




Consolidated Financial Statements &
Auditors' Report for the Year
Ending December 31, 2002



index

22	Independent Auditors' Report
23	Consolidated Balance Sheet
24	Consolidated Statement of Income
25	Consolidated Statement of Changes in Shareholders' Equity
26	Consolidated Statement of Cash Flows
27	Notes to the Consolidated Financial Statements

Auditors' Report

The Shareholders

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)


We have audited the accompanying consolidated balance sheet of Kuwait and Middle East Financial Investment Company K.S.C. (Closed) ("the Company") as at 31 December 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kuwait and Middle East Financial Investment Company K.S.C. (Closed) as at 31 December 2002, the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

We are also of the opinion that these consolidated financial statements give all the information required by the Commercial Companies Law, Law No. 32 of 1968 concerning currency, the Central Bank of Kuwait and the organisation of banking business and the subsequent amendments thereto and the Company's Articles and Memorandum of Association. Furthermore proper books of account have been kept by the Company and the information given in the Chairman's message in the annual report, in respect of accounting information, is in agreement with the Company's books. We have obtained all the information we considered necessary for the satisfactory performance of our audit.

According to the information given to us, no violations of the Commercial Companies Law, as amended or the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business or the Company's Articles and Memorandum of Association have occurred during the year ended 31 December 2002 which might have had a material effect on the activities of the Company or its financial position.



Jassim Ahmad Al-Fahad
Licence No. 53 "A"
Al-Fahad & Co.
Deloitte & Touche



Qais M. Al-Nisf
Licence No. 38 "A"
KPMG Al Nisf & Partners
Member Firm of KPMG International

February 19, 2003

Consolidated Balance Sheet

AS AT 31 DECEMBER 2002

	Note	2002 KD	2001 KD
ASSETS			
Cash and cash equivalents	3	1,602,749	1,001,585
Investments held for trading	4	8,530,094	10,512,326
Investments available for sale	5	1,985,187	2,416,780
Investment property	6	1,492,935	2,316,668
Loans and receivables	7	972,736	344,417
Investment in unconsolidated subsidiaries	8	307,151	373,410
Accrued income and other assets	9	1,529,889	2,249,971
Fixed assets	10	805,303	478,379
Total Assets		17,226,044	19,693,536
LIABILITIES & SHAREHOLDERS' EQUITY			
LIABILITIES			
Bank loans	11	1,067,987	1,874,069
Accounts payable and other liabilities		834,690	832,242
Total Liabilities		1,902,677	2,706,311
Minority interest		86,978	92,833
SHAREHOLDERS' EQUITY			
Share capital	12	12,920,250	12,920,250
Share premium		89,355	367,080
Statutory reserve		1,772,042	1,758,494
General reserve		1,339,936	1,326,388
Retained earnings		905,730	2,017,047
Unrealised (loss)/gain on investments available for sale		(379,539)	(76,458)
Cumulative translation adjustment		12,789	36,330
Company's own shares		(1,431,939)	(1,454,739)
Gain from sale of Company's own shares		7,765	-
Total Shareholders' equity		15,236,389	16,894,392
Total Liabilities and Shareholders' Equity		17,226,044	19,693,536



Hamed Saleh Al-Saif
Chairman & General Manager



Sheikh Ahmed Yousef Al-Sabah
Vice Chairman

Consolidated Statement of Income

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 KD	2001 KD
INCOME			
Management fees		2,471,070	2,221,454
Performance fees		108,130	209,675
Interest and similar income		94,975	122,412
Commission income		67,051	–
Placement fees		129,217	40,442
Losses on investments held for trading		(469,764)	(593,256)
Loss on disposal of investment property		(33,953)	–
Dividends		54,743	110,303
Rental income earned by subsidiaries		597,163	742,198
Income from unconsolidated subsidiaries		17,845	4,513
Foreign exchange (losses)/gains		(29,784)	51,835
(Provision)/write-back of provision on loans and receivables		(12,823)	3,852
Other income		68,717	15,358
Total Income		3,062,587	2,928,786
EXPENSES AND OTHER CHARGES			
Staff		1,348,348	1,331,837
Operating expenses relating to investment property		271,433	274,393
Other operating expenses		662,761	457,528
Management fees		198,041	160,851
Depreciation on investment property and fixed assets		327,570	295,713
Interest expense		102,835	145,585
Total Expenses and Other Charges		2,910,988	2,665,907
Net income from operations		151,599	262,879
Minority interest		(16,123)	(7,768)
Net income before contributions to Kuwait Foundation for the Advancement of Sciences (KFAS), board of directors' remuneration and labour support tax		135,476	255,111
Contribution to KFAS		(1,219)	(4,592)
Board of Directors' remuneration		–	(35,000)
Labour Support Tax	13	(3,018)	(5,625)
Net Income for the Year		131,239	209,894
BASIC EARNINGS PER SHARE (Fils)	14	1.08 Fils	1.72 Fils
DILUTED EARNINGS PER SHARE (Fils)	14	1.07 Fils	1.72 Fils

