# Consolidated Financial Statements and Independent Auditors' Report

## for the year 31 December 2003

# Contents

# Independent Auditors' Report

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To the Shareholders
The Investment Dar Company K.S.C. (Closed)
State of Kuwait

## Independent Auditors' Report

We have audited the accompanying consolidated balance sheet of The Investment Dar Company K.S.C. (Closed) ("the Company") and its subsidiaries (together referred to as "the Group") as at 31 December 2003 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended.

**Respective 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 2003, the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Also, in our opinion the consolidated financial statements include the information required by the Commercial Companies Law, and the Company's Articles of Association, 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 report agrees with the books of account. We have obtained all the information and explanations that we required for the purpose of our audit and. We have not become aware of any contravention, during the year ended 31 December 2003, of the Commercial Companies Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business and its related regulations or the Company's Articles of Association, that would materially affect the Group's activities or its financial position.

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License No.62-A
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Kuwait March 30, 2004

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Member Firm of KPMG International

## Consolidated Balance Sheet

as at 31 December 2003

(All amounts are in Kuwaiti Dinars)

| | Note | 2003 | 2002 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 3 | **19,836,250** | 1,957,131 |
| Murabaha investments | | **537,459** | 183,670 |
| Investments held for trading | 4 | **2,123,075** | - |
| Investments available for sale | 5 | **9,401,758** | 1,814,827 |
| Trade receivables | 6 | **169,774,602** | 149,608,223 |
| Other receivables | 7 | **12,035,806** | 10,590,934 |
| Land and real estate held for trading | 8 | **507,500** | - |
| Investment properties | 9 | **24,113,767** | 4,855,369 |
| Investment in associates | 10 | **807,320** | 1,792,657 |
| Land and real estate under development | 11 | **33,171,435** | 27,197,337 |
| Intangible assets | 12 | **3,373,373** | 571,701 |
| Property and equipment | 13 | **1,749,954** | 732,912 |
| **Total Assets** | | **277,432,299** | 199,304,761 |
| **Liabilities, Minority Interest and Shareholders' Equity** | | | |
| **Liabilities** | | | |
| Trade and other payables | 14 | **25,301,779** | 11,071,771 |
| Murabaha and wakala payable | 15 | **183,892,719** | 150,310,355 |
| Post employment benefits | | **497,984** | 280,857 |
| **Total Liabilities** | | **209,692,482** | 161,662,983 |
| Minority interest | | **287,942** | - |
| **Shareholders' Equity** | | | |
| Share capital | 16 | **35,513,570** | 24,344,640 |
| Treasury shares | 17 | **(329,254)** | - |
| Gain on sale of treasury shares | | **69,916** | 69,916 |
| Reserves | 18,19 | **21,044,292** | 9,859,216 |
| Retained earnings | | **11,153,351** | 3,368,006 |
| **Total Shareholders' Equity** | | **67,451,875** | 37,641,778 |
| **Total liabilities, Minority Interest and Shareholders' Equity** | | **277,432,299** | 199,304,761 |

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

**Adnan A. Al-Musallem**

Chairman and Managing Director

## Consolidated Statement of Income

year ended 31 December 2003

(All amounts are in Kuwaiti Dinars)

| | | 2003 | 2002 |
|---|---|---|---|
| **Revenue** | | | |
| Finance revenues | | **13,944,042** | 15,228,483 |
| Finance cost | | **(11,266,536)** | (9,513,789) |
| Net finance income | | **2,677,506** | 5,714,694 |
| Income from cash sales | | **5,090,421** | 1,887,343 |
| Change in fair value of investment held for trading | | **298,000** | - |
| Reversal of impairment losses - Investments available for sale | | **660,000** | - |
| Share of profit from managed portfolios | | **304,432** | 333,198 |
| Revenue from sale of investment | | **187,276** | 153,912 |
| Cash dividends | | **77,847** | 48,230 |
| Unrealized gain on revaluation of investment properties | | **7,018,141** | 253,000 |
| Gain on sale of associate | | **4,562,869** | - |
| Profit share from associates | | **217,677** | 170,854 |
| Revenue from operating leases | | **264,705** | - |
| Portfolio management fees and other income | | **1,060,179** | 503,670 |
| | | **22,419,053** | 9,064,901 |
| **Expenses and other charges** | | | |
| General and administrative expenses | | **(4,641,883)** | (2,753,984) |
| Provision for doubtful debts | | **(3,218,206)** | (1,380,000) |
| Depreciation and amortization | | **(488,758)** | (352,831) |
| | | **(8,348,847)** | (4,486,815) |
| Operating income | | **14,070,206** | 4,578,086 |
| | | | |
| Zakat | | **(648,501)** | (291,668) |
| Kuwait Foundation for the Advancement of Sciences ("KFAS") | | **(112,847)** | (38,578) |
| National Labor support tax | | **(297,706)** | (93,980) |
| Directors' remuneration | 20 | **(94,000)** | (60,000) |
| **Profit before minority interest** | | **12,917,152** | 4,093,860 |
| **Minority interest** | | **(16,253)** | - |
| **Net profit for the year** | | **12,900,899** | 4,093,860 |
| | | | |
| Earnings per share (fils) | 23 | **42.31** | 15.30 |

