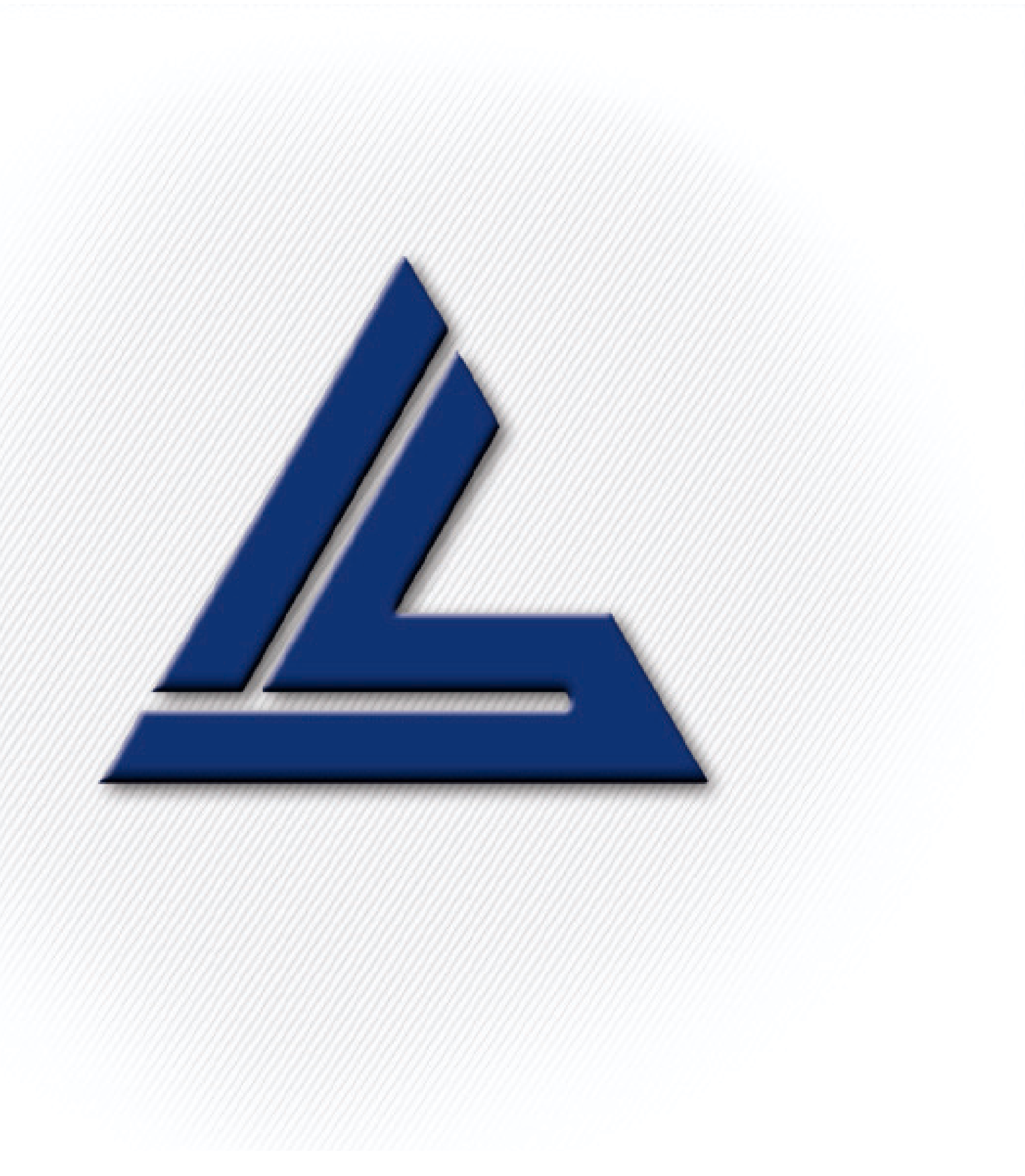
Annual Report 2003

الشركة الكويتية للإستثمار (ش.م.ك)

Kuwait Investment Company (S.A.K.)

CONTENTS



His Highness
Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah
Amir of the State of Kuwait

His Highness
Sheikh Saad Al-Abdullah Al-Salem Al-Sabah
Crown Prince

His Highness
Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah
The Prime Minister

BOARD OF DIRECTORS

Bader Naser Alsubaiee
Chairman and Managing Director

Rasheed Al-Sayed Yousef Al-Tabtabaei
Deputy Chairman

Jamal Abdullah Al-Saleem
Director

Hamad Ahmad Saleh Al-Busairi
Director

Dr. Adel Mohammed Al-Adwani
Director

Dr. Ayed S. R. Manna
Director

Mazen Mohammed Madouh
Director

GENERAL MANAGEMENT

Yousef E. Al-Hassawi

General Manager

Adel J. Al Mudaf

Assistant General Manager, Finance & Administration

Fahad Bader Al Kuhailan

Assistant General Manager, Trading & Treasury

Raed A. Al Saleh

Assistant General Manager, Asset Management

Naser A. Al Salem

Legal Affairs & Secretary of the Board

Wagdi Sayed Eid

Financial Controller

CHAIRMAN'S STATEMENT

■ *Dear Shareholders,*

It gives me great pleasure to present to you on behalf of the Board of Directors the 40th Annual Report of the Kuwait investment Company for the year ended 31 December 2003.

The year 2003 was an eventful one, filled with unprecedented political and economic developments, domestically, regionally and globally. The major highlight of the year was the vitally important event of the war in Iraq, with the consequent overthrow of the previous regime and the detention of Saddam Hussain. The quick end of Iraq liberation war had vast positive effects on the economic conditions in Kuwait. These were conspicuously manifested through a better investment environment in the country, exceptional performance of Kuwait Stock Exchange, the vivid activity of the real estate sector, and the momentum that had driven the performance of many economic sectors to levels unseen before. For the first time since more than four decades, Kuwait was freed from the burdens of the security concern that overshadowed any other consideration. The Kuwaiti Government was also for the first time poised to re-arrange its priorities and to place the national economy and the economic and financial reform at the top of its agenda. Conditions have also come to be more convenient than anytime before for enhancing the constructive cooperation between the Parliament and the Government, allowing the issuance of executive by-laws of the privatization law, as well as other legislations conducive to motivating the private sector to play its assumed leading role in the economic activity of the country, side by side with rectifying the structural imbalances of the Kuwaiti economy, which are by now well known to all observes and those interested in the economic affairs of the country.

The Iraq liberation war had also tangible favorable reflections on the performance of GCC economies, as well as on the estimated growth rates of those economies. This is evidenced by various indicators, most importantly the strong performance posted by the stock markets in those countries. The trade activity between Iraq and the GCC states, particularly Kuwait, increased significantly to meet the immense needs of Iraq for consumer and durable goods. Moreover, the Iraq reconstruction projects provided a strong stimulus for the economic and financial activity in the Gulf region as a whole.

Driven by several regional and international positive factors, the global economy and the international financial markets witnessed a gradual recovery following the depression that prevailed during the past two years.

Notwithstanding the short-term positive impact, observes expect this vitally important historical event to have far reaching long-term implications on the economic and political conditions, locally and globally. The most prominent reflection is the positive economic outlook of the global economy.