THE NOTES SET OUT ON PAGES 27 TO 38 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Changes in Shareholders' Equity

FOR THE YEAR ENDED 31 DECEMBER 2002

	Share capital	Share premium	Statutory reserve	General reserve	Retained earnings	Unrealised gains/(losses) on available for sale investments	Cumulative translation adjustments	Company's own shares	Gain from sale of Company's own shares	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2001	12,075,000	-	1,732,983	1,300,877	4,176,939	818,763	31,007	(1,273,200)	-	18,862,369
Net income for the year	-	-	-	-	209,894	-	-	-	-	209,894
Dividends paid for 2000	-	-	-	-	(1,715,014)	-	-	-	-	(1,715,014)
Bonus shares issued	603,750	-	-	-	(603,750)	-	-	-	-	-
Issue of share capital										
- share options	241,500	367,080	-	-	-	-	-	-	-	608,580
Transfer to statutory reserve	-	-	25,511	-	(25,511)	-	-	-	-	-
Transfer to general reserve	-	-	-	25,511	(25,511)	-	-	-	-	-
Unrealised losses on investments available for sale	-	-	-	-	-	(895,221)	-	-	-	(895,221)
Cumulative translation adjustment	-	-	-	-	-	-	5,323	-	-	5,323
Purchase of treasury shares	-	-	-	-	-	-	-	(181,539)	-	(181,539)
Balance at 31 December 2001	12,920,250	367,080	1,758,494	1,326,388	2,017,047	(76,458)	36,330	(1,454,739)	-	16,894,392
Net income for the year	-	-	-	-	131,239	-	-	-	-	131,239
Dividends paid for 2001	-	-	-	-	(1,215,460)	-	-	-	-	(1,215,460)
Share premium derecognised (note 15)	-	(277,725)	-	-	-	-	-	-	-	(277,725)
Transfer to statutory reserve	-	-	13,548	-	(13,548)	-	-	-	-	-
Transfer to general reserve	-	-	-	13,548	(13,548)	-	-	-	-	-
Unrealised losses on investments available for sale	-	-	-	-	-	(303,081)	-	-	-	(303,081)
Cumulative translation adjustment	-	-	-	-	-	-	(23,541)	-	-	(23,541)
Sale of Company's own shares	-	-	-	-	-	-	-	22,800	7,765	30,565
Balance at 31 December 2002	12,920,250	89,355	1,772,042	1,339,936	905,730	(379,539)	12,789	(1,431,939)	7,765	15,236,389

THE NOTES SET OUT ON PAGES 27 TO 38 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 KD	2001 KD
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income before contributions to KFAS, Board of Director's remuneration and Labour support tax		135,476	255,111
ADJUSTMENTS			
Depreciation on investment property and fixed assets		327,570	295,713
Gain on sale of fixed assets		–	(14,558)
Undistributed income from unconsolidated subsidiaries		(17,845)	(4,513)
Loss on sale of investment property		33,953	–
Provision/(write-back of provision) for loans and receivables		12,823	(3,852)
Unrealised (gains)/losses on investments held for trading		(182,240)	159,803
Change in minority interest		(5,855)	8,249
Operating income before changes in operating assets and liabilities		303,882	695,953
Investments held for trading		2,164,472	8,150
Loans and receivables		(641,142)	192,590
Accrued income and other assets		259,893	345,579
Accounts payable and other liabilities		(1,789)	83,795
Net cash from operating activities		2,085,316	1,326,067
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investment property		689,736	–
Improvements to investment property		(71,842)	(71,430)
Purchase of fixed assets		(482,608)	(462,035)
Proceeds from sale of fixed assets		–	22,170
Purchase of investments available for sale		(87,470)	(99,105)
Return of capital on investments available for sale		215,982	60,759
Capital distribution from unconsolidated subsidiaries		60,563	–
Net cash from (used) in investing activities		324,361	(549,641)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loan		(806,082)	(178,745)
Dividends paid		(1,215,460)	(1,715,014)
Proceeds from employee share option plan		182,464	–
Sale of treasury shares		30,565	–
Purchase of treasury shares		–	(181,539)
Net cash used in financing activities		(1,808,513)	(2,075,298)
Increase/(decrease) in cash and cash equivalents		601,164	(1,298,872)
Cash and cash equivalents at the beginning of the year		1,001,585	2,300,457
Cash and cash equivalents at the end of the year	3	1,602,749	1,001,585

