



THE  
INTERNATIONAL  
INVESTOR

## Gathering momentum



Annual Report 2004



**HH Sheikh Jaber Al-Ahmad  
Al-Jaber Al-Sabah**

Amir of the State of Kuwait



**HH Sheikh Sa'ad Al-Abdallah  
Al-Salem Al-Sabah**

Crown Prince of the State of Kuwait



**HH Sheikh Sabah Al-Ahmad  
Al-Jaber Al-Sabah**

The Prime Minister

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قال تعالى :

وَمَنْ يَتَّقِ اللَّهَ يَجْعَلْ لَهُ مَخْرَجًا وَيَرْزُقْهُ  
مِنْ حَيْثُ لَا يَحْتَسِبُ وَمَنْ يَتَوَكَّلْ عَلَى  
اللَّهِ فَهُوَ حَسْبُهُ إِنَّ اللَّهَ بَالِغُ أَمْرِهِ قَدْ جَعَلَ  
اللَّهُ لِكُلِّ شَيْءٍ قَدْرًا .

صدق الله العظيم

(سورة الطلاق الآيات ٢ و ٣)

And whosoever fears God and keeps his duty to Him, He will make a way for him to get out (from every difficulty). And He will provide him from (sources) he never could imagine. And whosoever puts his trust in God, then He will suffice him. Verily, God will accomplish his purpose. Indeed, God has set a measure for all things.

(Surah 65:2-3)

CreditOne provides enhanced consumer credit capabilities to big commercial companies



## Chairman's Statement

On behalf of the Board of Directors, I have the privilege to present the annual report and audited accounts of The International Investor (TII) for 2004. This proved to be a significant year for the company in terms of financial performance, strategic progress, and operational developments.

### Financial performance

The results for 2004 clearly illustrate that TII has overcome the financial challenges and difficulties of the past three years. I am pleased to report that we achieved an increase in net profit, shareholders' equity and return on investment compared to the previous year. This encouraging performance has enabled the Directors to propose a 10 per cent dividend distribution.

### Strategic progress

The most significant accomplishment of 2004 was undoubtedly the successful implementation of our new strategy. This entails a major shift from TII's traditional specialisation in investment banking to a broader-based offering of banking and non-banking financial services, involving the acquisition of organisations that operate in the financial services field in the MENA region.

The objective is to position TII as a pioneering regional financial institution in terms of the scope of its activities, size, and business growth rate. In developing this strategy, we took into consideration the added value that we are uniquely placed to offer our stakeholders. This is based on our expertise in structured finance, advisory services, and mergers and acquisitions, together with our experience of regional markets and our well-established relationships with international consultancy firms and banking institutions.

Two major achievements during 2004 illustrate the early success of our new strategic thrust.

The first was the establishing of CreditOne (Cr-1) in Kuwait with a capital of KD 40 million. This new company will offer commercial organisations a

comprehensive range of financial services including enhanced consumer credit capabilities, and merchant branded payment and customer loyalty programmes. Cr-1 will focus on developing innovative services that are not readily available in the region, such as the ability of commercial organisations to provide clients with their own branded payment cards. On behalf of Cr-1, TII handled the acquisition of Al-Sayer Financing Company, a member of the Al-Sayer Group. This was a major step in the establishment of Cr-1, which will be transformed into a financial company licensed by the Central Bank of Kuwait.

Cr-1 and other new companies under its umbrella, such as the "Procco" for back office processing and operations services support, and the "Pay Plus" for merchant branded payment and loyalty card services, represent a major element of the infrastructure required to support TII's expansion into consumer and corporate financial services at a pan-regional level. Additional expansion will be achieved through the acquisition of other regional companies at a regional level and linking them to this central infrastructure.

The second major strategic achievement during 2004 was our entry into the targeted sector of fleet leasing. TII acquired 75 per cent of the Turkish firm Do-Car for the amount of US\$ 19 million plus US\$ 4.5 million capital increase. Do-Car ranks among the top three players in the Turkish vehicle operational fleet leasing market. Do-Car differentiates itself by focusing on large accounts such as organisations and corporations. It also offers clients a one-stop-shop experience

by determining their fleet needs, conducting the purchase negotiations, and offering maintenance of the fleet. Do-Car's comprehensive suite of fleet management services includes consultancy, financing, purchasing, leasing, operating, and replacement vehicles. This company in particular, and the sector in general, has demonstrated an annual growth rate of more than 50 per cent over the last three years. This high growth trend is expected to continue for several years to come.

### Operational achievements

In the area of investment banking, TII-Qatar enjoyed another successful year. The Qatari market continued to flourish in 2004 due to its new open market policies and economic reforms. TII's team of partners in Qatar capitalized on this trend by establishing a local shares portfolio that is distributed on the Qatar Stock Exchange, and which has realised handsome returns. Also in 2004, Saif Tourism Projects Company was established as a shareholding company with a capital of QR 162 million. This company will specialise in developing, managing, and equipping hotels and resorts, in addition to offering other services in the tourism sector. The Board of Directors in Qatar has approved an increase in capital and plans to list the company on the Qatar Stock Exchange.

### Looking ahead

The achievements of 2004 clearly illustrate that TII is returning to its previous accustomed levels of activity. The challenges and difficulties experienced during the last three years have helped to polish and hone the expertise, drive and zeal of our management team, and enhance TII's capability to open new doors in Kuwait and the MENA region. The Board is confident that the Company's new strategic focus will ensure the sustained growth and profitability that is widely expected from TII.

In 2005, we intend to reinforce our strategy of regional expansion by acquiring major stakes in consumer financing firms in two Gulf markets. Negotiations are also underway to acquire a financial institution in Turkey. In addition, it is planned to reinforce TII's operational leasing activities through the acquisition of further regional companies.

In conclusion, I would like to express the Board of Director's appreciation to our shareholders, clients, business partners, and staff. Their continued trust and loyalty were a source of inspiration and support for TII's accomplishments in 2004, and will provide us with greater confidence and determination to achieve our future strategic goals.