Actively participating in the preparations for the Iraq Liberation war, the State of Kuwait, given the nature of its geographic location, was the most positively influenced by those events. Various sectors of the Kuwaiti economy posted a performance much better than the previous years. Many Kuwaiti companies achieved exceptional levels of published profit for 2003, providing, in turn, additional momentum to the trading activity at Kuwait Stock Exchange. Kuwait Investment Company was one of the first companies to take advantage of the opportunities that arose as a result of a stable environment and the restoration of the confidence in the domestic economy, as well as in Kuwait itself as a safe investment environment. As a result, significant portions of the Kuwaiti capitals invested abroad were repatriated for investment in different sectors. This enhanced foreign investors confidence in the domestic market as a safe environment for long-term rewarding investments.

Other positive developments aiming at preparing Kuwait's markets to be investment-attracting, were those amendments introduced by the Parliament to law No. 32/1968 concerning Currency, Central Bank of Kuwait & The Organization of Banking Business, allowing foreign banks to operate in Kuwait according to terms and conditions provided for under the law. This was preceded by the issuance of Islamic Banks Law, Foreign Investors Law and the adjustment of the tax imposed on foreign investments.

These legislations jointly complement and modernize the legislative and regulatory frameworks in Kuwait, so as to cope with globalization and liberalization of international trade. The subject legislations are expected to create a new economic environment that enhances the efficiency, diversification, depth and width of the Kuwaiti economy, stimulating it towards sustainable growth and ability to harmonize and integrate with the global economy.

Within this new promising context, Kuwait Investment Company took several initiatives during 2003, seeking to expand the range of its investment products portfolio, particularly with the new fact of restoration of confidence and investors high demand on local investments. The Company launched "Kuwait Investment Fund" in cooperation with Kuwait Financial House, "Atheer Telecommunication Fund" which invests in mobile operators in Arab countries, and "Kuwaiti Bonds Fund" that invests in Kuwait Treasury Bills, bonds and securities issued by local institutions and companies. Kuwait Investment Company actively participated in marketing a US dollar 28 million deal to finance Bahrain Port Financial Center in partnership with Gulf Finance House - Bahrain. Additionally, the company finalized the formalities for establishing "Al Hilal Islamic Fund" in cooperation with Investment Dar. This Fund is expected to be launched in January 2004.

Another major initiative during the year was the restructuring and capital increase of the company's subsidiary "Kuwait National Real Estate Investment & Services Company", up to KD 30 million, and the offering of the capital shares of this company in a private placement. The capital increase will be utilized to finance the expansion of this company's activity in income-generating real estate sector and BOT projects, beside regional and international expansion.

The diversity of KIC's investment and financial services portfolio resulted in a tangible increase in the size of third party assets under management. This generated a growth in fees and commissions for this year.

Recognizing the need to cope with the constant developments in information technology and management information systems, Kuwait Investment Company signed a contract with TEMENOS to modernize its systems. This project is expected to be completed by the beginning of second quarter of 2004.

Posting a strong performance during the year, various departments of the Company collectively achieved an overall exceptional performance that raised the company's profitability to a level exceeding the targeted objectives. The accomplishments of each of these departments are subsequently detailed under the review of the Company's activities.

I am pleased as well to announce that the Company has added another year of success to its rich track record, achieving record financial results, the highest since inception before 43 years ago. Net profit for the year 2003 stood at KD 23.862 million compared to KD 9.311 million for 2002, up by 156%.

Earnings per share grew to 47.72 fils from 18.62 fils for 2002, while shareholders equity increased to KD 109.273 million, compared to KD 82.801 million for 2002. Return on assets also grew to 14.97%, compared to 5.87% for 2002, whereas return on shareholders equity rose to 27.94%, compared to 12.76% for the previous year.

Given these excellent results, the Board has recommended to the shareholders general meeting the distribution of cash dividends of 30%, or 30 fils per share.

In conclusion, I would like to extend, on behalf of the members of the Board of Directors and myself, heartfelt gratitude and appreciation to His Highness the Amir of Kuwait, Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah, His Highness the Crown Prince, Sheikh Saad Al-Abdullah Al-Salem Al-Sabah, and His Highness The Prime Minister Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, May God Guard them, for their kind attention and continuous support to the investment sector in the country.

We would like to extend our deep gratitude as well, to His Excellency the Minister of Finance and Chairman of Kuwait Investment Authority and His Excellency the Governor of the Central Bank of Kuwait for their constant support to us.

Our thanks are also due for our customers and shareholders for their confidence and support, as well as for our employees who vitally contributed to the achievements made during the year.

Bader Naser Alsubaiee
Chairman and Managing Director

GOVERNMENT GENERAL BUDGET

The rapid end of the war in Iraq cleared the uncertainties that prevailed in the last quarter of 2002 and the first half of 2003, quickly dissipating fears of possible disruption in the flow of oil or business activity within Kuwait. The overthrow of Iraqi regime also removed the psychological threat it posed to Kuwait's security. This added to generally better sense of confidence and optimism about future business prospects, clearly manifested in the exceptional performance of Kuwait Stock Exchange, real estate sector and most companies belonging to various economic sectors.

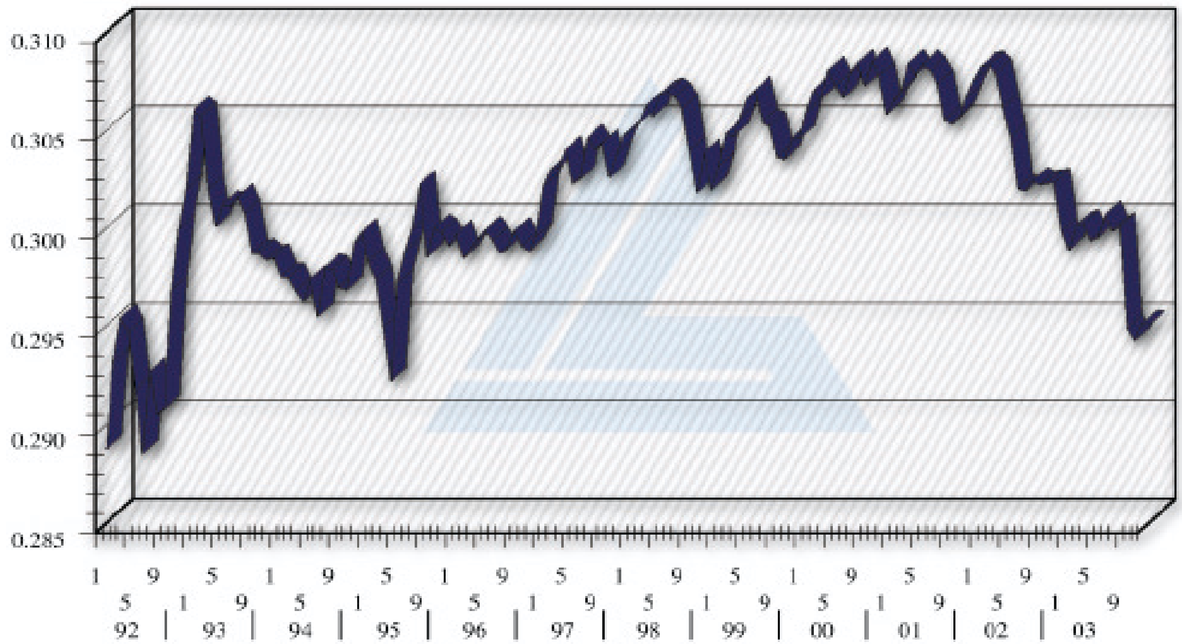
Due to better conditions in global oil markets, Kuwait's oil revenues for the first nine months of 2003 exceeded their levels for the same period of 2002 by 14%, according to released data. This increase is attributed to two primary reasons: The first is the continued instability in world oil markets, with the delay in restoring Iraqi oil exports to markets resulting in keeping crude oil prices relatively high. The price of OPEC's benchmark basket of crude hovered close to the upper limit targeted by the organization and well above the conservative price assumed in Kuwait's official budget. Kuwait export crude averaged $24.3 a barrel during 2003 second quarter, compared to $ 28.7 a barrel during the first quarter of the year. Prices were up again during the first two months of the third quarter to an average of $ 26.7 a barrel in July and 27.8 a barrel in August, just to drop to $ 25.6 a barrel in September. With Kuwait export crude remaining at high levels close to the upper limit targeted by OPEC, Kuwait's oil exports revenues are expected to grow by 22% during 2003.