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

## Consolidated Statement of changes in Shareholders' Equity

year ended 31 December 2003

(All amounts are in Kuwaiti Dinars)

| | Share capital | Treasury shares | Gain on sale of treasury shares | Reserves (Note 18) | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Balance at 1 January 2002 | 22,752,000 | (73,220) | - | 9,112,647 | 1,722,751 | 33,514,178 |
| Issue of bonus shares | 1,592,640 | - | - | - | (1,592,640) | - |
| Net profit for the year | - | - | - | - | 4,093,860 | 4,093,860 |
| Sale of treasury shares | - | 73,220 | 69,916 | - | 1,319 | 144,455 |
| Foreign currency translation reserve | - | - | - | (12,157) | - | (12,157) |
| Change in fair value of investments available for sale | - | - | - | (53,558) | - | (53,558) |
| Gain on disposal of investments available for sale transferred to statement of income | - | - | - | (45,000) | - | (45,000) |
| Transfer to reserves | - | - | - | 857,284 | (857,284) | - |
| **Balance at 31 December 2002** | 24,344,640 | - | 69,916 | 9,859,216 | 3,368,006 | 37,641,778 |
| Balance at 1 January 2003 | **24,344,640** | **-** | **69,916** | **9,859,216** | **3,368,006** | **37,641,778** |
| Issue of share capital - cash | **8,734,466** | **-** | **-** | **8,332,573** | **-** | **17,067,039** |
| Purchase of treasury shares | **-** | **(329,254)** | **-** | **-** | **-** | **(329,254)** |
| Issue of bonus shares | **2,434,464** | **-** | **-** | **-** | **(2,434,464)** | **-** |
| Net profit for the year | **-** | **-** | **-** | **-** | **12,900,899** | **12,900,899** |
| Foreign currency translation reserve | **-** | **-** | **-** | **53,173** | **-** | **53,173** |
| Change in fair value of investments available for sale | **-** | **-** | **-** | **118,240** | **-** | **118,240** |
| Transfer to reserves | **-** | **-** | **-** | **2,681,090** | **(2,681,090)** | **-** |
| **Balance at 31 December 2003** | **35,513,570** | **(329,254)** | **69,916** | **21,044,292** | **11,153,351** | **67,451,875** |

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

# Consolidated Statement of Cash Flows

year ended 31 December 2003

(All amounts are in Kuwaiti Dinars)

| | Note | 2003 | 2002 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operating activities | 25 | **(4,055,030)** | (23,091,918) |
| Payment for KFAS | | **(38,578)** | (57,171) |
| Net cash used in operating activities | | **(4,093,608)** | (23,149,089) |
| **Cash flows from investing activities** | | | |
| Murabaha investments | | **1,305,789** | (4,298) |
| Investments available for sale | | **(2,805,477)** | 663,697 |
| Proceeds from sale of an associate | | **6,984,875** | - |
| Payment for purchase of investment in associate | | **(1,248,574)** | (149,782) |
| Net change in land and real estate under development | | **(11,423,518)** | (18,823,539) |
| Payment for purchase of intangible assets | | **(2,980,349)** | (1,400) |
| Payment for purchase of property and equipment | | **(1,153,747)** | (381,780) |
| Proceeds from sale of property and equipment | | **15,246** | - |
| Net cash used in acquisition of a subsidiary | | **(8,969,381)** | - |
| Net change in investment properties | | **(5,680,267)** | (1,079,579) |
| Net cash used in investing activities | | **(25,955,403)** | (19,776,681) |
| **Cash flows from financing activities** | | | |
| Net receipts from murabaha and wakala payables | | **31,190,345** | 38,658,299 |
| Proceeds from share capital increase | | **8,734,466** | - |
| Proceeds from issue premium | | **8,332,573** | - |
| Paid to purchase/proceeds from sale of treasury shares | | **(329,254)** | 143,136 |
| Net cash from financing activities | | **47,928,130** | 38,801,435 |
| Net increase/(decrease) in cash and cash equivalents | | **17,879,119** | (4,124,335) |
| Cash and cash equivalents at beginning of the year | | **1,957,131** | 6,081,466 |
| Cash and cash equivalents at end of the year | 3 | **19,836,250** | 1,957,131 |

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

## 1. Incorporation and activities

The Investment Dar Company ("The Parent Company") is a Closed Kuwaiti Shareholding Company established in Kuwait in 1994 and is registered as an investment company with the Central Bank of Kuwait on 27 August 1995. The Parent Company was listed on the Kuwait Stock Exchange in April 1999. The Parent Company's registered office is at Ahmed Al-Jaber Street, Sharq, Kuwait.