THE NOTES SET OUT ON PAGES 27 TO 38 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Kuwait and Middle East Financial Investment Company (the “Company”) is a Closed Kuwaiti Shareholding Company incorporated on 1 January 1984. The Company is engaged in carrying out investment and portfolio management activities for its own account and for clients. The Company’s shares are listed on the Kuwait Stock Exchange. The Company’s registered head office is at 13th floor, Kuwait Real Estate Bank Building, Joint Banking Center, Kuwait city, Kuwait. The number of employees as at 31 December 2002 was 79 (31 December 2001: 73). The company is a subsidiary of Bank of Kuwait and the Middle East (parent company) which is listed on the Kuwait Stock Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 19 February 2003. The shareholders of the Company have the power to amend these financial statements at the annual general assembly.

2. SIGNIFICANT ACCOUNTING POLICIES

A) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Commercial Companies law, and the Companies Articles and Memorandum of Association.

B) *Basis of presentation*

The consolidated financial statements are presented in Kuwaiti Dinars (“KD”). The consolidated financial statements are prepared on a fair value basis for financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. The consolidated financial statements include the Company and the following subsidiaries, which are consolidated on a line by line basis.

- Al Awsat Real Estate Company, a closed Kuwaiti shareholding limited liability company, in which the Company has a 100% effective ownership.
- Missouri Center (St. Joseph) Ltd, a California Limited Partnership in which the Company has a 90% ownership; and
- Missouri Center (Joplin) Ltd, a California Limited Partnership in which the Company has a 90% ownership. All significant intra-group balances and transactions, and any unrealised gains arising from intra-group transactions have been eliminated on consolidation.

C) *Cash and cash equivalents*

Cash and cash equivalents comprise cash and bank balances, short-term deposits’ with an original maturity of three months or less and investments in money market and bond funds.

D) *Investments*

The Company maintains two separate investment portfolios; investments held for trading and investments available for sale. Financial assets that are acquired for the purpose of generating a profit from short-term fluctuations in price are classified as investments held for trading. Financial assets, which are intended to be held for indefinite period of time, are classified as investments available for sale.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. After initial recognition, investments, which are classified as held for trading and those classified as available for sale, are valued at fair value. Provision is made for any impairment in value of available for sale investments (see note 2n).

For investments traded in organised financial markets, fair value is determined by reference to the last quoted bid price on the balance sheet date. Investments in funds which are not traded in stock exchanges are valued at net asset values provided by the fund managers.

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected cash flows or the underlying net asset base of the investment. Investments whose fair value cannot be reliably measured are carried at amortised cost less impairment losses (see note 2n).

Gains or losses arising from changes in fair value of investments held for trading are included in the statement of income in the period in which they arise. Gains or losses arising from changes in fair value of investments available for sale are recognised directly in equity.

All "regular way" purchases and sales of investments, are recognised on the trade date i.e. the date entity commits to purchase or sell the asset.

E) Loans and receivables

Loans and receivables originated by the Company are recognised on the settlement date and are carried at amortised cost less impairment losses (see note 2n). Specific provisions are made to reduce impaired loans and receivables to their estimated recoverable amount. General provision for loans is made in accordance with the Central Bank of Kuwait regulations.

F) Investment in subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries, other than those which are held with a view to disposal in the near future and subsidiaries which are considered as not material to the consolidated financial statements, are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Investment in subsidiaries which are not considered material to the consolidated financial statements of the Company are equity accounted (see note 8).