The other reason for higher oil revenues is the rise in crude oil production by 19%. As a result, oil revenues grew by 12% during the last nine months of 2003 (the first 9 months of the fiscal year 2003/2004 starting on April 1,2003).

On the other hand, non-oil revenues posted a sharp rise due to higher customs duties, tax revenues and payments from the United Nations Compensations Committee for losses due to the 1990 Iraqi invasion.

Growth in oil and non-oil revenues facilitated the government's pursuit of an expansionary fiscal policy.

Kuwaiti Dinar per US Dollar
Jan. 1992 to Dec. 2003



Growth in government spending reached 7.8% for the last nine months of 2003 (the first nine months of the fiscal year 2003/2004). The budget for the current fiscal year, which ends in March 2004, is expected to see a surplus as large as the previous fiscal year, which amounted to KD 1.3 billion, before the allocation of 10% of budget revenues to the Reserve Fund for Future Generations. Kuwait's current account is also expected to post a higher surplus in 2003 compared to 2002, due to higher oil exports and improved trade balance. Despite the lower interest rates that may generate lower income from foreign investments, yet income from these investments is likely to be higher, given the firmness of interest rates as their present levels and the better performance of global markets.

MONETARY POLICY

Interest rates remained near historic lows with the Central Bank's discount rate standing at 3.25% throughout the year. Rates on one year Kuwait Treasury Bonds also remained unchanged at 2.75%, while rates on shorter-tenor Treasury Bills and bank deposits went lower.

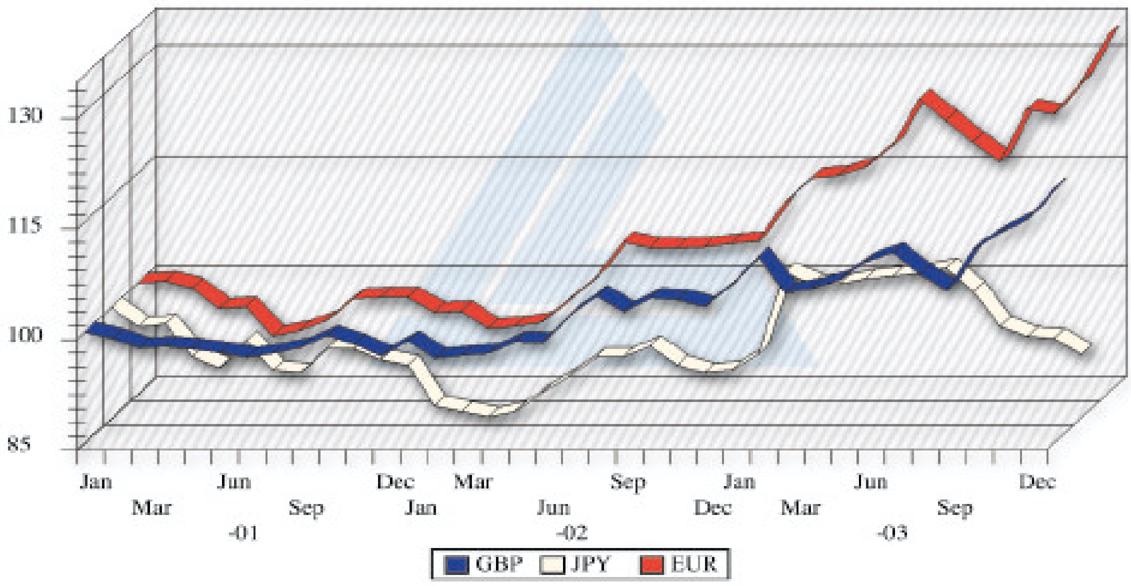
Official published data indicate that inflation picked up compared to last year, although it remained relatively mild. Year-on-year growth in the consumer price index for the first 9 months of 2003 was higher by 1.7% versus 0.2% year earlier. The relatively stable KD exchange rate and prudent monetary policy of the Central Bank of Kuwait helped ensure consistently low rates of inflation.

The war in Iraq appears to be one of the major reasons for higher prices during last year. Month-on-month changes in the price index indicate that most of the rise in the prices took place before the war and immediately following the liberation of Iraq. The moderate increase in inflation during 2003 was also partly due to a weaker dollar, to which the Kuwaiti Dinar is pegged. The depreciation in the Dinar against the Euro, Pound Sterling and Japanese Yen caused the cost of imports, overall, to rise. This trend is partly mitigated by a shift towards imports from the US at the expense of European and Japanese products.

The KD exchange rate against the US Dollar gradually appreciated, ending the year with an appreciation of 1.6%. In contrast, the KD depreciated against the Euro and Swiss Franc by 18% and 10%, respectively, and by 9% against both the Yen and the British Pound.

Released statistics show that money supply (M2) growth accelerated in 2003, growing by 7.8% during the year to reach KD 10.4 billion, versus 4.9% growth in 2002. This growth is attributed to several factors.

Performance of Kuwaiti Dinar against GBP, EUR and JPY 2001 - 2003



Lending to the private sector has been an important driver, in addition to growth in government spending and Iraq-related inflows, namely spending by foreign companies using Kuwait as a base for their operations in Iraq. UNCC payments also made a limited contribution with a drop by 16% compared to previous year due to substantially lower Iraqi oil exports.

However, money supply growth was partly tempered by a pick-up in outflows from the system, as evidenced by a decline in net foreign assets of the Central Bank of Kuwait. A number of factors could have contributed to the increase in outflows, including a rise in imports, a temporary jump in remittance triggered by uncertainty preceding the war in Iraq, and a likely increase in investments abroad induced by a recovery in world capital markets.

