



Annual Report 2002

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INNOVATE
DEVELOP
COMMIT

We go further ... to offer you more

In The Name of Allah,

The Most Gracious, The Most Merciful

*But Allah hath permitted trade
and forbidden usury*

*The Holy Qor'an, Sura Al-Bakara (275)
(Text Translation)*



Sharia Principles

*Creating Business opportunities
within the boundaries of
Islamic Sharia principles*



INNOVATE
DEVELOP
COMMIT

We go further ... to offer you more



His Highness Sheikh

Jaber Al Ahmed Al Jaber Al Sabah

Amir of the State of Kuwait



Solid Framework

*Building upon a solid business
framework that generates flow
of financial activities along with
superior returns*





INNOVATE
DEVELOP
COMMIT

We go further ... to offer you more



His Highness Sheikh

Saad Al Abdullah Al Salem Al Sabah

Crown Prince and Prime Minister

Cultural Values

Our operations are based on an understanding of the local culture and religious heritage





INNOVATE
DEVELOP
COMMIT

We go further ... to offer you more

THE INVESTMENT DAR COMPANY K.S.C.
(CLOSED) AND ITS SUBSIDIARIES
KUWAIT

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Teamwork

*Our success is highly dependent
upon our commitment of working
together as a team to achieve a
common goal*



BOARD OF DIRECTORS



Adnan Mohammad Al-Wazzan
Chairman



Adnan Abdul Qadir Al-Musalleem
Vice Chairman
Managing Director



Badr Musaed Al-Sayer
Board Member



Rezam Mohammed Al-Roumi
Board Member



Adel Mohammad Behbehani
Board Member



Omar Suleiman Al-Kazi
Board Member



Marzouq Ali Al-Ghanem
Board Member

Highly Skilled

*Our highly skilled
management has a strong
reputation for ensuring the growth
and honouring their commitments.*





INNOVATE
DEVELOP
COMMIT

We go further ... to offer you more

SHARIA SUPERVISORY BOARD



Sheikh
Ahmad Bazie Al-Yaseen
Chairman



Sheikh
Dr. Khaled Mathkour Al-Mathkour
Member



Sheikh
Dr. Ajeel Jasem Al-Nashmi
Member



Sheikh
Dr. Mohammad Fawzi Faidullah
Member



Well Calculated Strategies

*Achieving greater returns through
precision planning and well calculated
strategies*



CHAIRMAN'S SPEECH

Dear Shareholders,

I am pleased to meet you today at this revered General Assembly to highlight further success and development realized last year, added to our business achievements since our company was established some few years ago. Our steps are firm, our resolve is strong and our confidence in our performance persists towards achieving our goals and honoring our commitments. Our business line is, therefore, continuing in conformity with the professional standards applicable to study, planning and implementation techniques.

The results achieved were, therefore, fruitful and significant in terms of the challenges our company faced on both local and international fronts. On the international arena, the year 2002 witnessed consecutive and continued repercussions of the 11th of September incidents and the ensuing changes and challenges in the world economy. These incidents were exacerbated by the negative impacts of the blurred vision arising out of the potential war against Iraq which drove the whole world into an atmosphere of uncertainty, suspicion and mistrust, and negatively reflected on the world economies, in the forefront of which is the American economy which suffered a slow pace of growth, thereby reflecting on the remaining countries in the world.

These economic shortcomings endured by the world economy, specifically the American economy, bore negative reflections on the US dollar which suffered considerable price pressures against the world major currencies during year 2002, the most noticeable of which was the interest rate cut on the US dollar. And, since the Kuwaiti dinar maintains historical linkage with the US dollar, the Central Bank of Kuwait made several cuts on the discount rate to reach 3.25 points as on 31/12/2002, the lowest in over 25 years. Consequently, profit margins decreased in the financial markets and competition heated in the domestic market, particularly with the availability of liquidity with the domestic banking and financing sector, the reduced local investment opportunities and the continued hegemony of the public sector on the overall economic activity in the country.

Dear Shareholders,

Notwithstanding the uncertainty that prevailed during year 2002 as a result of the potential war in the area, which considerably contributed to freezing and rescheduling many economic governmental and private sector plans and programmes, and the ensuing impacts on the overall economic and business activities in the country, we succeeded; however, to triumph over these obstacles and realize record results within clear-cut business strategies and flexible administrative and organizational structure as well as our human resources, specifically the national ones. These achievements were reached by diversification of our products to satisfy clients' requirements and their actual needs, along with serving our national economic sectors with high flexibility, as well as dividing each economic sector into specialized sub-market sectors, openness to the external markets, specifically the Gulf markets, and the strategic change applied by the Company, so as to concentrate on the quality of services rendered to the public between retail, commercial, real estate financing and investment services, management of third party funds and financial intermediation between investors and clients.

This distinguished performance of Investment Dar made it one of the major companies listed on the Kuwait Stock Exchange, towards which investors looked to as a safe investment shelter and a long-term strategic investment. The Kuwait Stock Exchange witnessed noticeable



performance during year 2001 despite the negative global performance in the financial markets, whereby the general price index in the Kuwait Stock Exchange rose during year 2002 by 39% above the previous year levels, and the market capitalization reached 28.6%, the trading value increased by 86%, while the volume of traded shares rose by 71%.

With regard to the Investment Dar, share performance witnessed record levels last year. The volume of Investment Dar's traded shares reached 527 million shares with a trading value of KD 121.2 million and a share turnover ratio of 216%. Meanwhile, the market value of Investment Dar shares rose by 45% to close in year 2002 at 250 fils per share, as compared to closing at 172 fils at end of year 2001.

Dear Shareholders,

The positive factors made available to our company in terms of keeping away from unstudied speculations and accidental hastiness, the company's keenness and its reservation tuned in conformity with the professional standards and the market instruments, contributed to realizing this quality move in the company's distinguished financial results.

Our company's net profits reached KD 4.094 million, i.e. a growth of 37% above year 2001 levels. Shareholders' equity increased by 12% to KD 37.642 million from KD 33.514 million in year 2001. The company's assets reached KD 199.305, i.e. an increase of 31% from KD 152.442 million in year 2001. Meanwhile, the company's share realized a profit of 16.82 fils from 12.2 fils at end of year 2001, i.e. an increase of 37%.

Dear Shareholders,

These record achievements are not the conclusion of our aspirations. Rather, they represent a further cycle of our continued and compact cycles of ambitions which we wish to achieve. In view of the ample results realized this year, we recommend to your revered General Assembly to distribute bonus shares by 10% for the financial year ending 31/12/2002.

I would like also to confirm before you our course of action towards fulfillment of the promises we gave and assurance of our commitment for the advancement of our company and the welfare of our national economy under the leadership and patronage of His Highness the Amir, congratulating His Highness on the twenty fifth anniversary of his reign in the country, and His Highness the Crown Prince, the government, the Kuwaiti people and residents. We thus repay to our country a part of its gracious endowments to us, complying with the standards of our Islamic Shari'ah. Investment Dar symbolized a model to be taken after for the positive application of the Islamic financial instruments, through which we contributed to make available investment opportunities tailored to both our corporate clients and individual customers as well.