The Parent Company and the following owned principal subsidiaries are collectively referred to as the Group in these consolidated financial statements.

| Company | Percentage voting rights held |
|---|---|
| The First Dar Trading Company K.S.C. (Closed) | 96% and 4% under assignment |
| The First Dar Real Estate Company K.S.C. (Closed) | 96% and 4% under assignment |
| Masha'er General Trading & Contracting Co. (W.L.L.) | 99% and 1% under assignment |
| Manafe'a Real Estate Co. (W.L.L.) | 50% and 50% under assignment |
| Al-Mal Investment Co. K.S.C. (Closed) | 98% |
| Al-Shomokh Al-Arabi General Trading & Contracting Co. (W.L.L.) | 98% under assignment |
| Al Raya Kuwaiti Real Estate Company (W.L.L.) | 50% and 50% under assignment |

The Parent Company effectively controls the ownership of the above subsidiaries. Legal formalities to complete the transfer of ownership of shares under assignment indicated above were not complete on the balance sheet date.

During the year, the Group acquired 98% of the voting rights of Al-Mal Investments Co. K.S.C. (Closed) (note 24) and established Al-Shomokh Al-Arabi General Trading & Contracting Co. (W.L.L) and Al Raya Kuwaiti Real Estate Company (W.L.L.).

Subsequent to the balance sheet date the name of The First Dar Real Estate Company K.S.C. (Closed) has been amended to become The National Dar Real Estate Company K.S.C. (Closed), and its capital has been increased to become K.D 35,000,000 with the admission of new shareholders, accordingly the percentage of ownership held by the Investment Dar Company becomes 20%.

The activities of the parent company and subsidiaries are carried out in accordance with Noble Islamic Sharia principles. The principal activities of the Group are selling and leasing of motor vehicles and real estate properties to consumers based on Musawama, Murabaha, Ijara and Wakala contracts. The Group is also engaged in Murabaha investments with local Islamic financial institutions, trading in land and real estate and managing portfolios on behalf of others.

The consolidated financial statements were authorised for issue by the Board of Directors on 30 March 2004 and are subject to approval of shareholders at the annual general assembly meeting.

## 2. Basis of Preparation and Significant Accounting Policies

### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost basis of measurement, except financial instruments classified as held for trading, available for sale and investment properties, which are carried at fair values. In preparing these consolidated financial statements, the financial statements of the Parent Company and subsidiaries have been consolidated on a line by line basis after eliminating intra-group balances, intra-group transactions and resulting unrealised profits in full and using uniform accounting policies for like transactions and other events in similar circumstances.

The preparation of consolidated financial statements in accordance with these Standards requires management to make estimates and assumptions that may affect the amounts reported in these financial statements.

### 2.2 Financial instruments

**Classification and measurement**

The principal financial instruments that the Group uses are classified as "Originated Financial Assets", "Held for Trading", "Available for Sale" and "Financial Liabilities".

**Originated financial assets**

These are financial assets (principally bank balances and receivables arising from Musawama, Murabaha and Ijara contracts) that are created by providing goods or services directly to the customers other than those that are originated with intent to be sold in the short term. These financial assets are subsequently re-measured and carried at amortised cost using the effective yield method, less any provision for impairment.

**Held for trading assets**

These are financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in price. These are subsequently re-measured and carried at fair value. Resultant unrealised gains and losses arising from changes in fair value are included in the statement of income.

**Available for sale assets**

These are financial assets that are not included in any of the above categories and are principally, those acquired to be held, for an indefinite period of time. These are subsequently re-measured and carried at fair value and any resultant unrealised gains or losses are taken to equity.

**Financial liabilities other than held for trading**

These are financial liabilities created by Murabaha and Wakala contracts. They are subsequently re-measured and carried at amortised cost using the effective yield method.

**Recognition and de-recognition**

All financial instruments are initially recognised at cost (which includes transaction costs).

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset is de-recognised when the Group loses control of the contractual rights that comprise the financial asset and a financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired. When a financial asset is derecognised any fair value adjustment that had been reported in equity is included in the statement of income.

**Fair values**

For financial instruments traded in organised financial markets, fair value is determined by reference to quoted bid market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment, or is based on expected discounted cash flows. In case fair value cannot be reliably measured, the investment is carried at cost less impairment losses.

**Impairment**
A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised in the statement of income except to the extent a gain was recognised in equity.

Specific provision for impairment is established to meet credit risk on originated financial assets when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the recoverable amount of the asset which is based on the present value of expected cash flows taking into consideration amounts recoverable from guarantees and collateral discounted based on the effective profit rate at inception.

In addition to the specific provision, a general provision is established to cover the risk of expected doubtful debts, which were not identified on the date of financial statements and may exist in accordance with Central Bank of Kuwait instructions.

**Trade and settlement date accounting**
All regular way purchases and sales of financial assets are recognised using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

### 2.3 Cash and cash equivalents
Cash on hand, demand and deposits with banks and financial institutions whose original maturities do not exceed three months from the date of placements are classified as cash and cash equivalents in the statement of cash flows.

### 2.4 Land and real estate held for trading
Land and real estate acquired and developed for resale are classified as held for trading and are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price less estimated selling costs.

### 2.5 Investment properties
Investment properties that are not occupied by the Group and acquired for long-term leases or for capital appreciation in future, are classified as investment properties.

Investment properties are stated at cost on acquisition and re-measured at fair value. Fair value is determined by an independent registered valuer on each balance sheet date. Gains or losses arising from change in fair value are recognised in the statement of income.