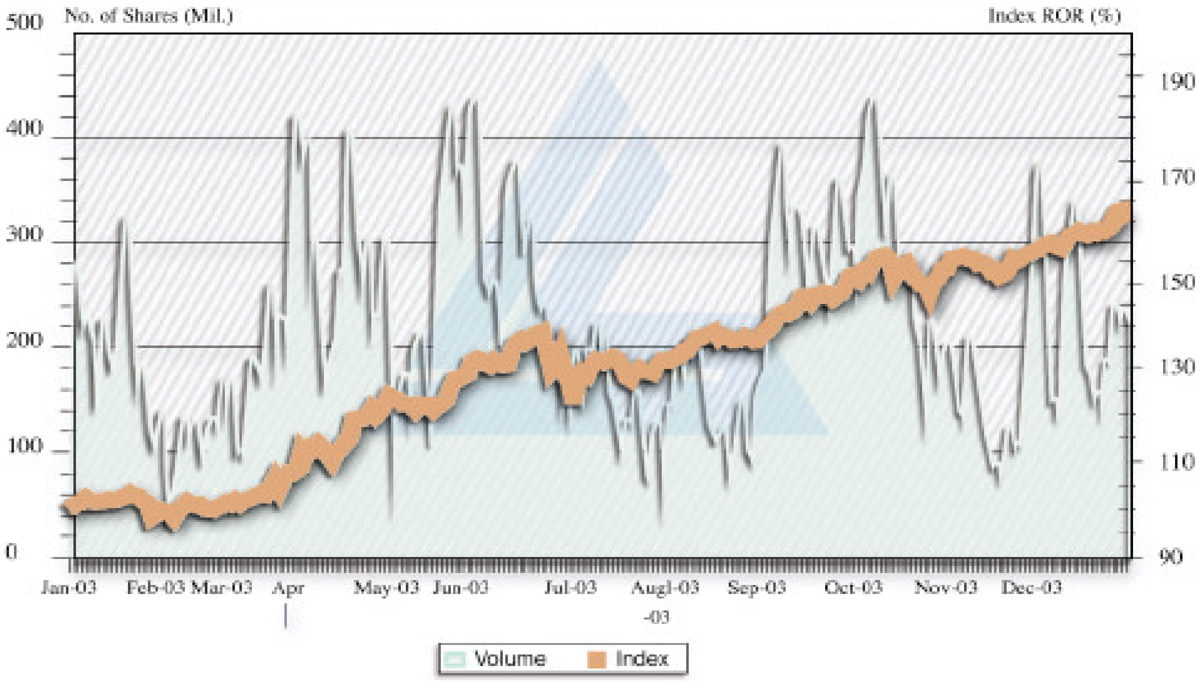
KUWAIT STOCK EXCHANGE

Financial analysis indicate that low interest rates have made alternative investments look relatively attractive. Bonds, income-producing real estate and dividend-paying stocks all witnessed an increase in demand as well as prices. Low rates were not the only factor. Improved business prospects especially pertaining to the Iraq market, in addition to a rise in corporate profits, made investors bullish in local stocks. Published financial analysis mention that listed companies reported a 90% increase in their aggregate profits for the first nine months of 2003 compared to the same period in 2002.

Most statistics agree that he General Market Index of the Kuwait Stock Exchange (KSE) advanced by 102% during the year, while market capitalization of listed companies rose by 71%. Trading activity also rocketed upwards, with the value of traded shares up by 143%, raising turnover relative to market capitalization to 93%. As a result, the market price-to-earnings (P/E) ratio, using December prices, reached 18.4 at the end of 2003, compared to 16.7 at the end of 2002.

This exceptional performance of Kuwait Stock Exchange, in terms of both trading volumes and prices, was a direct reflection of restored confidence in the Kuwaiti economy, in general, and private sector companies, in particular. This was, in turn, due to the cessation of external risks after the overthrow of the previous Iraqi regime, the momentum pumped by new business opportunities in Iraq, and the prosperous trading activity with Iraq as a result of the reconstruction projects.

Performance of Kuwait Stock Market
Volume vs. Market Index
2003



COMPANY ACTIVITIES

Kuwait Investment Company entered into an alliance to build up a strategy with Gulf Finance House for the Bahrain Financial Harbour project.

OPERATIONS REVIEW

The year 2003 witnessed multiple unprecedented political, military and economic developments, locally regionally and globally. The quick end of the war in Iraq favourably reflected on the overall economic conditions in Kuwait, and restored confidence in Kuwait's markets as a safe investment environment. This new arena gave rise to many investment opportunities. Kuwait Investment Company selectively took advantage of those opportunities that serve its strategic objectives and align with its lines of business.

Here below is a review of the Company's activities during the year.

ASSETS MANAGEMENT DIVISION

The Assets Management Division continued its usual active performance during 2003, valuably contributing to the overall revenues of the Company through the strong performance of its two departments.

LOCAL ASSETS MANAGEMENT DEPARTMENT

The Local Assets Management Department launched several new funds in the Kuwaiti and Arabian markets during the year. In early June 2003, the Department launched "Atheer Telecommunications Fund" that invests in the telecommunications sector in the Arab countries, and which outperformed all expectations. Launched in late May 2003, "Kuwaiti Bonds Fund" seeks to achieve rewarding returns through mainly investing in Kuwait Treasury Bills and medium-term and long-term securities issued by various local companies and institutions, thus meeting the investment requirements of all segments of investors.

This fund also demonstrated a strong performance.

Kuwait Investment Fund", launched in cooperation with Kuwait Finance House, invests in different sectors including real estate, securities and financial instruments, covering a wide range of investor categories.

On the other hand, "Al Raed Fund" continued its leading performance despite its conservative policy, appreciating by 63%. Displaying a strong performance, "Real Estate Opportunities Fund" appreciated by 16.5% and distributed cash dividends of 6% for the first half of 2003, with rewarding returns expected to be distributed for the second half of the year.

Local Assets Management Department plans to upgrade the concepts on which investment funds are established, focusing on unconventional concepts of high growth potential. The Department intends to launch three new funds during 2004, to invest in untraditional activities covering a wide range of sectors. One of those funds will target the Arabian markets, while the other two will be directed to the Kuwaiti market. One of these two funds is "Al Hilal Islamic Fund" , which will be launched in cooperation with Kuwait Finance House and Investment Dar. This fund invests in Islamic financial instruments, seeking to generate returns exceeding those of the conventional financial instruments and AlMurabaha returns.

Another success of this Department was the significant growth in the number and size of portfolios under management, generating more fee-based revenues that supported the Company's profitability with an additional source of income.

During the year, the Department participated with Gulf Finance House in arranging a US$ 28 million deal for financing Bahrain Port Financial Center. Marketing a major portion of this deal (US$ 25 million) in the local market, the Department retained the remaining portion of the finance. This initiative is intended to further the regional expansion in selected investment projects. With this project being multi-phased, the Department intends to take part in financing the subsequent stages of the project.

Furthermore, the Local Assets Management Department assumed the role of the lead manager in financing Zamzam Tower project in Holy Mecca. Out of the total cost of the project amounting to US$ 95 million, the Department arranged a finance of US$ 18 million.

During 2004, this Department will adopt a selective approach in the domestic market. With anticipated upgrades in technological delivery channels of financial services, the Department expects tangibly smoother customer transaction with the Company.

The Local Assets Management Department will relentlessly seek to attain its corporate objective of extending an integrated range of financial services for all customer segments. Notwithstanding the distinguished nature of its financial services, the Department is proud of the transparency with which such services are proposed to customers, ensuring for customers enlightened investment-decisions backed up by true and accurate information made available to them.

INTERNATIONAL CAPITAL MARKETS DEPARTMENT

International Capital Markets started to perform better following the end of the Iraq liberation war. Morgan Stanley Index improved beyond expectations, while mutual investment funds outperformed the markets. “KIC Pacific Equity Fund” remarkably appreciated with its net assets value rising by 44%, while “KIC Diversified Fund” appreciated by 34%.