Dear Shareholders,

Before demonstrating some of our achievements on the practical and executive levels, let me, on behalf of my colleagues, the members of the Board of Directors and your General Assembly in this meeting and myself, express our thanks and gratitude to the venerable scholars

and professors members of the "Shari'ah Supervisory Board" of the Company for their sincere effort, and the precious directions and advice they extend to Investment Dar.

We are also proud to indicate the key role played by the Company's executive management and all its staff members for the sincere effort they expended to realize the Company's ambitions and objectives. The human factor is the real wealth by that nations take proud in and the success of these aspirations reflect the success of such nations.

Dear Shareholders,

I would like to seize the opportunity of the convention of your General Assembly to outline some of the achievements realized by the Company on the domestic level. The most significant of which are the following:

- A new department was established within the Company's organizational structure. This department is in charge of management of investments through incorporation and management of investment portfolios and funds and directly supervise them.
- The first real estate investment fund was successfully tendered by the Company for subscription. The subscription was underwritten in full in accordance with the company's expectations and plans despite the severe competition and the large number of investment funds offered in the domestic market, along with the expected war atmosphere. This reassures us of the high regard Investment Dar enjoys and the trust accorded to the company by various investors.
- The diversification of investments in the various sectors of the real estate market. We have also completed the second stage of Manazel Housing Project and developed it to encompass (Al-Sahab) Manazel for residential apartments, (Al-Seef) Manazel for resorts, whereby the real estate activity in the company grew considerably compared to the previous year levels.
- The horizontal expansion by means of opening the Company's premises in Al-Rai Area in the vicinity major auto agents. The sales and collection departments as well as the supporting departments thereto moved to Al-Rai premises. We have also inaugurated the sun City branch in the middle of Shuwaikh Commercial Area so as to enhance communication between the company's suppliers on the one hand, and be close to clients and render the best service to them, on the other hand. Accordingly, the Company has seven branches distributed to all areas of Kuwait and its governorates.
- Development of Investment Dar's products and services rendered to the public, particularly those pertinent to product automation and the response with the world business environments changes through electronic channels, where the Company used SMS technology and the telephone call service (IVR) for activation of collection processes within the Customer Service Department.
- For the same purpose, and in order to establish enhanced communication and feedback with our clients and facilitate their



transactions, an unprecedented agreement was signed between Investment Dar and a local bank where Investment Dar clients would be able to pay their installments through Burgan Bank branches. Furthermore, the One Click Finance Program was developed in order finance information technology, thereby establishing The Investment Dar as pioneers in enhancing the State's trends towards creating electronic environments and processing electronic commercial deals on the internet, as well as activating the leasing (Ijara) mechanism in both its financing and operational aspects.

- Investment Dar has created new mechanisms for communication between consumers and suppliers through organizing the "From Basics to Fabrics", which brought businesses to the public environment and activated the economic cycle in combining the national supplier of the commodity with the end user, as well as providing the financial facilities and the required financing by Investment Dar at the same location and time.
- Investment Dar acquired a higher credit rating by world renowned credit agencies such as Capital Intelligence. The Company was granted financial credit lines by grand financial institutions and banks, thereby indicating the sound financial performance of the Company, its development and the trust it has acquired.
- Furthermore, our Company has initiated substantial business projects in the Qatari market where we are heading towards owning an influential equity in one of the Qatari investment companies, along with the expansion of Al-Dar business there, as a prelude to entering other markets in the area.

Dear Shareholders,

This is a part of a whole which we maintain for the growth of our Company and continuance of its success. The future bears further success for us. We are on the verge of a new phase and a promising future signified in the endorsement of the Islamic Banking Act. As you know, Investment Dar carries out all its business along Islamic financial business lines.

You are also acquainted with the fact that we are nearing completion merger with Al-Mal Investment Company after the Company received the merge study from the concerned body conducting such study. This merger is expected to be completed within the first quarter of 2003. Thus, Investment Dar inaugurates a new phase in Islamic financial business and further its role as one of the leading companies in the Islamic financial markets industry.

Furthermore, the year 2003 signifies the fifth year in the Company's Five-Year Strategic Plan. Commencing in year 2004, Investment Dar shall start a new business strategy for opening a wider scope of business whose results will be shown soon.



Dear Shareholders,

In conclusion, I have to indicate that our achievements were not confined to financial activities. Rather, they were expanded to the social development by means of the Company's commitments to pay its Zakat for its funds and its contribution to enhancing the community's issues and offering the financial and incorporeal support to charity projects which are advantageous and beneficial to individuals in the community, so as to help them become beneficial citizens, protect them against diseases and lend support to individuals with special needs, as well as institutions patronizing them. Furthermore, Investment Dar has great concern for insolvents in jails and is seeking in cooperation with all persons acting on development of these charity issues to alleviate their ordeals and mitigate the pressures on individuals and the community.

Thank you and, please accept our best wishes for the advancement and success of our Company.

Chairman

Adnan Al-Wazan

Exploring Opportunities

*Opening the door to a host of
financial benefits and new
business ventures*



SHARIA SUPERVISORY BOARD’S REPORT

We have reviewed The Investment Dar Company activities during the year ended 31 December 2002, we certify that all activities were practiced in compliance with Islamic Sharia and no violations have occured, to the best of our knowledge.

Sheikh/ **Ahmad Bazie Al-Yaseen**
 Chairman



Sheikh / Dr. **Khaled Mathkour Al-Mathkour**



Sheikh / Dr. **Ajeel Jasem Al-Nashmi**



Sheikh / Dr. **Mohammad Fawzi Faidullah**





**THE INVESTMENT DAR COMPANY K.S.C. (CLOSED) AND ITS SUBSIDIARIES
(KUWAITI SHAREHOLDING COMPANY - CLOSED)
KUWAIT**

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE
YEAR ENDED 31 DECEMBER 2002**



**Al Nisf & Partners
Public Accountants**



THE INVESTMENT DAR COMPANY K.S.C.
(CLOSED) AND ITS SUBSIDIARIES
KUWAIT

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The Shareholders

The Investment Dar Company

Kuwaiti Shareholding Company (Closed)

State of Kuwait

Independent Auditors' Report

We have audited the accompanying consolidated balance sheet of The Investment Dar Company, Kuwaiti shareholding Company - (Closed) "the Company" and its subsidiaries (referred to as "the Group") as at 31 December 2002 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended.

Responsibilities of Management and Auditors

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2002 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Other Regulatory Issues

We further report that we have obtained all the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Kuwait Commercial Companies Law of 1960, as amended, and the company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2002, of the Commercial Companies Law of 1960, as amended, or of the company's articles and memorandum of association, or of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business and its related regulations, that would materially affect the Group's activities or its financial position.