**Adnan Al Bahar**  
Chairman and Managing Director

CreditOne also provides commercial organizations the chance to give their customers incentive, loyalty and payment cards



Fleet leasing

Comprehensive suite of leasing and fleet management services to large organizations in the MENA region



## Board of Directors

### **Adnan Abdulaziz Al Bahar**

Chairman and Managing Director

Before founding TII in 1992, Adnan was Managing Director of Al Rajhi Company for Islamic Investments in London and prior to this, General Manager of Kuwait Finance House. He has served as Advisor to the Finance Committee of the Kuwait Parliament, and as a Director of Kuwait Investment Authority, Kuwait Stock Exchange and Kuwait Higher Planning Board.

### **Najeeb Abdulla Al Mulla**

Deputy Chairman

Najeeb is Chairman of Al Mulla Group, one of Kuwait's leading companies. He is also a Board member of Investcorp's Strategic Ownership Group and the Kuwait Chamber of Commerce.

### **Abdallah Mohamed Al-Baeijan**

Director

Abdallah is Chairman and Managing Director of Al-Seedawi Sweet Factory and a Partner and GM of Al-Enma Management Consultancy. He is also a Board member of Kuwait Chamber of Commerce, a committee member of the General Board of Industry Standardisation, and a Commercial Trade Committee member at the Ministry of Commerce and Industry.

### **Anwar Naser Al-Bisher**

Director

Before establishing the law firm of Anwar Al-Bisher & Partners in 1980, Anwar was Senior Legal Advisor for the Commercial Bank of Kuwait. A past appointee by Amiri Decree to the Municipality Council, he headed the legal and Finance Committees, and served on the Committee for the Protection of Public Funds, and the Economy and Finance Committee in the National Assembly of Kuwait.

### **Faisal Abdul Mohsin Al Khatrash**

Director

Faisal was previously Deputy Managing Director of Kuwait Foreign Trading, Contracting & Investment Company, and Vice Chairman of Kuwait Finance House. He is currently an Executive Board member of Salhia Real Estate Company.

### **Faisal Ebrahim Almusallam**

Director

A certified accountant, Faisal has been responsible for private equity funds in the Direct Investment Department of Kuwait's Public Institution for Social Security since 1993.

### **Salah Mohammed Al Wazzan**

Director

Salah is Chief Operating Officer of Al Wazzan Holding Group, one of Kuwait's largest commercial groups.

### **Sayer Bader Mohammed Al-Sayer**

Director

Executive Director of Al-Sayer Group of Companies, Sayer oversees the entire Group operations, in particular Information Services and Investments. His other directorships include Computers & Communications Concepts Company in Kuwait, and Lebanon Invest in Lebanon.

### **Sadi Othman Al Othman**

Director

Sadi was Partner in Charge of Human Resources and Strategic Planning at The International Investor for a term of ten years. Prior to that, he was Assistant General Manager for Human Resources and Planning at Kuwait Finance House. He is currently a member of the Board of Directors of Kuwait Catalyst Company.

## Fatwa and Sharia Supervisory Board

### **In the Name of God, the Merciful, the Compassionate**

Report of the TII Fatwa and Sharia Supervisory Board for the period 1 January 2004 to 31 December 2004.

Praise be to God, the Lord of all creation, and prayer and peace be upon Prophet Muhammad, his family, companions and followers.

The Fatwa and Sharia Supervisory Board of The International Investor held several meetings during 2004, wherein all questions and contracts related to this year's operations, as presented by the Management, were studied.

The Board accordingly made all necessary recommendations, decisions and fatwas.

Additionally, the Board studied the report prepared by the internal Sharia Supervision Team in TII for 2004, which was based on examination of all large operations and a random sample of small operations. In light of the above, and what has been presented to it, the Board hereby declares that it has found no violation of the rules and provisions of the Islamic Law (Sharia), or of previous Board decisions, in the Company's contracts and transactions in 2004.

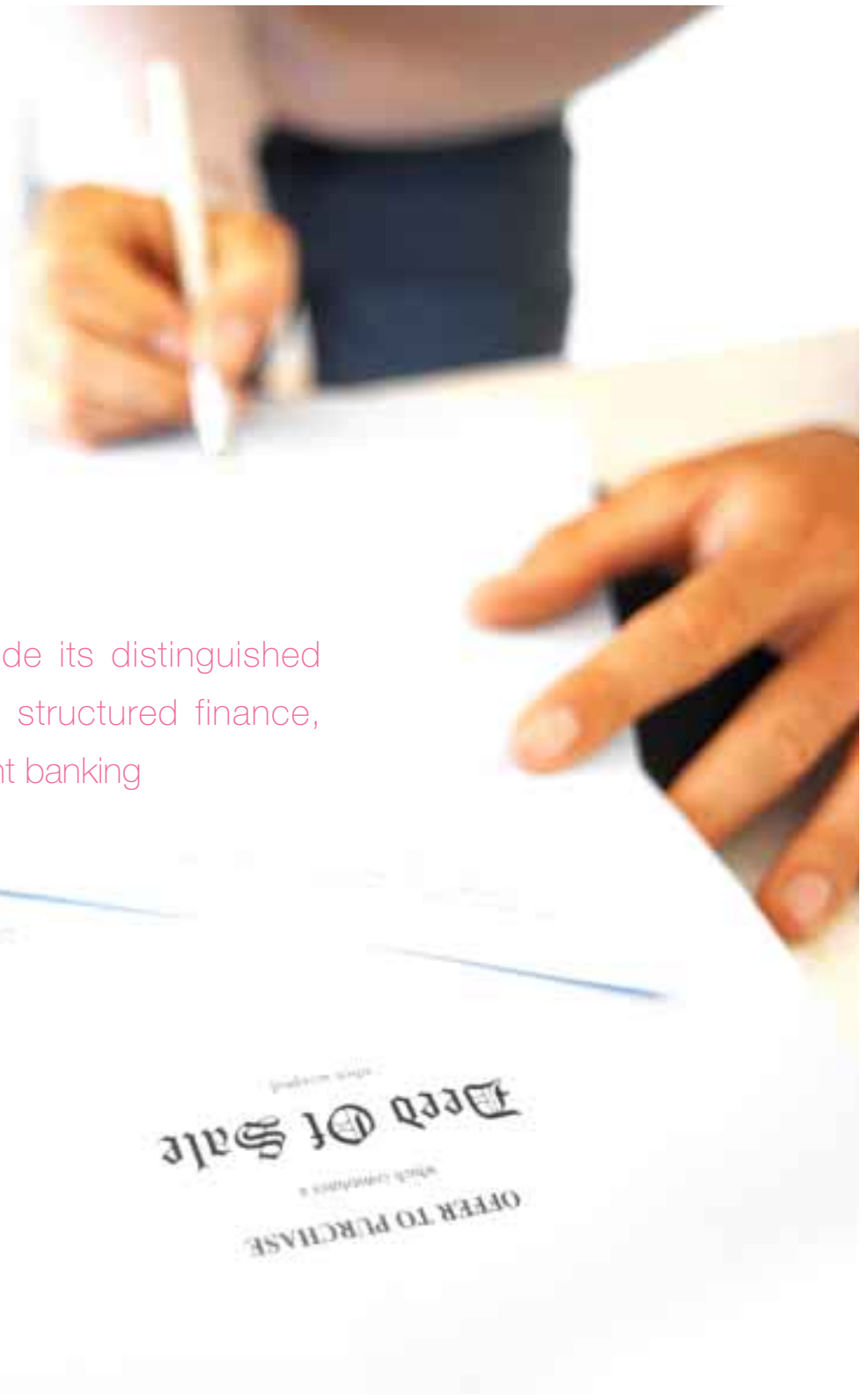
**Sheikh Ahmad Bazie' Al-Yaseen**  
Chairman