G) Investment property

Investment property, other than freehold land, is stated at cost less accumulated depreciation and impairment losses (see note 2n).

Depreciation is provided on investment property, other than freehold land, at rates calculated to write off the cost of assets on a straight-line basis over its expected useful life. The estimated useful lives are as follows:

- Buildings: 30 years
- Tenant improvements: life of the lease

H) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses if any (see note 2n). Depreciation is calculated based on the estimated useful lives of the applicable assets using the straight-line method. The estimated useful lives of fixed assets are 4 to 7 years. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvement and replacement of assets are capitalised. Gains and losses on disposal of fixed assets are included in the statement of income.

I) Fiduciary assets

Third party assets managed by the Company and assets held in trust or in a fiduciary capacity are not treated as assets of the Company and accordingly are not included in these consolidated financial statements.

J) Employees' end of service indemnity

Provision is made for employees' end of service indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of involuntary termination of staff at the balance sheet date.

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

K) Company's own shares

When the Company's own shares are purchased, the amount of consideration paid, including directly attributable costs is recognised as change in equity. Profits less losses on sale of own shares are included in shareholders' equity.

With effect from 1999, Company's own shares are not entitled to any cash dividend that the Company may propose. In accordance with the instructions of the Central Bank of Kuwait dated 15 December 1999, dividend earned in prior years on the Company's own shares are transferred to the general reserve and are not available for distribution.

L) Revenue recognition

Fee and commission income is recognised when earned in accordance with the substance of the agreement. Interest income is recognised on the accrual basis. Interest income includes the difference between the initial amount of investment in money market and bond fund and its fair value at the balance sheet date. Dividend income is recognised when the right to receive payment is established. Rental income is recognised on a straight-line basis over the term of the lease.

M) Foreign currency translation

Foreign currency transactions are recorded in Kuwaiti Dinars at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into Kuwaiti Dinars at the average of buying and selling rates at year end. All realised and unrealised exchange gains or losses are credited or charged to the statement of income except in the case of gains or losses on translation of the Company's share of the net assets of unconsolidated subsidiaries, which is included in the cumulative translation adjustment account in shareholders' equity.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical or amortised cost, are translated to Kuwaiti Dinars at the rates of exchange ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at dates that the values were determined.

N) Impairment

Fixed assets, investment property, loans and receivables and investments are 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.

Fixed assets and investment property

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The impairment losses are recognised in the statement of income.

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 assessment of time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Loans and receivables

The recoverable amount of receivables is calculated as the total amount of expected collections. The receivables are of a short duration and therefore the expected future cash collections are not discounted.

Credit risk provision for loans impairment is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is determined as the difference between the carrying amount and the recoverable amount of the asset. The recoverable amount is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

Impairment losses are recognised in the statement of income. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the income statement.

Available for sale assets

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest. Where the asset is impaired, and a decline in value of the asset was previously recognised directly in equity, the write down is transferred to the income statement and recognised as part of the impairment loss. Where an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognised in the income statement.

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

3. CASH AND CASH EQUIVALENTS

	2002	2001
	KD	KD
Cash and bank balances	432,213	469,176
Fixed deposits	502,563	45,301
Investment in money market and bond fund	667,973	487,108
	<u>1,602,749</u>	<u>1,001,585</u>

4. INVESTMENTS HELD FOR TRADING

	2002	2001
	KD	KD
Quoted securities	–	457,248
Funds	8,530,094	10,055,078
	<u>8,530,094</u>	<u>10,512,326</u>

5. INVESTMENTS AVAILABLE FOR SALE

	2002	2001
	KD	KD
Funds (at fair value)	1,121,474	1,583,398
Unquoted securities (at cost)	863,713	833,382
	<u>1,985,187</u>	<u>2,416,780</u>

The fair value of unquoted securities cannot be reliably determined and therefore these are carried at cost. There is no active market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