With statistics indicating an increasing investors demand on investment portfolios in international markets, the Department intends to launch new funds in European and American markets, so as to benefit from the growth opportunities in those economies. Given the 2003 signals of a better performance for the global economy,which would favourably reflect on global equity markets, the International Capital Markets Department arranged the necessary infrastructure for taking advantage of the rewarding investment opportunities to be offered by the global markets recovery, and which equally compete with the investment opportunities available in the domestic market.

CORPORATE FINANCE DEPARTMENT

The Corporate Finance Department strongly performed during 2003 through playing an active role in arranging, managing and participating in different credit syndications. The transactions the Department engaged in ranged from Islamic to traditional, direct to indirect and short-term to medium-term credit facilities.

The financing deals were directed to various economic sectors, including financial institutions, banking, industrial and investment sectors in domestic and regional markets, as well as in American and East European markets. In doing so, the Department adhered to its strategy of risk geographical and sectoral diversification, with special focus on the domestic market. Given the rewarding investment opportunities the Kuwaiti market provides, particularly on the backdrop of improved economic conditions and economic openness to Iraq and its reconstruction projects, financing transactions in the Kuwaiti market increased to 40% of total participations.

With this increased activity, the Corporate Finance Department significantly contributed to enhancing the performance and profitability of the Company through the growth in commissions from syndications management and profit margins from participations therein.

Most of these participations were in US Dollar and Kuwaiti Dinar denominated financing deals, given the firmness of interest rates on these two currencies. This led to achieving the level of revenues targeted in the 2003 budget.

The Corporate Finance Department also took part in some forums and conferences, and exchanged visits with other financial institutions to keep abreast of the latest developments in domestic, regional and international markets. A number of the Department staff attended some technical training courses to upgrade their skills and improve their professional expertise.

DIRECT INVESTMENT DEPARTMENT

The Direct Investment Department demonstrated good performance during 2003, with some positive developments in the subsidiaries portfolio. Kuwait International Fair Company performed better after nullifying the resolution of the Ministry of Commerce & Industry that prevented sales at exhibitions.

Kuwait Foreign Investment Company also succeeded in signing a 10-year irrevocable lease contract for its premises in the USA with Hasbro Company, instead of the previous 5-year contract.

Direct Investment Department is also supervising the restructuring process of its subsidiary “Kuwait National Real Estate Investment & Services Company”.

Raising this company’s capital to KD 30 million and inviting strategic partners to hold a stake therein, is a move aimed at expanding the income-generating real estate activities of this company, including the BOT projects.

TREASURY DEPARTMENT

The Treasury Department arranged this year its first securitization deal with a view to financing the needs of some Islamic institutions. Keen to expand the range of Islamic instruments offered to customers, the Department also participated in the first issue of US$ - denominated Islamic bonds - “Sokouk”.

On the traditional bonds front, the Treasury Department participated by a total amount of US$ 20 million in various bonds issues, in addition to investing an amount of KD 15 million in investment funds specialized in bonds.

Pursuing one of its strategic objectives, the Treasury Department endeavored to expand its client base, with focus on Islamic financial institutions. Agreements are already in place with several Islamic institutions for further cooperation, aiming at expanding the scope of relations with them, quantitatively and qualitatively.

Enhancing cooperation with conventional financial institutions also remains one of the areas of interest for the Treasury Department.

FOREIGN EXCHANGE DEPARTMENT

The US Dollar gradually depreciated against most of the other major currencies during most of the year, particularly in the last quarter, with the Euro, GBP and Yen reaching their strongest levels. Although the US published economic data showed some improvements and the US stock markets prices climbed high, yet all the signals of improvement in the US economy failed to help the US Dollar to strengthen.

The Foreign Exchange Department believes that this situation is mainly attributed to the American foreign policy and to the expected high deficit in the American trade balance.

With these instable conditions in the foreign exchange markets, the Foreign Exchange Department at KIC adopted conservative policies in selecting the trading positions deemed as generating reasonable gains, but all within the risk limits allowed under the investment policy of the Company.

GLOBAL MARKETS TRADING DEPARTMENT

Global Markets were positively influenced by the significant growth of the global economy during 2003. S&P 500 rose by 26%, while NASDAQ, mainly dominated by technology companies, was up by 50%.

European stock exchanges also posted a strong performance, particularly the major ones. But the German stock market led the way with a return of 37%, followed by the French market at 16% and the British market at 13%.

In turn, Asian markets performed better, with the Japanese market rising by 24.5% trigged by the global economic recovery, while Hong Kong market rose by 35%.

Global Markets Trading Department took advantage of the trading opportunities offered by the strong performance of those markets, selectively choosing its trading positions that meet the criteria of KIC strategy and the targeted performance objectives of this Department. During the year, the Global Markets Trading Department significantly contributed to the overall profitability of the Company.

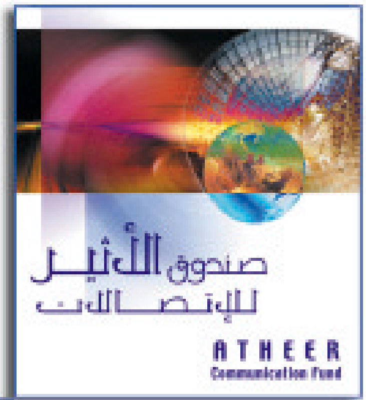
INFORMATION TECHNOLOGY DEPARTMENT

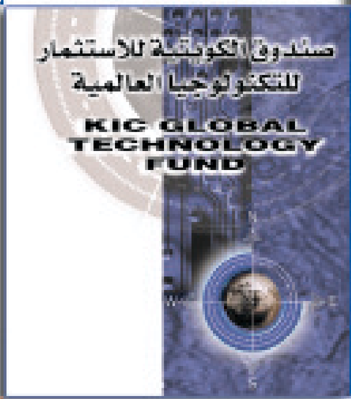
The Information Technology Department endeavors to extend the necessary technical support for all activities and operations of the Company.

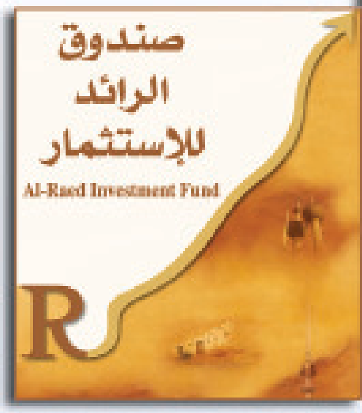
Seeking to upgrade the information systems of the Company so as to cope with the latest advancements in IT industry, the Department signed a contract with TEMENOS to modernize the IT systems of the Company up to the highest domestic and international standards.

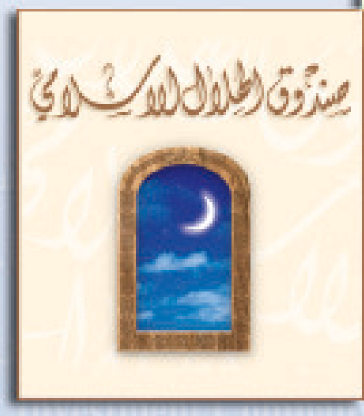
The Department is putting forth its best efforts to complete this project by the beginning of the second quarter of 2004.