### 2.6 Investment in associates
Associates are enterprises in which the Group holds 20% to 50% of the voting power or over which it exercises significant influence. Investments in associates are accounted for using the equity method of accounting.

### 2.7 Land and real estate under development
Land and real estate under development are recognized at cost, which includes development costs. When the development process is completed, the land and real estate are classified either as investment property or land and real estate held for trading or as property for self-occupancy according to the intention of the management regarding the future use of these properties.

### 2.8 Intangible assets
Intangible assets comprise of computer software, leasehold rights for premises (key money) and goodwill. Costs of computer software which are expected to have useful lives of more than one year carried at cost and amortized on a straight-line basis over their expected useful lives of 3 years. All other software costs are charged to statement of income.

Cost incurred to acquire leasehold rights are carried at cost and amortized on a straight-line basis over their expected useful lives up to 20 years.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is amortized using the straight-line method over their expected useful lives of 5 years.

The carrying amount of each intangible asset is reviewed annually. When there is an indication that an intangible asset may be impaired, it is written down to its recoverable amount and the impairment loss is recognised in the statement of income.

**2.9 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost comprises of acquisition costs and all directly attributable costs of bringing the asset to working condition for its intended use. Depreciation is provided in equal instalments over the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Buildings | 20 |
| Furniture and fixtures | 3 |
| Vehicles | 3 |
| Computer | 3 |

The carrying amount of property and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists these assets are written down to their recoverable amount and the impairment loss is recognised in the statement of income.

**2.10 Post employment benefits**

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans, to employees at cessation of employment.

The defined benefit plan is unfunded and is based on the liability that would arise on involuntary termination of all employees on the balance sheet date. This basis is considered to be a reliable approximation of the present value of this liability.

**2.11 Accounting for leases**

Leases of property and equipment where the lessee assumes substantially all the benefits and risks of ownership are classified as finance leases. Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases

**Where the Group is the lessee**

Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

**Where the Group is the lessor**

Finance leases are capitalised at the estimated present value of the underlying lease receipts. Each lease payment is allocated between the asset and profit rate so as to produce a constant periodic profit rate on the balance of asset outstanding.

Assets leased out under operating leases are included in property and equipment. They are depreciated over their expected useful lives on a basis consistent with similar assets.

**2.12 Provisions**

Provisions are recognised when as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation; and the amount can be reliably estimated.

**2.13 Treasury shares**

Treasury shares consists of the Group's own shares that have been issued and subsequently purchased by the Group and not yet reissued or cancelled. Treasury shares are accounted for using the cost method where the cost of the shares reacquired is deducted from equity. 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 realised losses are charged to the same account to the extent of the credit balance in that account. Any excess losses are charged to retained earnings and then to reserves. Gains realised subsequently on the sale of treasury shares are 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 cost of treasury shares.

### 2.14 Revenue recognition

Murabaha, musawama, wakala and ijara income are recognised on a time proportion basis so as to yield a constant periodic profit rate of return based on the balances outstanding. Cost of Murabaha and wakala payable is expensed on a time proportion basis taking account of the profit rate attributable and balances outstanding. Operating lease income is recognised on a straight-line basis over the lease term.

Dividend income is recognized when right to receive payment is established. Revenue from land and real estate is recognised on the completion of the sale contract. Management fees are recognised when earned.

### 2.15 Foreign currencies

The functional currency of the Group is the Kuwaiti Dinar. Foreign currency transactions are recorded in Kuwaiti Dinars at the rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to Kuwaiti Dinars at the closing rate as of the balance sheet date. Resultant gains / losses are taken to statement of income.

Net assets of associates are translated at the exchange rates prevailing at the date of the balance sheet. Revenues and expenses are translated at the average exchange rates for the year. Gains and losses resulting from these transactions are directly included in shareholders' equity in foreign currency translation reserve.

### 2.16 Zakat

Zakat is computed on the reserves and retained earnings balances as approved by the Shari'a Supervisory Board.

### 2.17 Fiduciary assets

Assets held 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

## 3. Cash and cash equivalents

| | 2003 | 2002 |
|---|---|---|
| Cash on hand | **3,845,093** | 24,665 |
| Current account with banks and financial institutions | **15,991,157** | 1,932,466 |
| | **19,836,250** | 1,957,131 |

## 4. Investments held for trading

| | 2003 | 2002 |
|---|---|---|
| Investments in local shares | **2,032,795** | - |
| Investments in local portfolios | **1,042** | - |
| Investments in foreign portfolios | **89,238** | - |
| | **2,123,075** | - |

## 5. Investments available for sale

| | 2003 | 2002 |
|---|---|---|
| Investments in local shares - unquoted | **3,043,902** | 1,315,500 |
| Investments in local shares - quoted | **1,810,852** | 97,000 |
| Investments in foreign shares - unquoted | **4,058,606** | 402,327 |
| Investments in foreign shares - quoted | **488,398** | - |
| | **9,401,758** | 1,814,827 |

This item include unquoted Investments of KD 7,102,508 are carried at cost since it was not possible to reliably measure their fair values as at 31 December 2003. Currently available financial information does not indicate impairment in their values.