Qais Al Nisf
 Licence No 38 A
 of KPMG Al Nisf & Partners
 Member firm of KPMG International



Bader A. Al-Wazzan
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 Bader & Co. PricewaterhouseCooper

Kuwait 23/2/2003



THE INVESTMENT DAR COMPANY k. s. c. (Closed) AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

as at 31 December 2002

(All amounts in Kuwaiti Dinars)

| As at 31 December | | | |
|---|-------|-------------|-------------|
| | Note | 2002 | 2001 |
| Assets | | | |
| Cash and cash equivalents | 4 | 1,957,131 | 6,081,466 |
| Murabaha investments | | 183,670 | 179,372 |
| Trade receivable | 5 | 149,608,223 | 124,982,659 |
| Other debit balances | 6 | 10,590,934 | 3,950,045 |
| Investment properties | 7 | 4,855,369 | 3,522,790 |
| Investments available for sale | 8 | 1,814,827 | 2,418,385 |
| Investments in associated company | 9 | 1,792,657 | 1,658,875 |
| Land and realestate under development | 10 | 27,197,337 | 8,373,798 |
| Intangible assets | 11 | 651,218 | 750,119 |
| Fixed assets | 12 | 653,395 | 524,145 |
| Total assets | | 199,304,761 | 152,441,654 |
| Liabilities and Shareholders' equity | | | |
| Liabilities | | | |
| Creditors and other credit balances | 13 | 11,071,771 | 7,063,173 |
| Murabaha & Murabaha payable | 14 | 150,310,355 | 111,652,056 |
| Total liabilities | | 161,382,126 | 118,715,229 |
| Employees end of service indemnity | | 280,857 | 212,247 |
| Shareholders' equity | | | |
| Share capital | 15 | 24,344,640 | 22,752,000 |
| Treasury shares | 16 | - | (73,220) |
| Gain on treasury shares | | 69,916 | - |
| Reserves | 17,18 | 9,859,216 | 9,112,647 |
| Retained earnings | | 3,368,006 | 1,722,751 |
| Total Shareholders' equity | | 37,641,778 | 33,514,178 |
| Total liabilities and shareholders' equity | | 199,304,761 | 152,441,654 |

Adnan A. Al-Musallem

Vice Chairman
Managing Director

Adnan M. Al-Wazzan

Chairman

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

THE INVESTMENT DAR COMPANY k. s. c. (Closed) AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

for the year ended 31 December 2002

(All amounts in Kuwaiti Dinars)

| | | For the year ended 31 December | |
|---|------|--------------------------------|-------------|
| | Note | 2002 | 2001 |
| Revenue | | | |
| Finance revenues | | 15,228,483 | 13,958,280 |
| Finance cost | | (9,513,789) | (8,838,796) |
| Net finance income | | 5,714,694 | 5,119,484 |
| Income from cash sales | | 1,887,343 | 381,648 |
| Company's share in profit of managed portfolios | | 586,198 | 952,375 |
| Income from investments | 19 | 473,807 | 157,577 |
| Portfolio management fees and other income | | 402,859 | 576,610 |
| | | 9,064,901 | 7,187,694 |
| Expenses and other charges | | | |
| General and administrative | | 2,753,984 | 2,122,515 |
| Provision for doubtful debts | | 1,380,000 | 1,440,000 |
| Depreciation and amortization | | 352,831 | 206,653 |
| | | 4,486,815 | 3,769,168 |
| Profit before deductions | | 4,578,086 | 3,418,526 |
| Zakat | | (291,668) | (242,358) |
| Kuwait Foundation for the Advancement of Science ("KFAS") | 20 | (38,578) | (57,171) |
| National Labor support tax | | (93,980) | (70,034) |
| Board of Directors' remuneration | 18 | (60,000) | (60,000) |
| Net profit for the year | | 4,093,860 | 2,988,963 |
| Earnings per share (fils) | 21 | 16.83 | 12.30 |

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



THE INVESTMENT DAR COMPANY k. s. c. (Closed) AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 December 2002

(All amounts in Kuwaiti Dinars)

| | Share capital | Treasury shares | Gain on treasury shares | Reserves | Retained earnings | Total |
|---|-------------------|--------------------|-------------------------------|------------------|----------------------|-------------------|
| Balance at 1 January 2001 | 22,752,000 | - | - | 8,359,683 | 2,708,517 | 33,820,200 |
| Effects of applying IAS 39 | - | - | - | - | (1,974,375) | (1,974,375) |
| Net profit | - | - | - | - | 2,988,963 | 2,988,963 |
| Foreign exchange translations differences | | | | | | |
| on Investments in associated company | - | - | - | (9,270) | - | (9,270) |
| Reserves | - | - | - | 635,234 | (635,234) | - |
| Cash dividends for 2000 | - | - | - | - | (1,365,120) | (1,365,120) |
| Treasury shares | - | (73,220) | - | - | - | (73,220) |
| Changes in fair value of available for sale investments | - | - | - | 127,000 | - | 127,000 |
| Balance at 31 December 2001 | 22,752,000 | (73,220) | - | 9,112,647 | 1,722,751 | 33,514,178 |
| Balance at 1 January 2002 | 22,752,000 | (73,220) | - | 9,112,647 | 1,772,751 | 33,514,178 |
| Bonus share dividends | 1,592,640 | - | - | - | (1,592,640) | - |
| Net profit | - | - | - | - | 4,093,860 | 4,093,860 |
| Sale of treasury share | - | 73,220 | - | - | - | 73,220 |
| Gain on treasury shares | - | - | 69,916 | - | 1,319 | 71,235 |
| Foreign currency translation differences | | | | | | |
| On investments in associated company | - | - | - | (12,157) | - | (12,157) |
| Change in fair value of investments available for sale | - | - | - | (53,558) | - | (53,558) |
| Gain on disposal of investment available for sale transferred to statement of income | - | - | - | (45,000) | - | (45,000) |
| Reserves | - | - | - | 857,284 | (857,284) | - |
| Balance at 31 December 2002 | 24,344,640 | - | 69,916 | 9,859,216 | 3,368,006 | 37,641,778 |

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



THE INVESTMENT DAR COMPANY k. s. c. (Closed) AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 December 2002

(All amounts in Kuwaiti Dinars)

| | Note | For the year ended 31 December | |
|---|------|--------------------------------|--------------|
| | | 2002 | 2001 |
| Cash flows from operating activities | | | |
| Cash used in operating activities | 23 | (23,394,871) | (23,023,688) |
| Payment for Kuwait Foundation for Advancement of Sciences | | (57,171) | (42,321) |
| Net cash used in operating activities | | (23,452,042) | (23,066,009) |
| Cash flows from investing activities | | | |
| Payment for purchase of fixed assets | | (381,780) | (368,852) |
| Payment for purchase of intangible assets | | (1,400) | (175,662) |
| Investments in Murabaha | | (4,298) | (10,457) |
| Payment for purchase of investments in associated company | | (149,782) | (793,265) |
| Payment for purchase available for sale investments | | 492,843 | (202,195) |
| Income received from investments | | 473,807 | 157,577 |
| Net change in land & property under development | | (18,823,539) | (3,450,662) |
| Net change in investment properties | | (1,079,579) | (5,585,085) |
| Net cash used in investing activities | | (19,473,728) | (10,428,601) |
| Cash flows from financing activities | | | |
| Proceed from sale/(paid for purchase) of treasury shares | | 143,136 | (73,220) |
| Net receipt from Murabaha payables | | 38,658,299 | 39,413,432 |
| Dividend paid | | - | (1,365,120) |
| Net cash resulted from financing activities | | 38,801,435 | 37,975,092 |
| Net (decrease)/increase in cash and cash equivalents | | (4,124,335) | 4,480,482 |
| Cash and cash equivalents at beginning of the year | | 6,081,466 | 1,600,984 |
| Cash and cash equivalents at end of the year | 4 | 1,957,131 | 6,081,466 |