صندوق الاستثمار الأول
1st









صندوق الفرص العقارية
Real Estate Opportunities Fund

AUDITORS REPORT

The Shareholders of
Kuwait Investment Company (S.A.K.)
State of Kuwait

We have audited the accompanying consolidated balance sheet of Kuwait Investment Company (S.A.K.) and subsidiaries (the Group) as of December 31, 2003 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 parent company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Kuwait National Real Estate Services Co. K.S.C. (Closed) subsidiary company, which reflect total assets and total revenues of 2.11% and 1.38% respectively of the related consolidated totals. These financial statements were audited by other auditor, whose report have been furnished to us and our audit, insofar at it relates to the amounts included for this subsidiary, is based solely on the reports of the other auditors.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, based on our audit and the report of the other auditor, the consolidated financial statements referred above present fairly, in all material respects, the financial position of the group as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Also in our opinion, the statements include the disclosures required by the Commercial Companies Law and the Company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, and the accounting information given in the Directors' Report is in agreement with the parent company's books of account. According to the information available to us, there were no contraventions during the year of either the Commercial Companies Law or of the Parent Company's Articles of Association, which might have materially affected the Group's Financial position, or results of its operations.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the year ended December 31, 2003.

JASSIM AHMED AL-FAHAD
LICENCE NO. 53-A
AL-FAHAD & CO.
DELOITTE & TOUCHE

DR. SHUAIB A. SHUAIB
LICENCE NO. 33-A
ALBAZIE & CO.
MEMBER OF RSM INTERNATIONAL

March 4, 2004
Kuwait

CONSOLIDATED BALANCE SHEET
December 31, 2003

EXHIBIT A

ASSETS	Note	2003 KD	2002 KD
Cash-current and call accounts		2,818,281	2,675,514
Placements	3	16,619,279	31,820,291
Treasury bills and bonds		-	196,000
Investments held for trading	4	48,892,212	44,941,861
Loans and advances	5	19,677,108	20,533,881
Government debt bonds	6	1,077,000	1,505,117
Investments available for sale	7	53,122,672	21,339,976
Investments held to maturity	8	-	16,148,300
Unconsolidated subsidiaries and associates	9	2,832,931	2,325,325
Investment properties	10	6,522,823	8,215,320
Other assets	11	7,838,668	9,024,402
		159,400,974	**158,725,987**
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY			
Liabilities:			
Call and notice accounts		2,914,926	2,727,824
Deposits		32,815,853	60,393,060
Bank overdrafts		-	99,366
Accrued interest payable		36,927	51,664
Accruals and other liabilities	12	11,296,256	9,084,302
Total liabilities		**47,063,962**	**72,356,216**
Minority interest		3,063,519	3,568,539
SHAREHOLDERS' EQUITY:			
Share capital 500,000,000 authorized, issued and fully paid ordinary shares of 100 fils par value		50,000,000	50,000,000
Treasury shares	13	(1,675)	(1,675)
Statutory reserve	14	9,925,398	7,457,290
General reserve		9,925,398	7,457,290
Retained earnings		25,899,044	13,473,280
Cumulative changes in fair values		13,525,328	4,415,047
Total shareholders' equity		**109,273,493**	**82,801,232**
		159,400,974	**158,725,987**

Bader N. AlSubaiee
Chairman and Managing Director

Rasheed Al-Sayyed Y. Al-Tabtabai
Deputy Chairman

Yousef E. Al-Hassawi
General Manager

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2003

EXHIBIT B

	Note	2003 KD	2002 KD
Income:			
Interest		2,276,039	3,496,888
Dividend income and other investment income		3,926,529	3,249,345
Commissions		4,913,699	3,186,764
Income from property rental and management services (net)	15	1,829,180	2,286,045
Gain from investments held for trading	16	21,243,350	4,897,575
Gain on sale of investments available for sale		61,432	40,195
Gain on sale of investments properties		163,743	69,654
Gain on sale of investments held to maturity		175,000	-
Foreign exchange gain (loss)		54,011	(65,250)
Group's share of the results of unconsolidated subsidiaries and associates		429,634	123,468
Total income		**35,072,617**	**17,284,684**
Expenses:			
Interest expense		847,195	1,710,075
General, administrative and other expenses	17	7,291,692	5,808,911
Provision for impairment	18	224,446	218,024
Depreciation		1,983,435	485,736
Total expenses		**10,346,768**	**8,222,746**
Profit from operations		24,725,849	9,061,938
Other income		169,183	97,311
Profit before minority interest		24,895,032	9,159,249
Minority interest		(213,955)	(302,285)
Profit from ordinary activities		**24,681,077**	**8,856,964**
Extraordinary income	19	-	791,719
Profit for the year		**24,681,077**	**9,648,683**
Contribution to Kuwait Foundation for the Advancement of Sciences		(222,130)	(86,838)
Directors' remuneration		(70,000)	(49,000)
National Labour Support Tax		(527,042)	(201,404)
Net profit for the year		**23,861,905**	**9,311,441**
		Fils	Fils
Earnings per share	20	**47.72**	**18.62**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2003

EXHIBIT C

	Share capital KD	Treasury shares KD	Statutory reserve KD	General reserve KD	Retained earnings KD	Cumulative changes in fair values KD	Total KD
Balance at December 31, 2001	**50,000,000**	**(1,675)**	**6,492,422**	**6,492,422**	**12,091,506**	**2,089,690**	**77,164,365**
Cash dividends for 2001 - 12%	–	–	–	–	(5,999,931)	–	(5,999,931)
Net profit for the year	–	–	–	–	9,311,441	–	9,311,441
Effect of changes in fair values of available for sale financial assets	–	–	–	–	–	2,325,357	2,325,357
Transfer to reserves	–	–	964,868	964,868	(1,929,736)	–	–
Balance at December 31, 2002	**50,000,000**	**(1,675)**	**7,457,290**	**7,457,290**	**13,473,280**	**4,415,047**	**82,801,232**
Cash dividend for 2002 - 13%	–	–	–	–	(6,499,925)	–	(6,499,925)
Net profit for the year	–	–	–	–	23,861,905	–	23,861,905
Effect of changes in fair value of available for sale financial assets	–	–	–	–	–	9,110,281	9,110,281
Transfer to reserves	–	–	2,468,108	2,468,108	(4,936,216)	–	–
Balance at December 31, 2003	**50,000,000**	**(1,675)**	**9,925,398**	**9,925,398**	**25,899,044**	**13,525,328**	**109,273,493**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2003

EXHIBIT D

	Note	2003 KD	2002 KD
Cash flows from operating activities:			
Profit from ordinary activities		24,681,077	8,856,964
Adjustments for:			
Depreciation		1,983,435	485,736
Group's share of results of unconsolidated subsidiaries and associates		(429,634)	(123,468)
Minority interest		213,955	302,285
Provision for impairment		224,446	218,024
Gain on investments held for trading		(21,243,350)	(4,897,575)
Gain on sale of investments available for sale		(61,432)	(40,195)
Gain on sale of investment property		(163,743)	(69,654)
Gain on sale of investment held to maturity		(175,000)	–
Operating profit before changes in the operating assets and liabilities		**5,029,754**	**4,732,117**
Decrease in placements		4,408,817	7,096,728
Decrease in treasury bonds		196,000	3,494,000
Decrease in investments held for trading		17,292,999	1,695,558
Decrease (increase) in loans and advances		525,323	(5,022,732)
Decrease in government debt bonds		428,117	97,200
Decrease (increase) in other assets		1,168,798	(5,766,293)
Decrease in deposits		–	(10,900,000)
Decrease in accrued interest payable		(14,737)	(211,276)
Increase in accruals and other liabilities		1,357,686	840,115
Decrease in minority interest		(718,975)	(543,709)
Cash flow before extraordinary income		**29,673,782**	**(4,488,292)**
Extraordinary income received		–	1,552,390
Net cash generated from (used in) operating activities		**29,673,782**	**(2,935,902)**
Cash flows from investing activities:			
Proceeds from sale of investment property		555,635	630,313
Purchase of investment property		(558,890)	–
Cash dividends received from an unconsolidated subsidiary		16,377	33,402
Purchase of investments available for sale		(20,882,870)	–
Proceeds from sale of investments available for sale		1,175,838	5,119,115
Proceeds from sale of investments held to maturity		13,825,000	–
Purchase of investments held to maturity		(500,000)	(10,498,300)
Net cash generated from (used in) investing activities		**(6,368,910)**	**(4,715,470)**
Cash flows from financing activities:			
Cash dividend paid		(6,464,829)	(5,963,196)
Net cash used in financing activities		**(6,464,829)**	**(5,963,196)**
Net increase (decrease) in cash and cash equivalents		16,840,043	(13,614,658)
Cash and cash equivalents at the beginning of year		(39,934,007)	(26,319,439)
Cash and cash equivalents at the end of year	21	**(23,093,964)**	**(39,934,007)**