**Dr. Khaled Al-Mathkour**  
Deputy Chairman

**Dr. Muhammad Fawzi Faidullah**  
Member

**Dr. Abdul Aziz Al-Qassar**  
Member

**Sheikh Abdul-Rahman Ibn Abdullah  
Ibn Aqeel**  
Member



TII continues to provide its distinguished traditional services in structured finance, advisory and investment banking

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
THE INTERNATIONAL INVESTOR COMPANY K.S.C. (CLOSED)**

We have audited the accompanying balance sheet of The International Investor Company K.S.C. (Closed) as of 31 December 2004, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to notes 6 and 11 to the financial statements.

Furthermore, in our opinion proper books of account have been kept by the company and the financial statements, together with the contents of the report of the board of directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2004 that might have had a material effect on the business of the company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2004.

**WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
OF ERNST & YOUNG**

**ALIA. AL HASAWI  
LICENCE NO. 30 A  
BDO BURGAN  
INTERNATIONAL ACCOUNTANTS**

2 March 2005  
Kuwait

## Financial Highlights

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**Balance Sheet**  
At 31 December 2004

	Notes	2004 KD	2003 KD
<b>ASSETS</b>			
Cash and bank balances		1,979,053	210,255
Mutual fund investments		1,624,015	1,174,745
Murabaha investments	3	4,500,000	1,000,000
Securities carried at fair value through income statement	4	5,455,272	286,538
Receivables	5	1,449,691	1,650,465
Amount paid to DBHC	6	64,679,780	64,679,780
Securities available for sale	7	960,848	1,103,852
Investment in associated companies	8	962,884	2,183,070
Other assets	9	773,010	441,519
Furniture and equipment		15,071	-
<b>TOTAL ASSETS</b>		<b>82,399,624</b>	<b>72,730,224</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Murabaha payable	10	7,367,500	7,367,500
Accounts payable and accrued expenses		1,455,827	941,909
<b>TOTAL LIABILITIES</b>		<b>8,823,327</b>	<b>8,309,409</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	11	40,365,523	38,364,213
Share premium	11	33,425,773	32,094,532
Statutory reserve	12	474,052	2,706,570
General reserve		-	1,878,435
Retained earnings (accumulated losses)		4,076,337	(6,355,795)
Treasury shares reserve		(24,139)	(24,139)
Cumulative changes in fair values		165,983	185,005
Total reserves		4,692,233	(1,609,924)
Treasury shares	13	(4,907,232)	(4,428,006)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>73,576,297</b>	<b>64,420,815</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>82,399,624</b>	<b>72,730,224</b>

**Adnan A. Aziz Al Bahar**  
(Chairman and Managing Director)

The attached notes 1 to 27 form part of these financial statements.

**INCOME STATEMENT**  
Year ended 31 December 2004

	Notes	2004 KD	2003 KD
<b>OPERATING INCOME</b>			
Management fees		1,239,584	1,186,803
Murabaha and Istisna'a income		109,299	86,572
Gain on sale of mutual fund investments		34,671	31,029
Realised gain from sale of securities carried at fair value through income statement		536,858	25,127
Unrealised gain from securities carried at fair value through income statement		4,460,500	-
Realised gain from sale of securities available for sale		22,580	889,705
Gain on sale of investment in associated company		261,000	-
Share of results of associated companies		51,202	260,485
Dividends		-	150
Other income		24,364	88,688
		<b>6,740,058</b>	<b>2,568,559</b>
<b>OPERATING EXPENSES</b>			
General and administration	14	(3,176,316)	(2,090,689)
Murabaha costs		(205,703)	(264,280)
Depreciation		-	(76,649)
Foreign exchange gain (loss)		6,230	(121,475)
<b>PROFIT FROM OPERATIONS</b>			
Release of provisions		3,364,269	15,466
Impairment losses on financial assets	15	1,376,255	1,161,495
Contribution to Kuwait Foundation for the Advancement of Sciences		-	(129,292)
Provision for national labour support tax		(42,665)	-
Directors fees		(102,470)	-
		(45,000)	-
<b>NET PROFIT FOR THE YEAR</b>		<b>4,550,389</b>	<b>1,047,669</b>
<b>BASIC EARNINGS PER SHARE</b>			
	16	12 Fils	3 Fils
<b>DILUTED EARNINGS PER SHARE</b>			
	16	11 Fils	3 Fils

The attached notes 1 to 27 form part of these financial statements.