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



THE INVESTMENT DAR COMPANY k. s. c. (Closed) AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

(All amounts in Kuwaiti Dinars unless otherwise stated)

1- Incorporation and Activities

The Investment Dar Company ("Parent Company") is a Kuwaiti Shareholding Company (Closed) incorporated in Kuwait in 1994 as per contract No. 8 Vol. 603 dated 22 October 1994 and registered as Investment Company with the Central Bank of Kuwait on 27 August 1995. The Company's shares have been listed in the Kuwait Stock Exchange on 27 April 1999. The Company's headquarters is at Ahmed Al-Jaber Street, Sharq, Kuwait. The Investment Dar Company and its subsidiaries referred to as the "Group" is carrying out its activities through its headquarters, seven branches inside Kuwait and its subsidiary companies. All activities are carried out in compliance with the Noble Islamic Sharia provision.

The main activity of The Investment Dar and its subsidiaries ("Group") during the year was selling and leasing of motor vehicles and real estate properties to consumers based on Musawama, Istisna'a and leasing contracts in addition to investment in Murabaha investments with local Islamic financial institutions, trading in land and real estate and also included management of portfolios on behalf of others.

The consolidated financial statements were authorised for issue by the Board of Directors on 23 - 2 - 2003 . The shareholders of the Company have the right to amend these financial statements at the annual general assembly.

2- Significant accounting policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards and interpretations issued by International Financial Reporting Standards Committee and interpretations issued by Standing Interpretation Committee, under the historical cost convention adjusted at fair values of certain assets as shown in the accounting policies mentioned below.

2.1 Basis of consolidation

The consolidated financial statements include subsidiaries. Subsidiaries are those enterprises controlled by the parent company directly or indirectly, through governing the financial and operating policies of subsidiary companies. All transactions and balances between parent company and its subsidiaries company are eliminated from the consolidated financial statements. The consolidated financial statements comprises the financial statement of the parent company and its subsidiaries.

- The First Dar Trading Company (K.S.C. Closed). The issued capital is KD 1 million, while the paid up capital is KD 500,000. The parent company holds 100% of voting rights of subsidiary company, 4% of which are owned by virtue of an assignment letter from the original owner and the ownership has not been yet eventually transferred to the parent company.

- The First Dar Real Estate Company (K.S.C., Closed). The issued and fully paid up capital is KD 1 million. The parent company holds 100% of voting rights of subsidiary company, 4% of which are owned by virtue of an assignment letter from the original owner and the ownership has not been yet eventually transferred to the parent company.

- Masha'er General Trading & Contracting Co. (W.L.L.). The issued and fully paid up capital is KD 50 thousand. The parent company

THE INVESTMENT DAR COMPANY k. s. c. (Closed) AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

(All amounts in Kuwaiti Dinars unless otherwise stated)

holds 100% of voting rights of subsidiary company, 1% of which are owned by virtue of an assignment letter from the original owner and the ownership has not been yet eventually transferred to the parent company. At the consolidated financial statement date, the company did not start operations.

- Manafe'a Real Estate Co. (W.L.L.). The issued and fully paid up capital is KD 15 thousand. The parent company holds 100% of voting rights of subsidiary company, 50% of which are owned by virtue of an assignment letter from the original owner and the ownership has not been yet eventually transferred to the parent company. At the consolidated financial statement date, the company did not start operations.

2.2 Foreign currencies

Transactions and Balances

The Group's books are kept in Kuwaiti Dinars. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated at the rate prevailing at balance sheet date. Resultant gains or losses are taken to the statement of income.

Financial statements translation

Net assets of the associated companies are translated at the exchange rates prevailing at the date of the balance sheet. Revenues and expenses items are translated at the average exchange rates prevailing at the date of the transaction. Resultant gains and losses are directly included in shareholders' equity at the foreign currencies reserve.

2.3 Cash and cash equivalents

Cash and cash equivalents represents cash on hand and with financial institutions.

2.4 Murabaha

Murabaha are carried initially at cost and stated in the balance sheet at amortised cost less impairment losses.

2.5 Trade receivables

Trade receivables originated by the Group are measured initially at cost and subsequently re-measured in the balance sheet at amortized cost less, specific and general provisions for impairment. Specific provision is established to meet credit risk when there is positive evidence that the Group will not be able to fully collect its debts. The amount of the specific provision is the difference between the carrying amount and the recoverable amount of the debt at the balance sheet date end which is determined based on the present value of expected cash flows taking into consideration amounts recoverable from guarantees and collateral discount based on the interest rate at inception.



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In addition to the specific provision, a general provision is established to cover the risk of non-performing debts, known to exist but not yet identified on the date of financial statements and in accordance with Central Bank of Kuwait's instructions.

2.6 Land and real estate

Land and real estate for trading

Land acquired and developed for reselling are recognized as lands held for trading. Land are carried at the lower of the cost and net of recoverable amount. Net realizable value is the estimated selling price less estimated development costs for the respective lands.

Investment properties

Land and real estate acquired for long term lease period or for capital appreciation in future are classified as investment properties. Land and real estate are stated at cost at acquisition and re-measured at fair value determined by an independent registered value. Gain and loss arising from change in fair value is recognized in the statement of income.

Land and real estate under development

Land and real estate under development is recognized at cost including development expenses. When development process is completed, land and real estate are classified either as investment property or land and real estate held for trading or as fixed assets according to the intention of the management for the future uses of these lands and real estates.

2.7 Investments available for sale

Investments held for unspecific period and, which could be sold for liquidity needed or changes in prices are classified as available for sale.

All purchases and sales of these investments are recognized in settlement date. Investments are initially recognized at cost, including transaction costs. Subsequent to acquisition date, these investments are re-measured at fair value determined based on quoted bid prices in financial markets. If quoted bid price is not available the fair value is estimated using appropriate methods such as discounted cash flows method, earnings based method and net asset value method. In case fair value can not be reliably measured, the investment is carried at cost less impairment losses.

Gain or losses arising from a change in the fair value of investments available for sale are recognized directly in equity. When the investment is sold, collected or disposed, the cumulative gains and losses recognized in equity are transferred to the statement of income.

Investment available for sale is reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the assets recoverable amount is estimated and an impairment loss, equal to the difference between the

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value of the investment and its recoverable amount, is recognized. Where the decline in value of the investments was previously recognized directly in equity, the write down is transferred to the statement of income and recognised as part of the impairment loss. Where the increase in fair value is previously recognized in equity, the increase in fair value of the investments recognized in equity is reversed to the extent of such impairment. Any additional impairment loss is recognized in the statement of income.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down is reversed previously charged the statement of income.

2.8 Option contracts

The management of the Company is engaged in purchasing goods by using option contracts, whereby the company has the right to exercise the option in full or in part during a specific period. After this period, the title of goods is transferred to the Company unless the option contract is renewed for another periods.

