of Sciences		119,315
Shareholders dividend (11 Fils per share)		1,738,000
Board of Directors' remuneration		44,000
Retained earnings		<u>219,833</u>
		<u>2,651,436</u>

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the period from August 27, 1995 (Date of incorporation) to December 31, 1996

	<u>Note</u>	<u>1996</u> <u>KD</u>
Cash flows from operating activities		
Net profit for the period		2,651,436
Adjusted for:		
Zakat calculated		58,627
Depreciation		56,253
Provision for end of service benefits		42,000
Provision for doubtful debts		875,000
Income from Murabaha investments		(2,090,679)
		<u>1,592,637</u>
Changes in operating assets/liabilities		
Trade debtors and other debit balances		(38,008,817)
Deferred profit		4,768,081
Motor vehicles inventory		(677,631)
Creditors and other credit balances		<u>2,121,157</u>
Net cash used in operating activities		<u>(30,204,573)</u>
Cash flows from investing activities		
Payments for purchase of fixed assets		(233,593)
Murabaha income received		<u>2,067,197</u>
Net cash from investing activities		<u>1,833,604</u>
Cash flows from financing activities		
Paid up capital		15,800,000
Receipt form Murabaha by instalments		19,352,751
Zakat paid		(39,521)
Net cash from financing activities		<u>35,113,230</u>
Cash and cash equivalents at the end of the period	16	<u><u>6,742,261</u></u>

The accompanying notes form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

For the period ended December 31, 1996

1. Constitution & Activities

Investment Dar Co. is a Kuwaiti Shareholding Company (Closed) registered in Kuwait in 1994 as per contract No. 8 Vol. 603 dated 22 October 1994 and registered as Investment Company at Central Bank of Kuwait on 27 August 1995. The Company is engaged in the following activities:-

1. Mediation and brokerage;
2. All financial transactions in accordance with Islamic Sharee'a and regulations.
3. Providing consumers with credit facilities;
4. Participating in establishing companies and dealing in purchasing and selling shares of these companies and others;
5. Stock exchange transactions.
6. Managing financial portfolios, investing and developing its customers' funds.
7. Investing in real-estate, manufacturing, agricultural and other sectors of economy;
8. Investing in real-estate aiming to improve lands for housing, build residential and commercial complexes to sell or rent;
9. Carrying out research and studies of capital employment and rendering different relevant services to others.

All of previous mentioned activities should be carried out in compliance with the Islamic Sharee'a and regulations.

The Company's main activity during the period was selling motor vehicles to consumers based on Musawma agreements along with Murabaha investments with local Islamic financial institutions.

2. Basis of preparation of financial statements

The financial statements have been prepared in accordance with International Accounting Standards under the historical cost convention.

3. Significant accounting policies

a) Trade debtors

Balance of trade debtors is stated in the balance sheet net of specific and general provisions for any probable losses. The general provision covers the risk of expected doubtful debit which may exist in general. The provisions charged are made in accordance with the Central Bank of Kuwait instructions.

b) Inventory

Inventory of motor vehicles for resale are valued at lower of cost and net realisable value. Cost is determined on specific identification basis.

c) Fixed assets and depreciation

Fixed assets are stated at cost net of accumulated depreciation, and depreciated on the straight line method over their estimated useful lives.

d) Revenue recognition

- Sales income is recognised on transfer of the legal title of goods covered in Musawma agreements to the buyers. Collection of credit sale from customers is made in several instalments over a period as defined in the sale contracts.
- Profit on instalment sales are taken to the income when earned. These profits are recognised over the relevant collection period on time proportion basis.
- Profit on Murabaha investments is recognised on an accrual basis.

e) Murabaha agreement cost

Cost of Murabaha agreements are distributed over the period of these agreements. These costs are taken to income statement on time proportion basis.

f) End of service benefits

End of service benefits are calculated in accordance with the Kuwait Labour Law relating to private sector and the Company's by-laws.

g) Foreign currencies

Monetary assets and liabilities in foreign currency at the balance sheet date are translated to Kuwaiti Dinars at the rates of exchange prevailing at that date. Foreign currency transactions are translated to Kuwaiti Dinars at the rates of exchange prevailing at the date of the transaction. Exchange differences thus arising are taken to the income statement.

h) Cash equivalents

Cash equivalents for the purpose of preparing the statement of cash flows are represented by Murabaha investments due within a period not exceeding three months from the date of deposit.

4. Murabaha investments

The balance of KD 5,615,372 represents Murabaha investments managed by local Islamic financial institutions.

NOTES TO FINANCIAL STATEMENTS

For the period ended December 31, 1996

5. Debtors and other debit balances

	<u>1996</u> <u>KD</u>
Trade debtors	33,626,356
Less: provision for doubtful debts	(875,000)
Net trade debtors	32,751,356
Murabaha balances due from customers	4,361,383
Accrued income on Murabaha investments	23,482
Prepaid expenses	7,165
Other debit balances	<u>13,913</u>
	<u>37,157,299</u>

6. Motor vehicles inventory

Inventory as of 31 December 1996 includes Motor vehicles for resale having cost of KD 667,281 maintained as a consignment inventory with local suppliers.