**STATEMENT OF CASH FLOWS**

At 31 December 2004

	Notes	2004 KD	2003 KD
<b>OPERATING ACTIVITIES</b>			
Net profit for the year		4,550,389	1,047,669
Adjustments for:			
Depreciation		-	76,649
Release of provisions		(1,376,255)	(1,161,495)
Impairment losses on financial assets		-	129,292
Realised gain from sale of securities available for sale		(22,580)	(889,705)
Gain on sale of investment in associated company		(261,000)	-
Share of results of associated companies		(51,202)	(260,485)
Foreign exchange (gain) loss		(6,230)	121,475
Operating profit (loss) before changes in operating assets and liabilities:		2,833,122	(936,600)
Receivables		206,419	(513,419)
Securities carried at fair value through income statement		(4,167,028)	(286,538)
Other assets		419,162	332,703
Accounts payable and accrued expenses		676,973	(938,585)
Net cash used in operating activities		(31,352)	(2,342,439)
<b>INVESTING ACTIVITIES</b>			
Murabaha investment made		(1,500,000)	-
Purchase of securities available for sale		(12,052)	-
Proceeds from sale of securities available for sale		640,183	2,004,343
Proceeds from sale of investment in associated company		360,000	-
Purchase of furniture and equipment		(15,071)	(19,042)
Dividends received from associated companies		152,245	70,000
Net cash (used in) from investing activities		(374,695)	2,055,301
<b>FINANCING ACTIVITIES</b>			
Issue of shares		5,103,341	-
Purchase of treasury shares		(479,226)	-
Net cash from financing activities		4,624,115	-
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>4,218,068</b>	<b>(287,138)</b>
Cash and cash equivalents at the beginning of the year		2,385,000	2,672,138
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	17	<b>6,603,068</b>	<b>2,385,000</b>

The attached notes 1 to 27 form part of these financial statements.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
Year ended 31 December 2004

	Reserves									
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	(accumulated losses) Retained earnings KD	Treasury shares reserve KD	Cumulative changes in fair values KD	Total reserves KD	Treasury Shares KD	Total KD
At 1 January 2003	38,364,213	32,094,532	2,706,570	2,165,779	(7,403,464)	(24,139)	-	(2,555,254)	(4,428,006)	63,475,485
Zakat (Note 24)	-	-	-	(287,344)	-	-	-	(287,344)	-	(287,344)
Net profit for the year	-	-	-	-	1,047,669	-	-	1,047,669	-	1,047,669
Share of movement in associate's change in fair value	-	-	-	-	-	-	185,005	185,005	-	185,005
31 December 2003	38,364,213	32,094,532	2,706,570	1,878,435	(6,355,795)	(24,139)	185,005	(1,609,924)	(4,428,006)	64,420,815
Issue of share capital	2,001,310	3,102,031	-	-	-	-	-	-	-	5,103,341
Transfer to offset accumulated losses	-	(1,770,790)	(2,706,570)	(1,878,435)	6,355,795	-	-	1,770,790	-	-
Net profit for the year	-	-	-	-	4,550,389	-	-	4,550,389	-	4,550,389
Transfer to reserve	-	-	474,052	-	(474,052)	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	(479,226)	(479,226)
Share of movement in associate's change in fair value	-	-	-	-	-	-	(19,022)	(19,022)	-	(19,022)
31 December 2004	40,365,523	33,425,773	474,052	-	4,076,337	(24,139)	165,983	4,692,233	(4,907,232)	73,576,297

The attached notes 1 to 27 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

### I- ACTIVITIES

The financial statements of The International Investor Company K.S.C. (Closed) were authorised for issue in accordance with a resolution of the directors on 2 March 2005 and were approved by the relevant regulatory authorities before issuance. The shareholders general assembly has the power to amend these financial statements after issuance.

The company, The International Investor Company K.S.C. (Closed), was legally incorporated as a closed shareholding company on 29 November 1992 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The company is regulated by the Central Bank of Kuwait as an investment company.

The company is principally engaged in providing of banking and investment advisory and financial services permissible under Islamic Sharee'a. It's registered office is at Wafra Real Estate Building, Ahmad Al-Jaber Street, Sharq, Kuwait.

The company primarily operates from the Gulf Cooperation Council countries and employed 49 employees as of 31 December 2004 (2003: 39).

### 2- SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The financial statements of the company have been prepared in accordance with Standards issued, or adopted by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee and applicable requirements of Ministerial Order No. 18 of 1990.

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of securities carried at fair value through income statement and securities available for sale.

The financial statements have been presented in Kuwaiti Dinars.

The accounting policies, with the exception of the early adoption of the revised International Accounting Standards (IAS) 32 and 39, are consistent with those used in the previous year.

#### Early adoption of IAS 32 and IAS 39

The company has early adopted the revised IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 32 "Financial Instruments: Disclosure and Presentation" which would have become mandatory for the year ending 31 December 2005. The main changes arising are summarised as follows:

All investments previously classified as trading securities have been reclassified as "securities carried at fair value through income statement". In accordance with the transition provisions of the revised IAS 39, this reclassification has been made effective at 1 January 2003. The early adoption of the revised IAS 39 has not resulted in any adjustment of the previously reported amounts. The carrying amount of trading securities reclassified as "securities carried at fair value through income statement" as at 31 December 2003 were KD 286,538 (2002: Nil).

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with banks, mutual fund and murabaha investments redeemable within three months of the date of acquisition.

Cash and bank balances are carried at cost. Mutual fund investments are carried at net assets value (which in effect represents principal plus accrued income) and murabaha investments at amortised cost.

## 2- SIGNIFICANT ACCOUNTING POLICIES (continued)

### Securities carried at fair value through income statement

All securities are initially recognised at fair value. After initial recognition, securities are re-measured at fair value. Unrealised gains and losses are included in the income statement.