6. INVESTMENT PROPERTY

	Land	Buildings and tenant improvements	Total
	KD	KD	KD
Cost			
At 1 January 2002	326,379	3,574,315	3,900,694
Translation adjustment	(8,214)	(89,951)	(98,165)
Additions	–	71,842	71,842
Disposals	(170,735)	(1,014,017)	(1,184,752)
At 31 December 2002	<u>147,430</u>	<u>2,542,189</u>	<u>2,689,619</u>
Accumulated depreciation and impairment losses			
At 1 January 2002	–	1,584,026	1,584,026
Translation adjustment	–	(39,863)	(39,863)
Depreciation	–	171,886	171,886
Disposals	–	(519,365)	(519,365)
At 31 December 2002	<u>–</u>	<u>1,196,684</u>	<u>1,196,684</u>
Net book value			
At 31 December 2002	<u>147,430</u>	<u>1,345,505</u>	<u>1,492,935</u>
At 31 December 2001	<u>326,379</u>	<u>1,990,289</u>	<u>2,316,668</u>

During the year ended 31 December 2002, Missouri Centers (St. Joseph) Ltd, California Limited Partnership in which the Company has a 90% ownership, sold its rental property to an unrelated party for US\$ 2,750,000. The funds realized on the sale were used to repay the bank loan of US\$ 1,698,581. The loss of US\$112,497 (KD 33,953) incurred on sale of the above property is included in the consolidated statement of income.

The investment property of the Company's subsidiary Missouri Centres (Joplin) Ltd. (see note 11) and related rental income are mortgaged against bank facilities granted to Missouri Centres (Joplin) Ltd.

The fair value of the investment property at the balance sheet date is based on the price offered by potential buyers which is KD 2,096,010 (2001: KD 3,225,180).

7. LOANS AND RECEIVABLES

	2002 KD	2001 KD
Loans to staff	33,563	44,286
Loans to others	959,024	307,160
	<u>992,587</u>	<u>351,44</u>
General provision	(19,851)	(7,029)
	<u>972,736</u>	<u>344,417</u>

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

8. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

	Country of incorporation	Ownership	2002 KD	2001 KD
Safat Ltd.	Antigua & Barbuda	100%	273,740	336,140
KME Investors Services Ltd.	Antigua & Barbuda	100%	330	338
KME Investment Services Ltd.	U.K.	100%	480	446
KME Fund Managers Limited	Guernsey	100%	18,373	20,660
KME Management Services	U.S.A.	100%	14,228	15,826
			<u>307,151</u>	<u>373,410</u>

9. ACCRUED INCOME AND OTHER ASSETS

	2002 KD	2001 KD
Accrued management fee – local	475,055	544,280
Accrued management fee – international	422,247	335,805
Employee share option plan receivables	148,391	608,580
Automation project in progress	–	208,015
Other	484,196	553,291
	<u>1,529,889</u>	<u>2,249,971</u>

10. FIXED ASSETS

	Furniture and Equipment KD	Computers KD	Software KD	Total KD
Cost				
At 1 January 2002	543,768	123,715	–	667,483
Additions	16,443	134,771	331,394	482,608
At 31 December 2002	<u>560,211</u>	<u>258,486</u>	<u>331,394</u>	<u>1,150,091</u>
Accumulated depreciation				
At 1 January 2002	126,805	62,299	–	189,104
Depreciation	102,199	35,948	17,537	155,684
At 31 December 2002	<u>229,004</u>	<u>98,247</u>	<u>17,537</u>	<u>344,788</u>
Net book value				
At 31 December 2002	<u>331,207</u>	<u>160,239</u>	<u>313,857</u>	<u>805,303</u>
At 31 December 2001	<u>416,963</u>	<u>61,416</u>	<u>–</u>	<u>478,379</u>

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

11. BANK LOANS

	Note	2002 KD	2001 KD
Borrowings by Missouri Centres (St. Joseph) Ltd. collateralised by future rents and a lien on the investment property	6	–	556,258
Borrowings by Missouri Centres (Joplin) Ltd. collateralised by future rents and a lien on the investment property	6	1,067,987	1,317,811
		<u>1,067,987</u>	<u>1,874,069</u>

12. SHAREHOLDER'S EQUITY

A) The authorised share capital consists of 132,825,000 shares of 100 fils each (2001: 129,202,500 shares of 100 fils each). Issued and fully paid up share capital consists of 129,202,500 shares of 100 fils each (2001: 129,202,500 shares of 100 fils each) and includes 2,415,000 shares (2001: 2,415,000 shares) on account of share option plan for employees (see note 15).