The value of option contracts is recorded at cost in other debit balances under the item of advances payments from suppliers - and the value of these contracts is reduced by the amount of the purchased goods.

2.9 Investment in associated Companies

Associates are those companies which the Company has significant influence, but not direct or indirect control, over their financial and operational policies. Investment in associated companies is equity accounted.

Under equity method, the Group's share of gains and losses in associated companies is recognized in the consolidated statement of income. Investment in the associates is carried in the consolidated balance sheet at an amount that reflects the Group's share of the net assets of the associated company. Unrealized gains and losses arising from the transactions between parent company and associates is eliminated from the consolidated financial statements. Impairment losses are recognized whenever the carrying amount of investment in associates exceeds the recoverable amount.

2.10 Intangible Assets

Development costs of computer programs

In general, the developing or maintenance expenses of computer programs are recognised in the statement of income except expenses which are born by the Group to develop certain and unique programs to be used by the Group for a period exceeding one year. These expenses are capitalized and stated at cost and amortized on straight line basis over their expected useful lives stated in (note 11)



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Other intangible assets

Other expenses born by the company for utilizing lands and real estates where the Group's premises are located are capitalized, and recognized at cost at acquisition date and amortized on a straight line basis over their expected useful lives as stated in (note 11).

Researches costs are recognized in the statement of income as an expense when incurred. Development cost is recognized among intangible assets when future economic benefit is expected to be acquired. Development cost charged to the statement of income are not considered as part of assets in subsequent periods. Developments costs are capitalized and amortized from the date benefit is acquired from the underlying assets using a straight line basis over their estimated useful lives.

2.11 Fixed assets and depreciation

Fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line method over their estimated useful lives as shown in (note 12).

Gains or losses on disposal of fixed assets are charged to statement of income determined by the difference between their carrying amount and the selling price of the asset.

2.12 Impairment

The carrying amounts of investments in associated company, fixed assets and intangible 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 recognized in the statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those cash-generating assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.13 Lease for others

Operating lease

The Group is leasing motor vehicles for others by the operating lease method. Leased assets are included in fixed assets in the balance sheet. Using assets are depreciated on a straight line basis over the estimated useful lives of similar assets. Income from these leases is recognized using the straight-line basis over the period of lease contract.

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Financing lease

When the Group leases motor vehicles under end-to-owing leasing contract, the current value of leasing installments is included in trade receivables. Leasing profit is recognized over the term of contracts using the net investment method so as to reflect a constant rate of return.

2.14 Murabaha & Mudharaba payables

Murabaha & Mudharaba contract payables are recognized at received value of these contracts less the transaction cost. Subsequently these Murabaha and Mudharaba contracts are measured at amortized cost. The difference between the received value (less any cost) and value to be paid is stated in the statement of income over the period term of the contracts using the effective cost method.

2.15 Provisions

Provisions are recognized at the balance sheet date when the Group has outstanding or expected legal obligation as a result of past events and this obligation can be reasonably determined, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.16 End of service's indemnity

The Group is liable under Kuwaiti labor law, to make payments to employees for post employment benefits through a defined benefit plan. Such payment is made on a lump sum basis at the end of an employee's service.

This liability which is un-funded is determined as the amount payable as a result of involuntary termination of employees' service on the balance sheet date. The management estimates that this method will give a reliable approximation of the present value of this obligation in relation to employee's accumulated current and past period of service.

2.17 Revenue recognition

The Group is financing goods according to Musawama and Murabaha contracts by purchasing these goods and re-selling them to the final buyer with a bargained price after adding a specific return. The profit of Musawama and Murabaha contracts is included in the consolidated statement of income using effective yield rate method.

The profit from these contracts recognized in income statement on a time proportional basis and it is suspended when a customer becomes unable to settle the installment due or when the debt is classified as non-performing.

Fees on portfolios management are recognized when earned according to contractual terms. Profits on murabaha and deposits with financial institutions are recognized on a time proportional basis. Dividend income is recognized when the right to receive payment is established.



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2.18 Operating leasing costs

Payments for leased assets under operating lease are charged to the consolidated statement of income statement on a straight line basis over the lease contract term.

2.19 Zakat

Zakat is computed on the reserves and retained earnings balances as approved by the Fatwa issued by Sharea' Supervisory Board.

2.20 Tax

Tax on parent company represents the tax repayable by parent company in accordance with Law 19/2000 relating to supporting national manpower and encouragement of the national manpower to work in non-government agencies. The tax is calculated based on the Company's net profit after deducting 10% for statutory reserve, KFAS contribution, Board of Directors' remuneration and associated company's profit.

2.21 Fiduciary assets

Assets held by the Group in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

2.22 Treasury shares

Treasury shares consists of the Group's own shares that have been issued subsequently required by the Group and have not yet been reissued or cancelled at the balance sheet date. Treasury shares are accounted for using the cost method where the cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholder's equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance charged to that account. Any excess losses are charged to retained earnings then reserves. Gains realized subsequently on the sale of treasury shares first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. The issue of bonus shares increases the number of treasury shares proportionately and reduce the average cost per share without affecting the total cost of treasury shares.

2.23 Comparative figures

Where necessary, the comparative figures are reclassified to conform with changes in the current year presentation.

3- Financial risk management

The Group is exposed to various financial risks explained as follows:

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3.1 Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation on maturity date and cause the other party to incur a financial loss. Trade receivables represent the significant asset exposed to credit risk due to the nature of the Group's activity. The Group has no significant exposure resulted from concentration of credit as trade receivable portfolio is distributed over large number of customers. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to each type of costumer, and geographical and industry segments. Such risks are monitored on a periodic basis.

Exposure to credit risk is managed through regular analysis of the balances of customers and their potentials to meet their obligations. Exposure to credit risk is also managed in part by obtaining appropriate collateral from individuals and corporates based on the related risk assessment.

3.2 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's activities are concentrated in local currency as business is mainly conducted in the Kuwaiti market.

3.3 Return rate risk

The Group carries out its operations in accordance with Islamic Shariaa and thereby the Group is not exposed to serious return rate risk.

The most significant portion of the financial assets of the Group is signified in balances of trade receivables originated from selling transactions performed in accordance with the Islamic Sharia. These assets are usually not associated with variable return rates. On the other hand, the most significant portion of the financial liabilities of the Group is Murabaha or Mudharaba payables, and insignificant portion of these Murabaha and Mudharaba payable contracts is associated with variable cost. Consequently, the Group maintains a return risk center represented in the impacts of the market cost rates on the financial position and cash flow of the Group. Profits margins may increase or decrease in event of occurrence of unexpected movements.

In order to mitigate these risks, the Management endeavours to secure fixed cost rates or advance ceiling prices when entering into Murabaha or Mudrabah payable contracts. In return, sale returns are determined so that the Group can realize the required profits margin.

3.4 Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's management mitigate this risk by dealing with reputed counter parties, applying appropriate terms for credit facilities, diversifying its investments and matching the maturities of financial assets against financial liabilities.