### Receivables

Receivables comprise murabaha, istisna'a and qard hassan receivables. These receivables are classified as receivables originated by the company and are carried at amortised cost using the effective yield method, less any provision for impairment. For receivables where no quoted market prices are available, future cash flows are discounted at current market rates for receivables with similar terms and risk characteristics.

Murabaha is an Islamic transaction involving the company's purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Where the credit risk of the transaction is attributable to a financial institution, the amount due is classified as a murabaha investment. Where the credit risk is attributable to a party other than a financial institution, the amount due is classified as a murabaha receivable.

Istisna'a is an Islamic transaction involving the company's financing of a development project on a cost plus agreed profit basis. The amount due is settled on a deferred payment basis.

Qard Hassan is an Islamic financing facility provided by the company which is carried on the balance at the principal amount and on which no profit or margin is earned.

Receivables are written off when there is no realistic prospect of recovery.

### Securities available for sale

Securities available for sale are acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in value, profit rates or exchange rates and are classified as 'available for sale'. Securities available for sale are initially recognised at cost (including transaction costs).

After initial recognition, securities available for sale are remeasured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity, is included in the income statement for the year.

### Fair values

For securities traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

Fair values for unquoted equity securities are determined by reference to the current market value of another instrument which is substantially the same or is based on the expected discounted cash flows, or estimated using applicable price/earning or price/cash flow ratios defined to reflect the specific circumstances of the issuer.

The determination of fair value is done for each security individually.

### Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of fair values of unquoted investments, impairment provisions for unquoted investments and the level of provisions required for receivables.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

### 2- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the income statement. For assets carried at amortised costs, future anticipated cash flows are discounted at the financial instrument's original effective interest rate.

#### Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the company becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is de-recognised when the company has transferred substantially all the risks and rewards and when it has neither transferred nor retained substantially all the risks and rewards of ownership or when it no longer has control over the asset or proportion of the asset. A financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

#### Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date i.e. the date that the company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

#### Investment in associated companies

Associated company is a company over which the company exerts significant influence, normally where it holds 20% to 50% of the voting power of the investee company. The financial statements include the company's share of the associated companies results using the equity method of accounting based on the latest audited financial statements of the associate.

Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognise the company's share of profit or loss and other changes in the equity of the associated company. Distributions received from the associated company reduce the carrying amount of the investment.

An assessment of the investment in associated companies is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

#### Murabaha payable

Murabaha payable represents amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking into account the profit rate attributable and the balance outstanding.

#### Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**2 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Treasury shares**

The company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then 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 treasury shares reserve account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Revenue recognition**

Murabaha and istisna'a income is recognised on a time proportion basis. Management fees relating to portfolio and fund management, custody and on going advisory services are recognised on a time proportion basis. Placement fees are recognised when securities are sold or when deals are concluded or when specific advisory services are rendered. Dividend income is recognised when the company's right to receive payment is established.

**Foreign currencies**

Foreign currency transactions are recorded in Kuwaiti dinars at rates of exchange ruling at the date of the transactions. Assets and liabilities in foreign currencies are translated into Kuwaiti dinars at rates of exchange ruling at the balance sheet date. Any resultant gains or losses are taken to the income statement.

**Fiduciary assets**

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the company and accordingly are not included in these financial statements.

**3 - MURABAHA INVESTMENTS**

The murabaha investments will mature during 2005. The average profit rate on these transactions is 3.4% per annum (2003: 2.35% per annum).

**4 - SECURITIES CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT**

	2004 KD	2003 KD
Held for trading:		
Quoted securities	-	286,538
Designated on initial recognition:		
Quoted securities	5,455,272	-
	5,455,272	286,538

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

### 5 - RECEIVABLES

	2004 KD	2003 KD
Murabaha & istisna'a	3,726,659	4,731,603
Qard Hasan	2,829	299,566
Less: provision for impairment	(2,279,797)	(3,380,704)
	<b>1,449,691</b>	<b>1,650,465</b>

The average profit rate attributable to receivables during the year was 7.80% per annum (2003: 5.75% per annum). No income is accrued on balances amounting to approximately KD 545,448 (2003: KD 550,000). The balances not provided are adequately covered by the collateral held.

Receivables are granted to GCC companies and individuals. Whenever necessary, murabaha receivables are secured by acceptable forms of collateral to mitigate the related credit risks. Real estate murabaha receivables are secured by mortgage on the underlying property.

The policy of the company for the calculation of provision for impairment complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait. In this respect, the Central Bank of Kuwait requires a general provision of 2% on all receivables not subject to specific provision.

### 6- AMOUNT PAID TO DBHC

The amount represents the amount paid for acquisition of controlling or significant holdings of Sheikh Saleh Kamel, Dallah Albaraka Holding Company EC and related entities (collectively "DBHC") in nine financial institutions in the Middle East, Africa and Europe. The acquisition transaction having failed, in December 2002, the company filed for arbitration proceedings at the International Chamber of Commerce (ICC) for recovery of the amount as part of a claim of \$ 337 million (KD 99 million) representing the agreed value of the purchase transaction of \$ 315 million (KD 93 million) together with the guaranteed management fee of \$ 22 million (KD 7 million).

In separate actions to the arbitration proceedings DBHC had filed cases in Kuwait contesting certain aspects of the Share Transfer and Subscription agreements.

In April 2004, the parties reached an agreement on the full and final settlement on all disputes between them and based on this agreement the parties approached the courts in Kuwait to close all litigation. During the year, the parties have been awarded a court ruling from the Kuwaiti court of appeal accepting the request of both parties and approving the settlement reached between the parties. At the annual general meeting of shareholders held in April 2004 the agreement reached with DBHC was also approved.

Subsequent to the balance sheet date, on 22 February 2005 the arbitration proceedings were also dropped and the transfer of assets as per the agreement dated April 2004 has been implemented. The company has received the cash consideration under the terms of the settlement agreement of USD 43 million, out of which an amount of USD 25 million was used to settle the murabaha payable (Note 10).