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003

1. ORGANIZATION AND NATURE OF OPERATIONS

Kuwait Investment Company (S.A.K.), "the parent company" is a public shareholding investment company organized under the laws of the State of Kuwait and its registered office is at Souk Al-Manakh, Mubarak Al-Kabeer Street, State of Kuwait. The parent company's major shareholder is Kuwait Investment Authority.

The group is primarily engaged in the following activities:

- Security trading and investment
- Real estate investment
- Property rental and management
- Underwriting bonds and certificate of deposit issues
- Time deposit acceptance and placement with financial institutions
- Foreign exchange contracts

At December 31, 2003, the group had 246 employees (2002 - 242 employees).

The consolidated financial statements of Kuwait Investment Company S.A.K. and Subsidiaries for the year ended December 31, 2003 were authorized for issue in accordance with a resolution of the Board of Directors on March 4, 2004. The shareholders' general assembly has the power to amend these financial statements after issuance.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

A) BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). The consolidated financial statements are prepared under the historical cost convention except for the measurement of investments held for trading and available for sale which are stated at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars.

The consolidated financial statements comprise the parent company and its subsidiaries Kuwait National Real Estate Services Company K.S.C. (Closed) and Kuwait International Fair Company K.S.C. (Closed).

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Details of subsidiary companies are set out in Note 23.

B) PRINCIPLES OF CONSOLIDATION

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 are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and statement of income, respectively. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The minority interests are measured by the proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C) RECOGNITION, CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

In accordance with IAS 39, the group has classified financial instruments as 'held for trading', 'originated assets', 'held to maturity' or 'avalilable for sale'. Those classified as 'held for trading' and 'available for sale' are carried at fair value. Those classified as 'originated assets' and 'held to maturity' are carried at amortized cost.

A financial asset or a financial liability is recognized when the group becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the group loses control of the contractual rights that comprise the financial asset and a financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

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

Derivative instruments are initially recognized in the balance sheet at cost (including transaction costs) and subsequently measured at their fair value.

The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealized gains) are included in other assets and derivatives with negative market values (unrealized losses) are included in other liabilities in the consolidated balance sheet. The resultant gains and losses are included in consolidated statement of income.

D) IMPAIRMENT

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future cash flows, discounted at original interest rates and any impairment loss is recognized in the consolidated statement of income.

E) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of cash-current and call accounts, placements maturing within ninety days from the date of acquisition, less call and notice accounts, deposits maturing within ninety days from the date of acquisition and bank overdrafts.

F) RESALE AGREEMENTS

Assets purchases with a corresponding commitment to resell at a specified future date (Reverse Repos) are not recognized in the consolidated balance sheet, as the group does not obtain control over the assets. Amounts paid under these agreements are included in placements or loans and advances to customers, as appropriate. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

G) PLACEMENTS

Placements are stated at amortized cost less any provision for impairment. Placements are classified as "assets originated by the group".

H) TREASURY BONDS

Treasury bonds are stated at amortized cost less any provision for impairment. Treasury bonds are classified as "receivables originated by the group".

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I) LOANS AND ADVANCES

Loans originated by the group by providing money directly to the borrower or to a sub-participation agent at draw down are classified as 'loans originated by the group' and are carried at amortized cost. Third party expenses such as legal fees, incurred in granting a loan are treated as part of the cost of the transaction.

All loans and advances are recognized when cash is advanced to borrowers.

Loans and advances are written off when there is no realistic prospect of recovery.

Specific provisions are calculated on the losses of loans and advances orginated by the parent company against credit risks. The specific provision is made for loans orginated by the group against the credit risks due to impairment of loans and advances, in case there is an objective evidence of non-collection of the due amount. The provision amount is the difference between the carrying value of loans and advances and the recoverable amount, which is the present value of the expected future cash flows including the amounts recoverable from collaterals and assets pledged in favour of the group, discounted by the effective interest rate prevailling in the market for variable rate loans. The statement of income is charged by the loss arising from impairment in loans and advances.

J) GOVERNMENT DEBT BONDS

Government debt bonds are carried at cost. These are classified as "assets originated by the group".

K) INVESTMENTS HELD FOR TRADING

Investments held for trading are securities that were acquired for generating a profit from short-term fluctuations in either price or dealers' margin. Investments held for trading are measured at fair values based on quoted current bid prices. All realized and unrealized gains and losses are included in the consolidated statement of income.

L) INVESTMENTS AVAILABLE FOR SALE

Securities acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in value, interest rates or exchange rates are classified as 'available for sale'.

Subsequent to acquisition 'available for sale' financial assets are re-measured at fair values and unrealized gains and losses arising from changes in their fair values are taken to shareholder's equity. When the 'available for sale' asset is disposed of, or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of income as gains or losses. Fair values are based on quoted current bid prices or using the current market rate of interest for that instrument. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Investments, whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

M) INVESTMENTS HELD TO MATURITY

Investments with fixed and determinable maturity and where management has both the positive intent and ability to hold them till maturity are classified as "investments held to maturity" and are carried at amortized cost.

N) UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATES

Investments comprising between 20% and 50% of the total equity share capital of a company and over which the group can exert significant influence are classified as associates. Unconsolidated subsidiaries and associates are accounted for using the equity method of accounting based on the latest audited financial statements or other information as appropriate, adjusted for any impairment in value and the prorata share of income (loss) there from is included in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O) INVESTMENT PROPERTIES

Developed land and buildings and buildings on leased land are stated at cost and are depreciated using the straight-line method over their estimated useful lives of 20 years for developed land and buildings and lease period for buildings erected on leased land. Undeveloped land is not depreciated. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

P) CALL AND NOTICE ACCOUNTS AND DEPOSITS

Call and notice accounts and deposits are stated at amortized cost.

Q) PROVISIONS

Provisions are recognized when, and only when the Group has a present legal or constructive obligation as a result of a past event and 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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

R) END OF SERVICE INDEMNITY

Provisions is made for amount payable to employees under the Kuwait Labor Law and employee contracts. This Liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

S) TREASURY SHARES

The cost of parent company's own shares purchased, including directly attributable costs, is recognized as a change in shareholders' equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and, in accordance with the instructions of Central Bank of Kuwait, these amounts are not available for distribution.