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The maturity analysis of financial assets and liabilities as at 31 December 2002 is as follows:

| | Within 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | Total |
|--------------------------------------|--------------------|----------------------------|----------------------|----------------------|--------------------|
| Assets | | | | | |
| Cash and cash equivalents | 1,957,131 | - | - | - | 1,957,131 |
| Murabaha investments | 183,670 | - | - | - | 183,670 |
| Trade receivables | 49,346,690 | 32,272,857 | 52,516,509 | 15,472,167 | 149,608,223 |
| Other debit balances | 10,590,934 | - | - | - | 10,590,934 |
| Investments properties | - | - | 4,855,369 | - | 4,855,369 |
| Investments available for sale | - | - | 1,814,827 | - | 1,814,827 |
| Investment in associated company | - | - | - | 1,792,657 | 1,792,657 |
| Land & real estate under development | - | - | 27,197,337 | - | 27,197,337 |
| Other assets | - | - | 1,304,613 | - | 1,304,613 |
| | <u>62,078,425</u> | <u>32,272,857</u> | <u>87,688,655</u> | <u>17,264,824</u> | <u>199,304,761</u> |
| Liabilities | | | | | |
| Creditors and other Payables | 11,071,771 | - | - | - | 11,071,771 |
| Murabaha and Mudharaba Payables | 40,903,260 | 38,459,026 | 59,772,839 | 14,175,230 | 150,310,355 |
| | <u>51,975,031</u> | <u>38,459,026</u> | <u>59,772,839</u> | <u>11,175,230</u> | <u>161,382,126</u> |

The maturity analysis of the financial assets and liabilities as at 31 December 2001 is as follows:

| | Within 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | Total |
|--------------------------------------|--------------------|----------------------------|----------------------|----------------------|--------------------|
| Assets | | | | | |
| Cash and cash equivalents | 6,081,466 | - | - | - | 6,081,466 |
| Murabaha investments | 179,372 | - | - | - | 179,372 |
| Trade receivables | 25,748,777 | 33,400,284 | 64,192,865 | 1,640,733 | 124,982,659 |
| Other debit balances | 1,316,682 | 2,633,363 | - | - | 3,950,045 |
| Investments properties | - | - | 3,522,790 | - | 3,522,790 |
| Investments available for sale | - | - | 2,418,385 | - | 2,418,385 |
| Investment in associated company | - | - | - | 1,658,875 | 1,658,875 |
| Land & real estate under development | - | - | 8,373,798 | - | 8,373,798 |
| Other assets | - | - | 1,274,264 | - | 1,274,264 |
| | <u>33,326,297</u> | <u>36,033,647</u> | <u>79,782,102</u> | <u>3,299,608</u> | <u>152,441,654</u> |
| Liabilities | | | | | |
| Creditors and other credit balances | 7,063,173 | - | - | - | 7,063,173 |
| Murabaha and Mudharaba Payables | 14,126,061 | 35,654,519 | 61,871,476 | - | 111,652,056 |
| | <u>21,400,481</u> | <u>35,654,519</u> | <u>61,871,476</u> | <u>-</u> | <u>118,715,229</u> |

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3.5 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arms length transaction.

In accordance with the provisions of Islamic Sharia, the money time value is not considered in determining the fair value, i.e. the money value of future receipts or disbursements does not change whether received or disbursed at present or in future.

4- Cash and cash equivalents

| | As at 31 December 2002 | As at 31 December 2001 |
|--|---------------------------|---------------------------|
| Cash on hand | 24,665 | 13,125 |
| Current account at banks and financial institutions. | 1,932,466 | 6,068,341 |
| | <u>1,957,131</u> | <u>6,081,466</u> |

5- Trade receivables

| | As at 31 December 2002 | As at 31 December 2001 |
|------------------------------|---------------------------|---------------------------|
| Trade debtors | 159,069,583 | 133,064,019 |
| Provision for doubtful debts | (9,461,360) | (8,081,360) |
| | <u>149,608,223</u> | <u>124,982,659</u> |

The following is analysis of provision of doubtful debts:

| | As at 31 December 2002 | As at 31 December 2001 |
|--------------------|---------------------------|---------------------------|
| General provision | 6,153,000 | 4,369,360 |
| Specific provision | 3,308,360 | 3,712,000 |
| Total | <u>9,461,360</u> | <u>8,081,360</u> |

The average rate of return on trade receivables is 13.96% as at 31 December 2002 (12.78% as at 31 December 2001).



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6- Other debit balances

| | As at 31 December 2002 | As at 31 December 2001 |
|------------------------------|---------------------------|---------------------------|
| Suppliers - advance payments | 7,147,815 | 3,492,430 |
| Accrued income | 2,048,202 | 26,442 |
| Prepaid expenses | 43,505 | 60,153 |
| Other debit balances | 1,351,412 | 371,020 |
| | <u>10,590,934</u> | <u>3,950,045</u> |

The balance of suppliers - advance payments represents the advances paid for purchasing goods under purchase option contracts whereby the company has the right for not exercising the contracts in part or in full during a specific period.

7- Investments properties

| | As at 31 December 2002 | As at 31 December 2001 |
|--|---------------------------|---------------------------|
| Balance at the Beginning of the year | 3,522,790 | - |
| Additions during the year | 4,107,598 | 8,282,503 |
| Sold during the year | (1,957,019) | (2,697,418) |
| Net transfer to land and real estate under development | (1,071,000) | (2,562,295) |
| Increase in fair value | 253,000 | 500,000 |
| | <u>4,855,369</u> | <u>3,522,790</u> |

All lands are registered in the name of one of the Board of Directors who has confirmed that these are held by him on account of, and for the benefit of the group.

8- Investments available for sale

| | As at 31 December 2002 | As at 31 December 2001 |
|--|---------------------------|---------------------------|
| Investments in local shares - unquoted | 1,315,500 | 1,315,500 |
| Investments in foreign shares - unquoted | 402,327 | 408,885 |
| Investments in local shares - quoted | 97,000 | 694,000 |
| | <u>1,814,827</u> | <u>2,418,385</u> |

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9- Investment in associated company

The Company has subscribed in 21% of the share capital of the First Finance Co - Q.S.C. incorporated in the State of Qatar with a total cost of Qatari Riyal 20,250,000, equivalent to KD 1,792,657 as at 31 December 2002 (KD 1,658,875 as at 31 December 2001).

During the year 2001 the Company had paid the increase of share capital of the associated company by 90% of the share capital amounted to Qatari Riyal 9,450,000 equivalent to KD 794,761.

10- Land and real estate under development

| | As at 31 December 2002 | As at 31 December 2001 |
|-------------------------------------|---------------------------|---------------------------|
| Opening balance | 8,373,798 | 2,360,841 |
| Additions during the year | 23,666,059 | 7,256,833 |
| Sold during the year | (5,913,520) | (3,806,171) |
| Net transfer to investment property | 1,071,000 | 2,562,295 |
| | <u>27,197,337</u> | <u>8,373,798</u> |

All lands are registered in the name of one of the Board of Directors who has confirmed that these are held by him on account of, and for the benefit of the group.