Based on the agreement reached, it is expected that the company will recover the amount paid to DBHC as follows:

	US\$ million
Acquisition of controlling/significant interest in two entities in the DBHC group at agreed values	60
Cash	43
Liquidation of collateral (DBHC's shares in TII)	116
	219

An independent trustee has been appointed to deal with all transactions envisaged in the agreement. In the opinion of the management the ultimate outcome on this matter will not result in any loss to the company.

**7 - SECURITIES AVAILABLE FOR SALE**

	2004 KD	2003 KD
Available for sale investments:		
Quoted investments	-	3,824
Unquoted investments	960,848	1,100,028
	960,848	1,103,852

Unquoted investments have been fair valued using currently available financial statements and other information with the management in respect of the investee companies.

The company wholly owned the following entities at the balance sheet date; these are carried as available for sale investments at KD 17,398 (2003: KD 5,346).

Name	Country of Incorporation	Voting Capital held %	Purpose
SAALT 1 EC	Bahrain	100	Special purpose company for fiduciary assets
SAALT 2 EC	Bahrain	100	Special purpose company for fiduciary assets
SAALT 3 EC	Bahrain	100	Special purpose company for fiduciary assets
SAALT 4 EC	Bahrain	100	Special purpose company for fiduciary assets
TII USD I Fund Limited	B.V.I.	100	Investment fund
TII KD Fund I Limited	B.V.I.	100	Investment fund
TII Short Term Sterling Fund Limited	B.V.I.	100	Investment fund
TII Global USD Lease Fund I Limited	B.V.I.	100	Investment fund

The company holds voting capital in the special purpose companies and investment funds to manage the funds and fiduciary assets and does not have a beneficial interest in the underlying assets in its capacity as a holding company.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

### 8 - INVESTMENT IN ASSOCIATED COMPANIES

Movement during the year:

	<b>2004</b> <b>KD</b>	2003 KD
At 1 January	2,183,070	1,807,580
Share of results	51,202	260,485
Share of fair value reserve	(19,022)	185,005
Dividend received	(152,245)	(70,000)
Sale of investment in associated company	(99,000)	-
Transfer to securities carried at fair value through income statement	(1,001,706)	-
Foreign exchange gain	585	-
	<b>962,884</b>	<b>2,183,070</b>

During the year the company sold a portion of its share in associated company, First Takaful Company K.S.C. (Closed), mainly to related parties and recognised a gain on disposal of KD 261,000. As a result of this transaction, the company ceased to have significant influence over financial and operating policy decisions of this associated company and accordingly the remaining investment was treated as securities carried at fair value through income statement.

The details of associated company are as follows:

Name	Country of incorporation	Voting Capital held %		Purpose
		2004	2003	
The International Investor – Qatar	Qatar	45	45	Islamic Investment Banking

### 9 - OTHER ASSETS

	<b>2004</b> <b>KD</b>	2003 KD
Accrued income	296,995	173,889
Prepaid expenses and other receivables	476,015	267,630
	<b>773,010</b>	<b>441,519</b>

Included in other assets is an amount of KD 696,961 (2003: KD 129,166) due from related parties (Note 18).

### 10 - MURABAHA PAYABLE

The murabaha payable with an original maturity at 30 September 2003 has been renewed and matured on 25 January 2005. Subsequently, the murabaha payable was settled against part of the proceeds of the cash consideration received under the terms of the settlement agreement with DBHC (Note 6).

Under terms of the new agreement the amount payable was secured by an assignment of the amount paid to DBHC (Note 6) and pledge of the company's treasury shares (Note 13) to the extent of the amounts owed to the counterparty during the term of the agreement.

The effective rate of profit payable approximates 2.5% per annum (2003: 2.17% per annum).

**II - SHARE CAPITAL AND SHARE PREMIUM**

In July 2001, at an extraordinary meeting the company's shareholders approved an increase in the capital from 176,800,000 shares to 506,800,000 shares by issue of 330,000,000 shares at 255 fils, including a share premium of 155 fils per share.

The increase in the share capital was made through a Private Offering arrangement and shareholders present at the extraordinary meeting in July 2001 waived their pre-emption rights to participate in the increase in capital.

The increase in share capital reflected in the financial statements at 31 December 2004 is made up as follows:

	<b>2004</b>	2003
	<b>KD</b>	KD
<b>Authorised capital:</b>		
Shares of KD 0.100 each	<b>50,680,000</b>	50,680,000

	<b>2004</b>		2003	
<b>Issued and subscribed:</b>	<i>Share capital KD'000</i>	<i>Share premium KD'000</i>	<i>Share capital KD'000</i>	<i>Share premium KD'000</i>
Fully paid (1)	40,287	33,310	37,432	30,649
Partly paid (1)	79	116	932	1,446
<b>Total</b>	<b>40,366</b>	<b>33,426</b>	<b>38,364</b>	<b>32,095</b>

(1) A capital call of 20% of the subscription price was made by the company with a due date of 15 December 2001. A subsequent capital call of 30% of the subscription price was made by the company with a due date of 2 April 2002. Certain shareholders paid the entire subscription value of the issue and certain potential investors defaulted.

During the year, certain shareholders paid an amount of KD 5,103,341 of their initial subscription value, accordingly the company increased the share capital by issuing 20,013,101 shares that include a premium of KD 3,102,031.

A part of the increase in share capital financed the proposed part acquisition of certain financial institutions owned by DBHC (defined in Note 6). Consequently, the amount of capital subscribed by DBHC was paid out to DBHC as part settlement of the purchase consideration (see Note 6).

Please refer to Note 6 on the current status of the dispute with DBHC.

A shareholder filed a case to nullify the increase in capital and the court of first instance ruled in favour of the shareholder. The company has filed an appeal against the verdict and the management is confident that the decision will be reversed.