## 6. Trade receivables

| | 2003 | 2002 |
|---|---|---|
| Trade receivables | **180,549,415** | 159,069,583 |
| Provision for doubtful debts | **(10,774,813)** | (9,461,360) |
| | **169,774,602** | 149,608,223 |

Provision for doubtful debts comprises of:

| | 2003 | 2002 |
|---|---|---|
| Specific provision | **7,551,366** | 3,308,360 |
| General provision | **3,223,447** | 6,153,000 |
| | **10,774,813** | 9,461,360 |

The specific provision utilized during the year amounted to KD 2,816,332 representing the trade receivables written off after the approval of Company's Board of Directors. The average yield rate on trade receivables is 11.58 % as at 31 December 2003 (13.96% as at 31 December 2002).

## 7. Other receivables

| | 2003 | 2002 |
|---|---|---|
| Suppliers - advance payments | **3,087,045** | 7,147,815 |
| Accrued income | **6,158,857** | 2,048,202 |
| Prepaid expenses | **30,995** | 43,505 |
| Other debit balances | **2,758,909** | 1,351,412 |
| | **12,035,806** | 10,590,934 |

Suppliers - advance payments represent advances paid for purchasing goods under cancellable contracts.

## 8. Land and real estate held for trading

| | 2003 | 2002 |
|---|---|---|
| Additions resulting from acquisition of subsidiary | **507,500** | - |

## 9. Investment properties

| | 2003 | 2002 |
|---|---|---|
| Balance at 1 January | **4,855,369** | 3,522,790 |
| Additions during the year | **8,621,371** | 4,107,598 |
| Sold during the year | **(1,830,534)** | (1,957,019) |
| Net transfer from/to land and real estate under Development | **5,449,420** | (1,071,000) |
| Increase in fair value | **7,018,141** | 253,000 |
| Balance at 31 December | **24,113,767** | 4,855,369 |

All properties are registered in the name of a member of Board of Directors, who has confirmed that he holds these properties on account of the Group.

## 10. Investment in associates

| | 2003 | 2002 |
|---|---|---|
| First Finance Company Q.S.C. (closed) | - | 1,792,657 |
| Investment House Q.S.C. (closed) | 807,320 | - |
| | 807,320 | 1,792,657 |

- During the year, the Company sold its investment in First Finance Company Q.S.C. (closed), with gains amounted to KD 4,562,869.
- During the year the Company has invested KD 844,446 to acquire 600,000 shares of The Investment Houses a Qatari Shareholding Company (closed), representing 30% of its share capital. This acquisition resulted in a goodwill of KD 311,990 being the difference between the amount paid and the company's share of the fair value of the associate's net identifiable assets.
- Investment in associate at 31 December 2003 includes goodwill balance of KD259,992, net of accumulated amortization of KD 51,998.

## 11. Land and real estate under development

| | 2003 | 2002 |
|---|---|---|
| Opening balance | 27,197,337 | 8,373,798 |
| Additions during the year | 28,923,464 | 23,666,059 |
| Sold during the year | (17,499,946) | (5,913,520) |
| Net transfer to/from investment properties | (5,449,420) | 1,071,000 |
| | 33,171,435 | 27,197,337 |

Lands are registered in the name of a member of the Board of Directors who has confirmed that he holds these properties on account of the Group.

## 12. Intangible assets

| | 2003 | | | | 2002 |
|---|---|---|---|---|---|
| | Software | Lease hold properties | Key money | Total | Total |
| **Cost** | | | | | |
| As at 1 January | 391,412 | 356,800 | 59,510 | 807,722 | 806,322 |
| Additions | 8,458 | 2,971,891 | - | 2,980,349 | 1,400 |
| As at 31 December | 399,870 | 3,328,691 | 59,510 | 3,788,071 | 807,722 |
| **Accumulated amortisation** | | | | | |
| As at 1 January | 90,786 | 111,327 | 33,908 | 236,021 | 135,720 |
| Amortization charged for the year | 134,334 | 21,102 | 23,241 | 178,677 | 100,301 |
| As at 31 December | 225,120 | 132,429 | 57,149 | 414,698 | 236,021 |
| Net book value As at 31 December | 174,750 | 3,196,262 | 2,361 | 3,373,373 | 571,701 |

Leasehold properties represent the amount paid to acquire leasehold rights to the land for the Headquarters building. The lease contract with Government is renewable annually.