11- Intangible assets

| | 2002 | | | | 2001 |
|-------------------|---|--------------------------|---------------|----------------|----------------|
| | Computer programs under development | Lease hold properties | Key money | Total | Total |
| Cost | | | | | |
| As at 1 January | 391,412 | 356,800 | 58,110 | 806,322 | 630,660 |
| Additions | - | - | 1,400 | 1,400 | 185,662 |
| Disposals | - | - | - | - | (10,000) |
| As at 31 December | <u>391,412</u> | <u>356,800</u> | <u>59,510</u> | <u>807,722</u> | <u>806,322</u> |

Accumulated amortisation and impairment losses

| | | | | | |
|-----------------------------------|----------------|----------------|---------------|----------------|----------------|
| As at 1 January | 9,581 | 35,680 | 10,942 | 56,203 | 17,840 |
| Amortization charged for the year | 62,899 | 17,840 | 19,562 | 100,301 | 38,363 |
| As at 31 December | <u>72,480</u> | <u>53,520</u> | <u>30,504</u> | <u>156,504</u> | <u>56,203</u> |
| Net book value As at 31 December | <u>318,932</u> | <u>303,280</u> | <u>29,006</u> | <u>651,218</u> | <u>750,119</u> |
| Estimated useful lives/years | 3 | 20 | 3 | | |



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The usufruct of lease hold properties represents the amount paid to acquire new headquarter land. The lease contract with government is renewed yearly, and amortized with effect from the year over 20 years, as the management believes that there are no hindrances against renewal of lease contract for this period

12- Fixed assets

| | 2002 | | | | 2001 |
|-------------------|-----------|---------------------------------------|----------|-----------|-----------|
| | Buildings | Furniture, Equipment & Vehicles | Computer | Total | Total |
| Cost | | | | | |
| As at 1 January | 289,331 | 409,746 | 656,872 | 1,355,949 | 987,097 |
| Additions | 172,266 | 89,276 | 120,238 | 381,780 | 368,852 |
| Disposals | - | (203) | - | (203) | - |
| As at 31 December | 461,597 | 498,819 | 777,110 | 1,737,526 | 1,355,949 |

Accrued depreciation and impairment losses

| | | | | | |
|----------------------------------|---------|---------|---------|-----------|---------|
| As at 1 January | - | 302,995 | 528,809 | 831,804 | 663,514 |
| Depreciation charge of the year | 11,572 | 90,323 | 150,635 | 252,530 | 168,290 |
| Disposals | - | (203) | - | (203) | - |
| As at 31 December | 11,572 | 393,115 | 679,444 | 1,084,131 | 831,804 |
| Net book value As at 31 December | 450,025 | 105,704 | 97,666 | 653,395 | 524,145 |
| Estimated useful lives/years | 20 | 3 | 3 | | |

13- Creditors and other credit balances

| | As at 31 December 2002 | As at 31 December 2001 |
|---|---------------------------|---------------------------|
| Trade payables | 9,600,314 | 5,476,238 |
| Accrued expenses | 582,617 | 784,612 |
| Zakat | 275,370 | 240,013 |
| Kuwait foundation for advancement of sciences | 38,578 | 57,171 |
| National labour support tax | 103,314 | 70,034 |
| Board of directors' remuneration | 60,000 | 60,000 |
| Others | 411,578 | 375,105 |
| | <u>11,071,771</u> | <u>7,063,173</u> |

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14- Murabaha and mudharaba payables

The balance of creditors represents Murabaha and Wakala Contracts mature within a period ranges from 2 to 4 years.

The average effective yield rate is 5.66% as at December 31, 2002 (7.69% as at 31 December 2001).

15- Share capital

At the extraordinary general assembly meeting held on 10 March 2002, it was approved on amend Article (7) of the Articles of Association and Article (6) of the parent company by increasing the company's capital by 7% of the outstanding shares at 31 December 2001 through bonus shares for the shareholders to be deducted from the retained profits. Accordingly, the parent Company's capital is KD 24,344,640 divided into 243,446,400 shares of 100 fils each.

16- Treasury shares

| | As at 31 December 2002 | As at 31 December 2001 |
|----------------------------|---------------------------|---------------------------|
| Number of shares purchased | - | 540,000 |
| Ownership percentage | - | 0.24% |
| Cost (KD) | - | 73,220 |
| Market value (KD) | - | 90,720 |

During the year, the Company sold treasury shares in full and recognized the profit resulting from the sale operation in equity.



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17- Reserves

| | Statutory Reserve (Note 18) | Share premium | Voluntary Reserve (Note 18) | Foreign Currency Exchange Reserve | Unrealised gain gain on investments available for Sale | Total |
|--|-----------------------------------|------------------|-----------------------------------|--|---|------------------|
| Balance as at 1 January 2001 | 1,412,899 | 5,527,608 | 1,412,899 | 6,277 | - | 8,359,683 |
| Reserves | 317,617 | - | 317,617 | - | - | 635,234 |
| Exchange differences of investments in associated Company | - | - | - | (9,270) | - | (9,270) |
| Changes in fair value of investments available for sale | - | - | - | - | 127,000 | 127,000 |
| Balance at 1 January 2001 | <u>1,730,516</u> | <u>5,527,608</u> | <u>1,730,516</u> | <u>(2,993)</u> | <u>127,000</u> | <u>9,112,647</u> |
| Balance at 1 January 2002 | 1,730,516 | 5,527,608 | 1,730,516 | (2,993) | 127,000 | 9,112,647 |
| Reserves | 428,642 | - | 428,642 | - | - | 857,284 |
| Exchange differences of investments in associated company | - | - | - | (12,157) | - | (12,157) |
| Change in the fair value of investments available for sale | - | - | - | - | (53,558) | (53,558) |
| Gain transferred to income statement resulting from sale of investments available for sale | - | - | - | - | (45,000) | (45,000) |
| Balance at 31 December 2002 | <u>2,159,158</u> | <u>5,527,608</u> | <u>2,159,158</u> | <u>(15,150)</u> | <u>28,442</u> | <u>9,859,216</u> |

18- Dividends

Statutory reserve

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to Statutory reserve. The General Assembly may resolve to discontinue such annual transfer when the reserve balance reaches 50% of the share capital. This reserve is not available for distribution but may be used to secure appropriation of profit to shareholders, up to 5% in such years where the profit of the company do not allow such percentage of appropriation.

Voluntary reserve

In accordance with the company's Articles of Association, a specific percentage of net profit for the year proposed by the Board of Directors and approved by the General Assembly is transferred to voluntary reserve. Such annual transfer may be discontinued by resolution at the General Assembly based on director's recommendation. The board of directors recommended a transfer of 10% of net income for the year ended 31 December 2002 and 31 December 2001.

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Board of Director's remuneration

Board of Director's remuneration is calculated based on net profit for the year before the share of to Kuwait Foundation for Advancement of Science. This remuneration may not exceed 10% of the net profit after appropriation of the statutory reserves and distributing dividends of at least 5% of paid up capital to shareholders.

Board of Director's remuneration is recorded as an expenses in the income statement in the year which proposed for on an accrual basis.