7. <u>Fixed assets</u>	<u>Furniture</u> <u>KD</u>	<u>Office</u> <u>equipment</u> <u>KD</u>	<u>Computers</u> <u>KD</u>	<u>Total</u> <u>KD</u>
Additions during the period	116,043	20,269	97,281	233,593
Depreciation for the period	(23,117)	(6,184)	(26,952)	(56,253)
Net book value as at December 31, 1996	<u>92,926</u>	<u>14,085</u>	<u>70,329</u>	<u>177,340</u>
Estimated useful lives/year	3	3	3	

8. Creditors and other credit balances

	<u>1996</u> <u>KD</u>
Trade suppliers	1,591,642
Accrued expenses and leave pay	255,382
Kuwait Foundation for Advancement of Sciences	119,315
Board of Directors' remuneration	44,000
End of service benefits	42,000
Other credit balances	<u>293,239</u>
	<u>2,345,578</u>

9. Murabaha payable by instalments

	1996
	<u>KD</u>
- Motor vehicles Murabaha agreements payable by instalments	17,352,751
- Due on Wekkala agreements	<u>2,000,000</u>
	<u>19,352,751</u>

- The balance of KD 17,352,751 represents liabilities resulted from purchase of motor vehicles by Murabaha on instalment. The purchase amount is payable over a maturity period upto 4 years.
- The balance of KD 2,000,000 represents an amount received against an agreement with one of the government authorities for investment and is payable over a period of three years.

10. Deferred profit

Deferred profit of KD 4,768,081 represents a portion of the profit on sales deferred to subsequent years and appropriated on time proportion basis over agreements periods.

11. Share capital

The authorised, issued and paid up capital of KD 15,800,000 is divided into 158,000,000 shares of 100 fils each.

12. Statutory reserve

As required by the Commercial Companies Law and the Company's Articles of Association, 10% of profit for the period ended December 31, 1996 has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except as stipulated by law.

13. Voluntary reserve

As required by the Company's Articles of Association, 10% of annual net profit for the period December 31, 1996 has been transferred to voluntary reserve. Such annual transfer may discontinue by resolution at the General Assembly based on directors' suggestion .

14. Gross profit for the period

Gross profit for the period is stated net of deferred profit.

NOTES TO FINANCIAL STATEMENTS

For the period ended December 31, 1996

15. Pre-incorporation profit

This represents profits from Murabaha investments managed by local financial institutions. Such profits were earned during the period from July 7, 1994 to August 27, 1995 (The date of registration in the investment companies register at Central Bank of Kuwait).

16. Cash and Cash equivalents

	<u>1996</u> <u>KD</u>
Cash in hand	24,552
Cash at banks and financial institutions	1,102,337
Murabaha investments	<u>5,615,372</u>
	<u>6,742,261</u>

17. Related party transactions

In the normal course of business, the company's transactions during the period included transactions conducted with companies and establishments related to particular directors of the company. These transactions amounted to KD 12,722,947 and represent value of purchasing motor vehicles for resale. Balance due to the these related parties as at December 31,1996 is KD 975,943. Related parties transactions are subject to the approval of the shareholders' general assembly meeting.

18. Incorporation expenses

The Company's shareholders have settled the incorporation expenses amounting to KD 230,250 to Al Shal Economic Consultants which carried out the studies required for the formation of the Company, whereas Company's Articles of Association provide that these expenses are to be charged to the Company's expenses. The ordinary general assembly held at June 11,1996 has approved the Company's operations which include the payment of the incorporation expenses by the shareholders.

19. Appropriations

Proposed appropriations are subject to the approval of the shareholders general assembly.

20. Financial instruments

In the normal course of business, the Company deals in financial instruments such as cash in hand and at banks, investment in Murabaha, trade debtors and creditors. The book value of these financial instruments as of 31 December 1996 is approximately equal to its fair value.

21. Geographical distribution of assets and liabilities

As at 31 December 1996, all the Company's assets and liabilities were held in Kuwait.

22. Maturity analysis of assets and liabilities

Assets	<u>within 3 months KD</u>	<u>from 3 months to 1 year KD</u>	<u>from one year to 5 years KD</u>	<u>more than 5 years KD</u>	<u>Total KD</u>
Cash in hand and at banks	1,126,889	-	-	-	1,126,889
Murabaha investments	5,615,372	-	-	-	5,615,372
Debtors and other debit balances	5,986,543	4,741,798	26,428,958	-	37,157,299
Motor vehicles inventory	377,631	300,000	-	-	677,631
Fixed assets	<u>19,464</u>	<u>58,400</u>	<u>99,476</u>	-	<u>177,340</u>
Total	<u>13,125,899</u>	<u>5,100,198</u>	<u>26,528,434</u>	<u>-</u>	<u>44,754,531</u>
Liabilities					
Creditors and other credit balances	1,978,962	187,265	179,351	-	2,345,578
Murabaha payables by instalments	2,548,726	4,368,006	12,436,019	-	19,352,751
Deferred profit	479,680	1,439,043	2,849,358	-	4,768,081
Shareholders dividend	1,738,000	-	-	-	1,738,000
Shareholders equity	-	-	-	<u>16,550,121</u>	<u>16,550,121</u>
Total	<u>6,745,368</u>	<u>5,994,314</u>	<u>15,464,728</u>	<u>16,550,121</u>	<u>44,754,531</u>