## 13. Property and equipment

| | 2003 | | | | 2002 |
|---|---|---|---|---|---|
| | Buildings | Furniture, equipment & vehicles | Computer | Total | Total |
| **Cost** | | | | | |
| As at 1 January | **461,597** | **498,819** | **777,110** | **1,737,526** | 1,355,949 |
| Assets of the acquired subsidiary | **-** | **131,465** | **61,339** | **192,804** | - |
| Additions | **2,400** | **1,075,829** | **75,518** | **1,153,747** | 381,780 |
| Disposals | **-** | **(10,701)** | **-** | **(10,701)** | (203) |
| As at 31 December | **463,997** | **1,695,412** | **913,967** | **3,073,376** | 1,737,526 |
| **Accumulated depreciation** | | | | | |
| As at 1 January | **11,572** | **374,300** | **618,742** | **1,004,614** | 752,287 |
| Accumulated depreciation of subsidiary's assets | **-** | **23,143** | **39,028** | **62,171** | - |
| Depreciation charge for the year | **25,482** | **224,779** | **7,822** | **258,083** | 252,530 |
| Disposals | **-** | **(1,446)** | **-** | **(1,446)** | (203) |
| As at 31 December | **37,054** | **620,776** | **665,592** | **1,323,422** | 1,004,614 |
| Net book value as at 31 December | **426,943** | **1,074,636** | **248,375** | **1,749,954** | 732,912 |

## 14. Trade and other payables

| | 2003 | 2002 |
|---|---|---|
| Trade payables | **20,427,449** | 9,600,314 |
| Accrued expenses | **975,329** | 582,617 |
| Zakat | **711,940** | 275,370 |
| Kuwait Foundation for the Advancement of Sciences | **112,847** | 38,578 |
| National labour support tax | **297,706** | 103,314 |
| Board of directors' remuneration | **94,000** | 60,000 |
| Others | **2,682,508** | 411,578 |
| | **25,301,779** | 11,071,771 |

## 15. Murabaha and wakala payables

These represent murabaha and wakala contracts that mature over a period of 2 to 4 years.
The average effective yield rate is 5.07% as at 31 December 2003 (5.66% as at 31 December 2002).

## 16. Share capital

During the year the Company held three extraordinary meetings of shareholders to increase share capital as follows:

- Issue of 24,344,640 bonus shares at 10% of the paid up capital and 24,344,640 shares for cash at a share premium of 80 fils per share.
- Issue of 50,000,000 shares in cash, at a share premium of 116 fils per share, with the assignment of the subscription right to the shareholders' of Al Mal Investment Co KSC (Closed).
- Issue of 13,000,000 shares to the Parent Company's employees for cash at a share premium of 45 fils per share.
- Issued and fully paid up capital amounted to KD 35,513,570 as at 31 December 2003 divided into 355,135,680 shares with a par value of 100 fils each.

## 17. Treasury shares

| | 2003 | 2002 |
|---|---|---|
| Number of treasury shares (shares) | **920,000** | - |
| Ownership percentage | **0.26%** | - |
| Cost (KD) | **329,254** | - |
| Market value (KD) | **354,200** | - |

## 18. Reserves

| | Statutory reserve (Note 19) | Share Premium (Note 19) | Voluntary reserve (Note 19) | Foreign currency translation reserve | Unrealised gain on investments available for sale | Total |
|---|---|---|---|---|---|---|
| Balance at 1 January 2002 | 1,730,516 | 5,527,608 | 1,730,516 | (2,993) | 127,000 | 9,112,647 |
| Transfer to reserves | 428,642 | - | 428,642 | - | - | 857,284 |
| Foreign currency translation reserve | - | - | - | (12,157) | - | (12,157) |
| Change in fair value of investments available for sale | - | - | - | - | (53,558) | (53,558) |
| Gain on disposal of investments available for sale transferred to statement of income | - | - | - | - | (45,000) | (45,000) |
| **Balance at 31 December 2002** | 2,159,158 | 5,527,608 | 2,159,158 | (15,150) | 28,442 | 9,859,216 |
| Balance as at 1 January 2003 | **2,159,158** | **5,527,608** | **2,159,158** | **(15,150)** | **28,442** | **9,859,216** |
| Issue of share capital - cash | **-** | **8,332,573** | **-** | **-** | **-** | **8,332,573** |
| Transfer to reserves | **1,340,545** | **-** | **1,340,545** | **-** | **-** | **2,681,090** |
| Foreign currency translation reserve | **-** | **-** | **-** | **53,173** | **-** | **53,173** |
| Changes in fair value of investments available for sale | **-** | **-** | **-** | **-** | **118,240** | **118,240** |
| **Balance at 31 December 2003** | **3,499,703** | **13,860,181** | **3,499,703** | **38,023** | **146,682** | **21,044,292** |

**19. Reserves**

**Statutory reserve**

In accordance with the of Commercial Companies Law and the Parent Company's Articles of Association, 10% of the Group's profit for the year is transferred to statutory reserve. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of share capital in years when retained earnings are not sufficient for the payment of a dividend of that amount. The General Assembly may utilize any amount in excess of 50% of the share capital in the aspects that can benefit the Company or its shareholders'.

**Share premium**

This represents premium collected on issue of shares and is not available for distribution.

**Voluntary reserve**

In accordance with the Parent Company's Articles of Association, a specific percentage of Group's net profit for the year proposed by the Board of Directors and approved by the General Assembly is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the General Assembly based on the Board of Director's recommendation. The Board of Directors recommend a transfer of 10% of net profit for the year ended 31 December 2003 (31 December 2002 - 10%).

**20. Director's remuneration**

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

**21. Proposed dividends**

The Board of Directors has proposed cash dividends of 10 fils per share and bonus shares of 15% of share capital for the year ended 31 December 2003 (2002: bonus shares of 10% of share capital). The proposed dividends will be reflected in the financial statements after the approval of the general assembly meeting of the shareholders'.