B) In accordance with the Commercial Companies' Law and the Company's Articles of Association, 10% of the net income for the year is required to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of share capital. 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 payment of a dividend of that amount.

C) In accordance with the Company's Articles of Association, 10% of the net income for the year is required to be transferred to the general reserve. The transfer to this reserve can be discontinued by a resolution adopted by the board of directors.

The general reserve includes dividends payable on the Company's own shares amounting to KD 36,500 (2001: KD 36,500) which are non-distributable.

D) As at 31 December 2002 the Company held 7,536,545 shares (2001: 7,656,545 shares) of its own shares, equivalent to 5.83% (2001: 5.93%) of the total issued share capital at that date. The market value of the Company's own shares as at 31 December 2002 was KD 1,522,382 (2001: KD 1,531,309).

E) Reserves equivalent to the cost of the Company's own shares amounting to KD 1,431,939 (2001: KD 1,454,739) are non-distributable.

13. LABOUR SUPPORT TAX

In accordance with Article (12) of National Labour Support Law No. 19 of 2000, 2.5% of the Company's net annual distributable profit has been provided for in respect of Labour Support Tax.

14. EARNINGS PER SHARE

	2002	2001
Net income for the year (KD)	<u>131,239</u>	<u>209,894</u>
Weighted average number of shares in issue	129,202,500	126,787,500
Weighted average number of company's own shares	(7,586,627)	(6,864,709)
Weighted average number of shares issued - employee share option plan	<u>–</u>	<u>1,945,233</u>
Adjusted weighted average number of shares (Basic)	121,615,873	121,868,024
Weighted average number of employee share options outstanding	<u>1,494,955</u>	<u>–</u>
Adjusted weighted average number of shares (Diluted)	<u>123,110,828</u>	<u>121,868,024</u>
Basic earnings per share (Fils)	<u>1.08</u>	<u>1.72</u>
Diluted earnings per share (Fils)	<u>1.07</u>	<u>1.72</u>

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

15. EMPLOYEE SHARE OPTION PLAN

The annual General Assembly of the shareholders held on 12 March 2001 approved a share option plan for employees. In accordance with the plan, the Board of Directors of the Company are authorised to issue up to 6,037,500 shares as share options to the employees. The options vest over a four-year period starting from 13 March 2001, and can be exercised starting from 13 March 2002, as follows:

- Not more than 40% until 12 March 2003;
- Not more than 80% until 12 March 2004;
- Not more than 100% until 12 March 2005.

The option price was fixed at 252 fils per share and was determined based on the average market price for the three months prior to 31 December 2000, less a discount of 25%. During the year ended 31 December 2001 the equity of the Company was increased by 2,415,000 shares, representing share options that the employees can exercise starting from 13 March 2002. The exercise price per share in excess of 100 fils per share (the par value of shares) was recognised as share premium. The increase in share capital and share premium totalling KD 608,580 was included in accrued income and other assets.

The annual General Assembly of the shareholders held on 10 April 2002 approved a revision of the option price for 2,415,000 shares issued in 2001 (see paragraph above), from 252 fils to 137 fils. Accordingly the Company reduced share premium and accrued income and other assets by KD 277,725.

The annual General Assembly of the shareholders held on 10 April 2002 also approved the revision of option price for the remaining unissued shares, from 252 fils to a price to be determined, based on the book value per share as per the last published quarterly or annual financial statements of the Company when the option is exercised.

The Board of Directors are authorised to allocate unexercised share options relating to employees who resign or are terminated from services, to new employees of the Company.

16. PROPOSED DIVIDENDS

The Board of Directors have proposed a cash dividend of Nil % amounting to Nil fils per share (2001: 10% amounting to 10 fils per share).

17. LEASE RENTAL INCOME

The rental income relates to investment property leased by the Company's subsidiary, Missouri Centres (Joplin) Ltd., under operating leases. Non-cancellable operating lease receivables are as follows:

	2002	2001
	KD	KD
Less than one year	401,313	635,224
Between one and five years	1,140,768	1,857,382
More than five years	143,674	969,464
	<u>1,685,755</u>	<u>3,462,070</u>

18. RELATED PARTY TRANSACTIONS

Related parties primarily comprise subsidiaries, shareholders, directors and executive officers of the Company, their families and companies of which they are principal owners. All related party transactions are carried at terms approved by the Company's management.