Proposed dividends

The board of directors have proposed a dividend of bonus shares of 10 fils per share (for 2001: 7 fils per share). The Proposed dividends are recorded in the financial statements after approval at the General Assembly meeting of the shareholders.

19- Income from investments

| | Year ending 31 December 2002 | Year ending 31 December 2001 |
|------------------------------------|---------------------------------|---------------------------------|
| Returns on investments in Marabaha | 6,688 | 38,365 |
| Dividends | 48,230 | 55,212 |
| Profit from sale of investments | 153,912 | - |
| Profit from participations | 170,854 | - |
| Management fees | 94,123 | 64,000 |
| | <u>473,807</u> | <u>157,577</u> |

20- Kuwait Foundation for the Advancement of Science ("KFAS")

| | Year ending 31 December 2002 | Year ending 31 December 2001 |
|--|---------------------------------|---------------------------------|
| Net operating profit before deductions | 4,578,086 | 3,418,526 |
| Less: Zakat | (291,668) | (242,358) |
| Less: Statutory Reserve | (428,642) | (317,617) |
| | <u>3,857,776</u> | <u>2,858,551</u> |
| KFAS % | <u>1%</u> | <u>2%</u> |
| KFAS share | <u>38,578</u> | <u>57,171</u> |

In accordance with resolution of Board of directors of Kuwait Foundation for Advancement of Science on its meeting held on 10 November 2002, it was approved to reduce the percentage from 2% to 1% of profit of the year ended 31 December 2002 and subsequent years.



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21- Earnings per share

Earning per share is calculated by dividing the net distributable profit for the year on the weighted average number of shares outstanding during the year.

| | Year ending 31 December 2002 | Year ending 31 December 2001 |
|---------------------------------------|---------------------------------|---------------------------------|
| Net profit for the year (K.D.) | 4,093,860 | 2,988,963 |
| Weighted average No. of issued shares | 243,272,268 | 243,067,122 |
| Earning per share (fils) | 16.83 | 12.30 |

22- Staff cost

Income statement includes staff cost amounted to KD1,645,995 for the year ended December 31, 2002 (KD 1,454,849 for the year ended 31 December 2001). The annual average number of employees was 180 during 2002 (165 employees during 2001).

23- Cash used in operating activities

| | Year ending 31 December 2002 | Year ending 31 December 2001 |
|--|---------------------------------|---------------------------------|
| Profit from operations net of Zakat | 4,286,418 | 3,176,168 |
| Adjustments: | | |
| Depreciation and amortization | 352,831 | 206,653 |
| Provisions | 1,380,000 | 1,440,000 |
| Profits from Investments | (473,807) | (157,577) |
| Commissions from associated company | 16,000 | 16,000 |
| Increase in fair value of investment properties | (253,000) | (500,000) |
| End of service's indemnity expenses | 128,758 | 121,308 |
| Operating income before changes in working capital | 5,437,200 | 4,302,552 |
| Trade receivables | (26,005,564) | (31,923,426) |
| Other debit balances | (6,640,889) | (988,158) |
| Land and real estate held for trading | - | 2,416,810 |
| Creditors and other credit balances | 3,874,530 | 3,257,035 |
| Payment of end of service's indemnity | (60,148) | (88,501) |
| Cash used in operating activities | (23,394,871) | (23,023,688) |

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24- Geographical distribution of assets and liabilities

| | Assets as at 31 December | | Liability as at 31 December | |
|-------------------------|--------------------------|--------------------|-----------------------------|--------------------|
| | 2002 | 2001 | 2002 | 2001 |
| Kuwait | 197,109,777 | 150,690,619 | 161,662,983 | 118,927,476 |
| Other Gulf Co-operation | | | | |
| Council Countries | 2,104,232 | 1,658,875 | - | - |
| U.S.A. | 90,752 | 92,160 | - | - |
| | <u>199,304,761</u> | <u>152,441,654</u> | <u>161,662,983</u> | <u>118,927,476</u> |

25- Segment reporting

The Group carries out its main activities in the State of Kuwait through two major segments:

- Vehicles and other products segment: represented in selling vehicles/other products for customers under Musawama contracts.
- Real estate segment: represented in selling land and properties for trading or after development in cash or under Istisna'a contracts.

Analysis of the financial information according to segments is as follows:

| | Vehicles and other products | | Real estate | | Total | |
|-------------------------|-----------------------------|------------------|------------------|----------------|------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| Segment results | 3,026,678 | 5,073,629 | 4,914,135 | 1,379,878 | 7,940,813 | 6,453,507 |
| Unallocated revenues | - | - | - | - | 1,124,088 | 734,187 |
| Allocated expenses | (2,203,551) | (2,928,562) | (2,283,264) | (840,606) | (4,486,815) | (3,769,168) |
| Profit from operations | <u>823,127</u> | <u>2,145,067</u> | <u>2,630,871</u> | <u>539,272</u> | <u>4,578,086</u> | <u>3,418,526</u> |
| Other information | | | | | | |
| Segments assets | 103,465,561 | 97,534,995 | 92,044,045 | 40,807,669 | 195,509,606 | 138,342,664 |
| Unallocated assets | - | - | - | - | 3,795,155 | 14,098,990 |
| Segment liabilities | 3,132,062 | 325,535 | 6,437,378 | 6,054,485 | 9,569,440 | 6,380,020 |
| Unallocated liabilities | - | - | - | - | 152,093,543 | 112,547,456 |



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26- Related party transactions

Related parties are shareholders who have representation in the Board of Directors, members of the Board of Directors, senior management, and their close family members. In the normal course of business, there were transactions with related parties during the year ended 31 December 2002 represented in purchase of motor vehicles for resale amounting to KD 10,051,565 as at December 31, 2002 (KD 17,216,312 as at December 31, 2001).

The related party outstanding balances in the consolidated balance sheet were as follows:

| | As at 31 December 2002 | As at 31 December 2001 |
|-----------------------------|---------------------------|---------------------------|
| Trade payables | 36,572,674 | 45,579,438 |
| Suppliers - advance payment | 344,167 | 353,924 |
| Trade receivables | 324,753 | 266,088 |

The company also manages portfolios on behalf of a related party. Gross assets of these portfolios amounted to KD 6,606,716 as at 31 December 2002 (KD 12,255,356 as at 31 December 2001) which are included under off-balance sheet items.

In addition, the Board of Directors' remuneration paid during the year ended 31 December 2002 amounted to KD 60,000 as at 31 December 2001.

All transactions with related parties are subject to the approval of the General Assembly of Shareholders.

27- Off balance sheet items

The Company manages portfolios on behalf of others, which are not included in the balance sheet. The total value of the managed portfolios on behalf of others amounted to KD 16,019,377 as at 31 December 2002 (KD15,679,565 as at 31 December 2001).

28- Capital commitments

| | As at 31 December 2002 | As at 31 December 2001 |
|---|---------------------------|---------------------------|
| New headquarter projects | - | 156,269 |
| Cost of land and real estate development | 186,128 | 1,163,272 |
| Future commitments for developing new computer programs | - | 26,775 |
| Uncalled installments for investment securities | 500,000 | 500,000 |
| | <u>686,128</u> | <u>1,846,316</u> |

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