**22. Staff costs**

Staff costs amounted to KD 2,452,918 for the year ended 31 December 2003 (2002:KD 1,645,995). Number of employees as at 31December 2003 was 216 (2002: 180).

**23. Earnings per share**

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

| | 2003 | 2002 |
|---|---|---|
| Net profit for the year (K.D.) | **12,900,899** | 4,093,860 |
| Weighted average No. of outstanding shares | **304,936,633** | 267,616,908 |
| Earnings per share (fils) | **42.31** | 15.30 |

**24. Acquisition of subsidiary**

On 31 August 2003, the parent company acquired 98% of the share capital of Al-Mal Investment Company K.S.C. (Closed) for a total consideration of KD 10,739,224. The acquired business contributed revenues of KD 1,215,985 and operating profit of KD 812,677 for the period from 31 August 2003 to 31 December 2003 and it assets and liabilities as at 31 December 2003 were KD 15,550,068 and KD 3,831,304 respectively.

The fair values of the net assets acquired, consideration paid, and related cash flows were as follows:

| | 31 August 2003 |
|---|---|
| Fair value of net assets | **11,010,913** |
| Less: minority interest | **(271,689)** |
| Fair value of net assets acquired | **10,739,224** |
| Cost of acquisition | **10,739,224** |
| Cash flows upon acquisition of subsidiary | |
| Cash payment | **10,739,224** |
| Cash and cash equivalents of subsidiary | **(1,769,843)** |
| Net cash used in acquisition | **8,969,381** |

## 25. Cash used in operating activities

| | 2003 | 2002 |
|---|---|---|
| Net profit before minority interest | **12,917,152** | 4,093,860 |
| Adjustments: | | |
| Depreciation and amortization | **488,758** | 352,831 |
| Provisions | **3,218,206** | 1,380,000 |
| Reversal of impairment losses of investments available for sale | **(660,000)** | - |
| Gain on sale of associate | **(4,562,869)** | - |
| Profit share from associates | **(217,677)** | (170,854) |
| Commissions from associated company | **-** | 16,000 |
| Increase in fair value of investment properties | **(7,018,141)** | (253,000) |
| Gain on sale of property and equipment | **(5,990)** | - |
| End of service indemnity expense | **174,279** | 128,758 |
| Kuwait Foundation for the Advancement of Sciences | **112,847** | 38,578 |
| National labour support tax | **297,706** | 93,980 |
| Directors' remuneration | **94,000** | 60,000 |
| Operating income before changes in working capital | **4,838,271** | 5,740,153 |
| Investments held for trading | **(654,187)** | - |
| Trade receivables | **(21,066,128)** | (26,005,564) |
| Other receivables | **(1,074,963)** | (6,640,889) |
| Land and real estate held for trading | **1,166,160** | - |
| Trade and other payables | **12,786,524** | 3,874,530 |
| Payment of end of service indemnity | **(50,707)** | (60,148) |
| Cash used in operating activities | **(4,055,030)** | (23,091,918) |

## 26. Geographical distribution of assets and liabilities

| | Assets as at 31 December | | Liabilities as at 31 December | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Kuwait | **253,444,563** | 197,109,777 | **209,689,922** | 161,662,983 |
| Other GCC countries | **18,102,771** | 2,104,232 | **-** | - |
| Europe | **341,256** | - | **-** | - |
| Other countries | **4,087,560** | - | **-** | - |
| U.S.A. | **1,456,149** | 90,752 | **2,560** | - |
| | **277,432,299** | 199,304,761 | **209,692,482** | 161,662,983 |

## 27. Segment reporting

The Group is organised into two major business segments operating principally in the State of Kuwait.

| | Vehicles and other products | | Real estate | | Total | |
|---|---|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** | **2003** | **2002** |
| Segment results | **3,363,527** | 3,026,678 | **6,544,911** | 4,914,135 | **9,908,438** | 7,940,813 |
| Unallocated revenues | **-** | - | **-** | - | **11,889,261** | 1,124,088 |
| Allocated expenses | **(2,754,670)** | (2,203,551) | **(4,954,823)** | (2,283,264) | **(7,709,493)** | (4,486,815) |
| Unallocated expenses | **-** | - | **-** | - | **(1,171,054)** | (484,226) |
| Profit before minority interest | **608,857** | 823,127 | **1,590,088** | 2,630,871 | **12,917,152** | 4,093,860 |
| | | | | | | |
| Segments assets | **201,077,442** | 103,465,561 | **61,446,391** | 92,044,045 | **262,523,833** | 195,509,606 |
| Unallocated assets | **-** | - | **-** | - | **14,908,466** | 3,795,155 |
| Segment liabilities | **11,060,562** | 3,132,062 | **13,025,896** | 6,437,378 | **24,086,458** | 9,569,440 |
| Unallocated liabilities | **-** | - | **-** | - | **185,606,024** | 152,093,543 |

## 28. Related parties transactions

Related parties represents group's shareholders who have represented in the board, members of the Board of Directors and Senior Management. In the normal course of business, the Group enters into transactions with related parties during the year ended 31 December 2003 terms approved by the Group's management.