At the annual general meeting of the shareholders held on 17 April 2004, transfers of KD 1,770,790 from share premium, KD 2,706,570 from statutory reserve and KD 1,878,435 from general reserve were approved to offset the accumulated losses amounting to KD 6,355,795.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

### 12 - STATUTORY RESERVE

In accordance with the Law of Commercial Companies and the company's Articles of Association, 10% of the profit for the year has been transferred to statutory reserve. The company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of this reserve is limited to the amount required to enable payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

### 13 - TREASURY SHARES

Treasury shares comprise 19,550,000 shares (2003: 17,680,000 shares) which represent 4.81% (2003: 4.35%) of the total issued shares as of 31 December 2004. The cost of acquiring these shares is KD 4,907,232 (2003: KD 4,428,006). These shares are not entitled to receive any cash dividend. The market value of these shares at the balance sheet date was KD 5,083,000 (31 December 2003: KD 3,429,920).

Treasury shares include 17,680,000 shares pledged as a security under the murabaha payable agreement (Note 10).

### 14 - GENERAL AND ADMINISTRATION

General and administration expenses include staff costs amounting to KD 1,704,894 (31 December 2003: KD 1,418,406).

### 15 - RELEASE OF PROVISIONS

	<b>2004</b> <b>KD</b>	2003 KD
Receivables	-	151,163
Securities available for sale	462,547	177,881
Other assets	750,653	545,045
Other liabilities	163,055	287,406
	<hr/> <b>1,376,255</b>	<hr/> <b>1,161,495</b>

**16 - EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effect of dilutive options).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>2004 KD</b>	2003 KD
<b>Net profit for the year (KD)</b>	<b>4,550,389</b>	<b>1,047,669</b>
Weighted average number of ordinary shares outstanding for basic earnings per share (excluding treasury shares)	<b>369,467,511</b>	365,962,143
Effect of dilution from weighted average number of share options outstanding	<b>33,440,212</b>	18,285,598
Adjusted weighted average number of ordinary shares for diluted earnings per share	<b>402,907,723</b>	384,247,741
<b>Basic earnings per share</b>	<b>12 fils</b>	3 fils
<b>Diluted earnings per share</b>	<b>11 fils</b>	3 fils

**17 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the statement of cash flows comprise of the following amounts:

	<b>2004 KD</b>	2003 KD
Cash and bank balances	<b>1,979,053</b>	210,255
Mutual fund investments	<b>1,624,015</b>	1,174,745
Murabaha investments	<b>3,000,000</b>	1,000,000
	<b>6,603,068</b>	2,385,000

Cash and bank balances include an amount of KD 207,500 representing amounts deposited in banks in relation to the incorporation of certain subsidiary companies. The legal formalities relating to formation of these entities are in process.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

### 18 - RELATED PARTY TRANSACTIONS

Related party transactions are represented by transactions with shareholders and entities under common ownership or management. Pricing policies and terms of payment relating to these transactions are approved by management.

	<b>2004</b>	2003
	<b>KD</b>	KD
<b>Transactions included in the balance sheet:</b>		
Mutual fund investments	1,624,015	1,174,745
Amounts due from related parties	696,961	129,166
Murabaha receivable	22,000	-
<b>Transactions included in the income statement</b>		
Management fees	274,085	145,752
Income from mutual fund investments	34,671	31,029

Mutual funds investments are currently invested in funds managed by the company.

Sale of investment in associate to related parties is disclosed in Note 8.

### 19 - PROPOSED DIVIDEND

Subsequent to the balance sheet date, the directors have proposed a cash dividend of 10 fils per share (2003: Nil) which is subject to the approval of the shareholders at the annual general meeting.

### 20 - FIDUCIARY ASSETS

The company manages funds and portfolios on behalf of others and maintains cash balances and securities in fiduciary accounts which are not reflected in the company's balance sheet. Assets under management at 31 December 2004 amounted to KD 191,137,077 (2003: KD 253,476,879).

### 21 - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the company is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

In the opinion of management, the estimated fair values of financial assets and liabilities approximate their respective carrying values at the balance sheet date.

**22 - SEGMENTAL ANALYSIS**

The company's activities are in two primary business segments: investment management and advisory services (comprising non-discretionary portfolio management, fund management and structured finance advisory services) and proprietary investment management activities. The company operates in two geographical regions GCC (Kuwait and other GCC countries) and International.

*Revenue and net profit (loss)*

31 December 2004

	<i>GCC Revenue KD'000</i>	<i>International Revenue KD'000</i>	<i>Total Revenue KD'000</i>	<i>Net profit KD'000</i>
Investment management and advisory services	1,362	19	1,381	866
Proprietary investment management	5,362	3	5,365	3,684
<b>Total</b>	<b>6,724</b>	<b>22</b>	<b>6,746</b>	<b>4,550</b>

31 December 2003

	<i>GCC Revenue KD'000</i>	<i>International Revenue KD'000</i>	<i>Total Revenue KD'000</i>	<i>Net profit (loss) KD'000</i>
Investment management and advisory services	1,151	175	1,326	1,098
Proprietary investment management	1,240	3	1,243	(50)
<b>Total</b>	<b>2,391</b>	<b>178</b>	<b>2,569</b>	<b>1,048</b>

**NOTES TO THE FINANCIAL STATEMENTS**

31 December 2004

**22 - SEGMENTAL ANALYSIS (continued)***Assets and liabilities*

31 December 2004	GCC KD'000	International KD'000	Total KD'000
<b>Assets:</b>			
Investment management and advisory services	216	9	225
Proprietary investment management	82,065	110	82,175
<b>Total assets</b>	<b>82,281</b>	<b>119</b>	<b>82,400</b>
<b>Liabilities:</b>			
Proprietary investment management	8,782	41	8,823

31 December 2003	GCC KD'000	International KD'000	Total KD'000
<b>Assets:</b>			
Investment management and advisory services	271	5	276
Proprietary investment management	72,277	177	72,454
<b>Total assets</b>	<b>72,548</b>	<b>182</b>	<b>72,730</b>
<b>Liabilities:</b>			
Proprietary investment management	8,294	15	8,309

**23 - RISK MANAGEMENT**

In accordance with Central Bank of Kuwait's guidelines and taking into account the nature of activities of the company, the company has a comprehensive system for the measurement and management of risks.