The related party transactions included in the consolidated financial statements are as follows:

	2002	2001
	KD	KD
Board of directors remuneration	-	35,000
Management and placement fees earned	710,363	578,263
Investments and funds managed in a fiduciary capacity	21,754,998	12,134,709
Loans to directors and senior management	14,221	24,341

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

19. COMMITMENTS AND CONTINGENCIES

	2002	2001
	KD	KD
Bank guarantees	100,000	100,000
Uncalled capital contributions relating to investments held for trading and investments available for sale	477,545	160,721
Capital commitments relating to automation project	-	220,111
Outstanding foreign exchange commitments	9,493,227	6,121,830

20. FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the Company on behalf of clients. These are not assets of the Company and accordingly are not included in the financial statements. As at the balance sheet date total fiduciary assets managed by the Company amounted to KD 416 million equivalent to US\$ 1,388 million (2001: KD 361 million equivalent to US\$ 1,174 million).

21. FINANCIAL INSTRUMENTS

Fair value

Other than unquoted securities whose fair value cannot be reliably determined (see Note 5), the estimated fair value of financial assets and financial liabilities, which are not carried at fair value as at 31 December 2002 and 31 December 2001 approximated their carrying amounts.

Credit risk

The Company is exposed to credit risk if counter parties fail to perform as contracted. Financial assets which potentially subject the Company to credit risk consist principally of cash and cash equivalents and loans and receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of the above assets disclosed in the balance sheet.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Financial assets, which potentially subjects the Company to interest rate risk consist principally of bank borrowings, cash and cash equivalents and loans and receivables.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Company manages this risk by diversifying its investments and monitoring market movements on a daily basis.

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's exposure to currency risk is equal to the carrying amount of net assets denominated in foreign currencies (see note 25).

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

22. SEGMENT REPORTING

BUSINESS SEGMENTS

The company operates in the following three distinguishable business segments. These business segments form the basis on which the company reports its primary segmental information.

- International Investment Division, which is engaged in carrying out investment activities for own account and for clients, in international markets;
- Real Estate Division, which is engaged in investing in real estate; and
- Local Market Division, which is engaged in carrying out investment activities for own account and for clients, in the local Kuwaiti market.

Financial information about business segments for the year ended 31 December 2002 and 31 December 2001 are set out below:

	International Investments		Real Estate		Local Markets		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	KD	KD	KD	KD	KD	KD	KD	KD
Segment revenue	126,264	120,153	1,082,565	1,231,299	1,745,353	1,415,071	2,954,182	2,766,523
Segment expenses	872,400	1,036,351	839,700	910,983	660,741	490,420	2,372,841	2,437,754
Segment result	(746,136)	(916,198)	242,865	320,316	1,084,612	924,651	581,341	328,769
Unallocated Revenues							108,405	162,263
Unallocated Expenses							558,507	281,138
Net income for the year							131,239	209,894
Segment assets	7,710,800	12,635,138	2,776,129	3,823,625	2,088,298	535,191	12,575,227	16,993,954
Unallocated assets							4,650,817	2,699,582
Total assets							17,226,044	19,693,536
Segment liabilities	-	-	971,671	1,823,104	-	-	971,671	1,823,104
Unallocated liabilities							931,006	883,207
Total liabilities							1,902,677	2,706,311
Capital expenditure	-	-	71,842	71,430	-	-	71,842	71,430
Unallocated capital expenditure							482,608	462,035
Total capital expenditure							554,450	533,465
Depreciation	-	-	171,886	208,914	-	-	171,886	208,914
Unallocated depreciation							155,684	86,799
Total depreciation							327,570	295,713
Income from unconsolidated subsidiaries	17,845	4,513	-	-	-	-	17,845	4,513
Total income from unconsolidated subsidiaries							17,845	4,513

GEOGRAPHICAL SEGMENTS

The Company operates from one location in Kuwait and all its customers are based in Kuwait. The Company's assets, however, relate to different geographical areas of the world. The carrying amount of the Company's assets and liabilities by geographical are presented in note 23 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

23. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

	Kuwait		North America		Europe		Far East		Other		Total	
	2002 KD	2001 KD	2002 KD	2001 KD	2002 KD	2001 KD	2002 KD	2001 KD	2002 KD	2001 KD	2002 KD	2001 KD
Assets												
Cash and cash equivalents	1,522,075	855,219	80,674	146,056	-	295	-	-	-	15	1,602,749	1,001,585
Investments held for trading	1,613,244	-	3,956,017	8,005,337	2,821,648	2,357,103	139,185	142,548	-	7,338	8,530,094	10,512,326
Investments available for sale	825,000	825,000	945,186	1,457,802	92,054	-	122,947	133,978	-	-	1,985,187	2,416,780
Investment property	-	-	1,492,935	2,316,668	-	-	-	-	-	-	1,492,935	2,316,668
Loans and receivables	679,295	43,400	-	-	-	-	-	-	293,441	301,017	972,736	344,417
Investment in unconsolidated subsidiaries	-	-	307,151	373,410	-	-	-	-	-	-	307,151	373,410
Accrued income and other assets	1,027,541	1,400,509	502,348	849,462	-	-	-	-	-	-	1,529,889	2,249,971
Fixed assets	805,303	478,379	-	-	-	-	-	-	-	-	805,303	478,379
	6,472,458	3,602,507	7,284,311	13,148,735	2,913,702	2,357,398	262,132	276,526	293,441	308,370	17,226,044	19,693,536
Liabilities and shareholders' equity												
Banks loans	-	-	1,067,987	1,874,069	-	-	-	-	-	-	1,067,987	1,874,069
Accounts payable and other liabilities	806,013	754,681	28,677	77,561	-	-	-	-	-	-	834,690	832,242
Minority interest	-	-	86,978	92,833	-	-	-	-	-	-	86,978	92,833
Shareholders' equity	14,547,198	16,296,165	689,191	598,227	-	-	-	-	-	-	15,236,389	16,894,392
	15,353,211	17,050,846	1,872,833	2,642,690	-	-	-	-	-	-	17,226,044	19,693,536

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2002

24. MATURITIES AND EFFECTIVE INTEREST RATES OF ASSETS AND LIABILITIES

	Within one year		Over one year		Non-interest sensitive		Total		Effective Interest rate %	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
ASSETS										
Cash and cash equivalents	1,602,749	1,001,585	-	-	-	-	1,602,749	1,001,585	3.60%	4.50%
Investments held for trading	8,530,094	10,512,326	-	-	8,530,094	10,512,326	8,530,094	10,512,326	-	-
Investments available for sale	-	-	1,985,187	2,416,780	1,985,187	2,416,780	1,985,187	2,416,780	-	-
Investment property	-	-	1,492,935	2,316,668	1,492,935	2,316,668	1,492,935	2,316,668	-	-
Loans and receivables	972,736	344,417	-	-	-	-	972,736	344,417	3.84%	8.41%
Investment in unconsolidated subsidiaries	-	-	307,151	373,410	307,151	373,410	307,151	373,410	-	-
Accrued income and other assets	1,529,889	2,249,971	-	-	1,529,889	2,249,971	1,529,889	2,249,971	-	-
Fixed assets	-	-	805,303	478,379	805,303	478,379	805,303	478,379	-	-
	12,635,468	14,108,299	4,590,576	5,585,237	14,650,559	18,347,534	17,226,044	19,693,536		
LIABILITIES AND SHAREHOLDERS' EQUITY										
Bank loans	1,067,987	1,874,069	-	-	-	-	1,067,987	1,874,069	4.17%	4.25%
Accounts payable and other liabilities	340,852	410,293	493,838	421,949	834,690	832,242	834,690	832,242	-	-
Minority interest	-	-	86,978	92,833	86,978	92,833	86,978	92,833	-	-
Shareholders' equity	-	-	15,236,389	16,894,392	15,236,389	16,894,392	15,236,389	16,894,392	-	-
	1,408,839	2,284,362	15,817,205	17,409,174	16,158,057	17,819,467	17,226,044	19,693,536	-	-

25. ASSETS DENOMINATED IN FOREIGN CURRENCIES

As at the balance sheet date the Company had the following significant net asset exposures denominated in foreign currencies:

	2002	2001
	KD	KD
US Dollars	2,816,622	8,031,725
Other	37,518	168,554
	2,854,140	8,200,279

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with the current year's presentation.