The related parties transactions and balances are as follows:

| | 2003 | 2002 |
|---|---|---|
| Trade payable | **5,797,352** | 10,051,565 |
| Purchases for resale | **32,502,101** | 36,572,674 |
| Suppliers - advance payment | **31,381** | 344,167 |
| Trade receivables | **2,225,366** | 324,753 |

The Parent Company also manages portfolios on behalf of a related party. Assets of these portfolios amounted to KD 3,092,347 as at 31 December 2003 (2002: KD 6,606,716), and are held as off balance sheet items.

Remuneration to Board of Directors amounted to KD 94,000 during the year ended 31 December 2003 (2002: KD 60,000)

All related parties transactions are subject to the approval of the general assembly meeting of the shareholders.

## 29. Off balance sheet items

The Group manages portfolios on behalf of others and the balances of these portfolios are not included in the balance sheet of the Group. The net assets of these portfolios amounted to KD 28,206,020 as at 31 December 2003 (31 December 2002:KD 16,019,377).

## 30. Capital commitments

| | 2003 | 2002 |
|---|---|---|
| New headquarter project | **2,400,000** | - |
| Cost of development of land and real estates | **2,667,615** | 186,128 |
| Uncalled capital of investment securities | **138,695** | 500,000 |
| | **5,206,310** | 686,128 |

## 31. Financial risk management

In the ordinary course of business, the Group is exposed to the following risks:

### 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. The Group manages this risk by dealing with a large number of customers, setting up credit limits, monitoring outstanding balances regularly and by securing appropriate collaterals as required.

### Foreign currency risk

Represented in the risk of fluctuations in foreign exchange rates that may adversely affect the cash flows of the Group or values of assets and liabilities in foreign currencies. The Group manages this risk by transacting business in the local currency.

### Return rate risk

Return rate risk arises due to changes in market rates for profit and financing costs. The Group's exposure to this risk is low as all contracts are either at fixed rates or provide for a ceiling on the profit rate of return.

**Liquidity risk**
Liquidity risk is the risk that the Group may be unable to meet commitments associated with financial instruments when they fall due. The Group manages this risk by dealing with reputed counter parties, diversifying its investments and matching the maturities of financial assets and financial liabilities.

The maturity analysis of financial assets and liabilities as at 31 December 2003 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 | 19,836,250 | - | - | - | 19,836,250 |
| Murabaha investments | 437,459 | 100,000 | - | - | 537,459 |
| Investments held for trading | 2,123,075 | - | - | - | 2,123,075 |
| Investments available for sale | - | - | 9,401,758 | - | 9,401,758 |
| Trade receivables | 57,376,310 | 36,702,890 | 58,777,615 | 16,917,787 | 169,774,602 |
| Other receivables | 12,035,806 | - | - | - | 12,035,806 |
| Land and real estate held for trading | - | - | 507,500 | - | 507,500 |
| Investment properties | - | - | 24,113,767 | - | 24,113,767 |
| Investment in associates | - | - | 807,320 | - | 807,320 |
| Land and real estate under development | - | - | 33,171,435 | - | 33,171,435 |
| Other assets | - | - | 1,500,122 | 3,623,205 | 5,123,327 |
| | 91,808,900 | 36,802,890 | 128,279,517 | 20,540,992 | 277,432,299 |
| **Liabilities** | | | | | |
| Trade and other payables | 25,195,104 | - | 604,659 | - | 25,799,763 |
| Murabaha and wakala payables | 49,829,109 | 48,500,625 | 72,085,718 | 13,477,267 | 183,892,719 |
| | 75,024,213 | 48,500,625 | 72,690,377 | 13,477,267 | 209,692,482 |

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 |
| Investments available for sale | - | - | 1,814,827 | - | 1,814,827 |
| Trade receivables | 49,346,690 | 32,272,857 | 52,516,509 | 15,472,167 | 149,608,223 |
| Other receivables | 10,590,934 | - | - | - | 10,590,934 |
| Investment properties | - | - | 4,855,369 | - | 4,855,369 |
| Investment in associates | - | - | - | 1,792,657 | 1,792,657 |
| Land and real estate under development | - | - | 27,197,337 | - | 27,197,337 |
| Other assets | - | - | 1,304,613 | - | 1,304,613 |
| | 62,078,425 | 32,272,857 | 87,688,655 | 17,264,824 | 199,304,761 |
| **Liabilities** | | | | | |
| Trade and other payables | 11,352,628 | - | - | - | 11,352,628 |
| Murabaha and wakala payables | 40,903,260 | 38,459,026 | 59,772,839 | 11,175,230 | 150,310,355 |
| | 52,255,888 | 38,459,026 | 59,772,839 | 11,175,230 | 161,662,983 |

## 32. 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. The fair values of these financial instruments approximate their book values.

## 33. Subsequent events

The Board of Directors has proposed on 30 March 2004 a share capital increase of 25% in cash with a share premium of 120 fils per share. This proposal is subject to the approval of the general assembly meeting of shareholders.