The main risks to which the company's assets and liabilities are exposed and the principal methods of risk management are as follows:

**A. Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the company's performance to developments affecting a particular industry or geographic location.

	2004 KD		2003 KD	
	Assets KD	Liabilities and equity KD	Assets KD	Liabilities and equity KD
Geographic region:				
GCC	82,281	82,359	72,548	72,715
Europe	93	41	136	15
USA	26	-	46	-
	<b>82,400</b>	<b>82,400</b>	<b>72,730</b>	<b>72,730</b>

**B - Liquidity risk**

Liquidity risk is the risk that the company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the company's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the company's retention history and the availability of liquid funds except for the amount paid to DBHC which is based on management's expectation. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

**NOTES TO THE FINANCIAL STATEMENTS**

31 December 2004

**23 - RISK MANAGEMENT (continued)****B - Liquidity risk (continued)**

The maturity profile based on the expected maturities of assets, liabilities and shareholders' equity at 31 December 2004 is as follows:

<b>Assets</b>	<b>Up to 1 month KD 000's</b>	<b>1 to 3 months KD 000's</b>	<b>3 to 6 Months KD 000's</b>	<b>6 months to one year KD 000's</b>	<b>1 to 3 years KD 000's</b>	<b>Over 3 years KD 000's</b>	<b>Total KD 000's</b>
Cash and bank balances	1,979	-	-	-	-	-	1,979
Mutual fund investments	1,624	-	-	-	-	-	1,624
Murabaha investments	3,000	-	-	1,500	-	-	4,500
Securities carried at fair value through income statement	5,455	-	-	-	-	-	5,455
Receivables	-	836	100	269	245	-	1,450
Amount paid to DBHC	-	12,672	-	-	52,008	-	64,680
Securities available for sale	-	-	-	-	961	-	961
Investment in associated company	-	-	-	-	963	-	963
Other assets	-	-	-	-	773	-	773
Furniture and equipment	-	-	-	-	-	15	15
<b>Total assets</b>	<b>12,058</b>	<b>13,508</b>	<b>100</b>	<b>1,769</b>	<b>54,950</b>	<b>15</b>	<b>82,400</b>
<b>Liabilities and shareholders' equity</b>							
Murabaha payable	-	7,368	-	-	-	-	7,368
Accounts payable and accrued expenses	-	425	-	724	307	-	1,456
Shareholders' equity	-	-	-	-	-	73,576	73,576
<b>Total liabilities and shareholders' equity</b>	<b>-</b>	<b>7,793</b>	<b>-</b>	<b>724</b>	<b>307</b>	<b>73,576</b>	<b>82,400</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

### 23 - RISK MANAGEMENT (continued)

#### B - Liquidity risk (continued)

The maturity profile of assets, liabilities and shareholders' equity at 31 December 2003 is as follows:

Assets	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 Months KD 000's	6 months to one year KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and bank balances	210	-	-	-	-	-	210
Mutual fund investments	1,175	-	-	-	-	-	1,175
Murabaha investment	1,000	-	-	-	-	-	1,000
Securities carried at fair value through income statement	287	-	-	-	-	-	287
Receivables	-	820	-	830	-	-	1,650
Amount paid to DBHC	-	-	-	-	64,680	-	64,680
Securities available for sale	-	-	-	-	1,104	-	1,104
Investment in associated companies	-	-	-	-	2,183	-	2,183
Other assets	-	-	-	441	-	-	441
<b>Total assets</b>	<b>2,672</b>	<b>820</b>	<b>-</b>	<b>1,271</b>	<b>67,967</b>	<b>-</b>	<b>72,730</b>
<b>Liabilities and shareholders' equity</b>							
Murabaha payable	-	-	7,367	-	-	-	7,367
Accounts payable and accrued expenses	-	-	-	421	521	-	942
Shareholders' equity	-	-	-	-	-	64,421	64,421
<b>Total liabilities and shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>7,367</b>	<b>421</b>	<b>521</b>	<b>64,421</b>	<b>72,730</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

31 December 2004

### **23 - RISK MANAGEMENT (continued)**

#### **C. Foreign exchange risk**

Foreign exchange risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the company's open positions and current and expected exchange rate movements. The company does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

The company is not exposed to significant currency risk as the Kuwaiti Dinar is pegged to the US Dollar. Amount paid to DBHC of KD 14,440,300 and murabaha payable of KD 7,367,500 are due in US Dollars.

#### **D. Price risks**

Price risk comprising market and valuation risk are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

The company is not exposed to any risk in terms of the repricing of its liabilities since in accordance with Islamic Shareea'a the company does not provide variable rates of return on its liabilities.

#### **E. Interest rate risk**

The company's assets and liabilities are non interest bearing. Accordingly, the company is not exposed to interest rate risk.

### **24 - ZAKAT**

The company's Articles of Association do not authorise management to pay zakat directly; the responsibility of paying zakat is that of the shareholders.

### **25 - EMPLOYEES SHARE OPTION SCHEME**

The company operates an employees share option scheme (as explained in its Articles of Association). Under this scheme the company can increase its share capital upto 12% of the total shares outstanding within a period of 10 years from the date of incorporation.

In 2002, this period has expired and company did not issue share options upto the 12% limit. Accordingly, under the terms of this scheme and as provided by the Articles of Association, this period is renewed for a further 10 years, as approved by the Board of Directors and will now expire in 2012.

These shares carry full dividend and voting rights. During the year, options totalling 26,514,750 (2003: 9,787,950) shares were granted at a price of 100 fils per share (2003: 100 fils per share). These grants are considered to have vested at 31 December 2004. The issue of shares will be approved at the annual general meeting of shareholders. No share options were exercised during the year (2003: Nil).

**26 - COMMITMENTS**

The company has commitments in respect of uncalled capital contribution in respect of investments amounting to KD 842,500 (2003: KD 1 million).

**27 - COMPARATIVE AMOUNTS**

Certain corresponding figures for 2003, primarily arising from early adoption of IAS 32 and 39 (disclosed in Note 2) have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.

## **Our Presence**

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