T) REVENUE RECOGNITION

Interest earned and income from real estate are recorded on the accruals basis. Dividend income is recorded when the right to receive payment is established. Management fees relating to portfolios and fund management are recognized when earned. Commissions from guarantees and commitments are recorded on the accrual basis. Revenue from property rental and management services are recognized when services are rendered by the group.

U) FIDUCIARY ASSETS

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

V) TRADE AND SETTLEMENT DATE ACCOUNTING

All regular way purchase and sale of financial assets are recognized using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

W) FOREIGN CURRENCIES

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject ro risks and rewards that are different from those of other segments.

3. PLACEMENTS

Placements include a blocked deposit with a local bank in the amount of US$ 5.25 million (2002 - US$ 5.5 million) equivalent to KD 1,549,275 (2002 - KD 1,649,065). This deposit is placed as collateral against loans granted by that bank to Kuwait Foreign Investment Co., Inc., a subsidiary. This deposit will not be released until the loans are repaid.

Placements also include blocked deposit with a local bank amounting to KD NIL (2002 - KD 31,411) relating to a subsidairy for guarantee issued by the bank.

4. INVESTMENTS HELD FOR TRADING

	2003 KD	2002 KD
Kuwaiti shares	11,779,354	11,676,043
Gulf shares	896,650	33,239
Local funds	29,381,430	22,339,505
Foreign treasury bonds	-	490
Foreign shares	2,226,441	7,035,121
Foreign funds	4,608,337	3,857,463
	48,892,212	**44,941,861**

5. LOANS AND ADVANCES

Loans and advances are stated net of provision for impairment. The composition of the loans and advances portfolio is as follows:

	2003 KD	2002 KD
International	7,808,346	8,231,924
Domestic	11,868,762	12,301,957
	19,677,108	**20,533,881**

Movement in provision for impairment:

	2003 KD	2002 KD
Balance at beginning of the year	20,674,081	21,769,527
Charge for the year (note 18)	331,450	94,041
Exchange differences	(244,559)	(434,737)
Amounts written-off	-	(754,750)
Balance at end of the year	**20,760,972**	**20,674,081**

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

6. GOVERNMENT DEBT BONDS

The Central Bank of Kuwait purchased resident Kuwaiti customers' debts and resident debts of other Gulf Cooperation Council nationals existing as of August 1, 1990, in addition to related interest up to December 31, 1991, on behalf of the Government of Kuwait in accordance with Decree No. 32/92 and Law No. 41/93, as amended, in respect of the financial and banking sector. These balances related to a company acquired after August 1, 1990 and subsequently merged with the parent company.

The purchase value of these debts was settled by the issue of bonds, with a value date of December 31, 1991. The bonds mature over a maximum period of twenty years from the value date. Interest will be at a rate fixed semi-annually by the Central Bank of Kuwait, and will be payable semi-annually in arrears; the average rate for 2003 was 1.89% (2002-2.67%).

The group has a contingent liability in respect of any adjustment that the Central Bank of Kuwait may make to the amount of the bonds, in respect of debts that do not fulfill the conditions of the law under which they were purchased.

7. INVESTMENTS AVAILABLE FOR SALE

	2003	**2002**
	KD	**KD**
Quoted securities	12,614,244	12,059,783
Unquoted securities	40,508,428	9,280,193
	53,122,672	**21,339,976**

It was not possible to reliably measure the fair value of unquoted securities amounting to KD 1,457,035 (2002 - KD 1,163,129) and hence these are stated at cost less impairment losses, if any.

8. INVESTMENT HELD TO MATURITY

During the year, the parent company sold bonds, prior to their maturity amounting to KD 13,650,000 for KD 13,825,000 resulting in a gain of KD 175,000. Under International Financial Reporting Standards, the remaining balance has been reclassified as investments available for sale and no further investments will be classified as held to maturity for two years from the date of sale.

9. UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATES

	2003	**2002**
	KD	**KD**
Unconsolidated subsidiaries	2,113,019	1,651,966
Associates:		
Kuwait Pacific Finance	683,326	694,278
Others	36,586	(20,919)
	719,912	**673,359**
	2,832,931	**2,325,325**

The parent company owns 50% of Kuwait Pacific Finance.

Unconsolidated subsidiaries were not consolidated because their results are not material to the financial statements of the group.

10.INVESTMENT PROPERTIES

	Developed land and buildings KD	Buildings on leased land KD	Undeveloped land KD	Total KD
Cost				
At December 31, 2002	1,035,053	13,155,716	1,497,679	15,688,448
Additions	–	–	558,890	558,890
Disposals	(403,970)	–	–	(403,970)
At December 31, 2003	**631,083**	**13,155,716**	**2,056,569**	**15,843,368**
Accumulated Depreciation and provision				
At December 31, 2003	222,050	6,534,506	716,572	7,473,128
Charge for the year	–	1,859,495	–	1,859,495
Relating to disposals	(12,078)	–	–	(12,078)
At December 31, 2003	**209,972**	**8,394,001**	**716,572**	**9,320,545**
Net book value:				
At December 31, 2003	**421,111**	**4,761,715**	**1,339,997**	**6,522,823**
At December 31, 2002	813,003	6,621,210	781,107	8,215,320

The group has one of its buildings erected on land leased from the Government of Kuwait for 25 years which expired on April 1, 1999. In reference to the ministerial order No. 56 of 2001, relating to licences and contracts of buildings and premises constructed on land leased from the Government, the Company has accrued for rental expense due to the Ministry of Finance for land leased from the Government for which the Company has a preliminary agreement to renew the lease for 10 years ending on March 31, 2009. As per this preliminary agreement, the Company is liable to pay an annual rent of KD 271,366/- Accordingly, the Company has accrued an additional amount of KD 687,642 pertaining to prior periods and KD 271,366 for the year ended December 31, 2003. Further the Company has charged additional depreciation of KD 1,444,695 which includes KD 1,140,548 pertaining to prior years and KD 304,147 for the year ended December 31, 2003. The future minimum lease payments for the rent regarding the lease land are as follows:

	KD
Upto one year	271,366
More than 1 year and upto 5 year (4year)	1,085,464
More than 5 year	67,842
	1,424,672

The fair value of investment properties as per independent valuation at December 31, 2003 is KD 7,253,000 (2002 - KD 8,770,413)

11. OTHER ASSETS

	2003 KD	2002 KD
Accounts receivable	3,010,333	4,747,239
Accrued interest	352,429	648,541
Others	4,475,906	3,628,622
	7,838,668	**9,024,402**

12. ACCRUALS AND OTHER LIABILITIES

	2003 KD	2002 KD
Sundry creditors and accrued expenses	4,631,343	3,465,782
Provision for staff end of service indemnity	4,236,024	3,830,092
Provision for staff leave	885,884	878,695
Payable to Kuwait Foundation for the Advancement of Sciences	222,130	86,838
Other	1,320,875	822,895
	11,296,256	**9,084,302**

13. TREASURY SHARES

	2003 KD	2002 KD
Number of shares	5,780	5,780
Percentage of issued shares	0.001156%	0.001156%
Cost (KD)	1,675	1,675
Market value (KD)	2,399	1,433

14. STATUTORY RESERVE

In accordance with the Commercial Companies Law of 1960, as amended, 10% of profit for the year is transferred to statutory reserve.

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

15. INCOME FROM PROPERTY RENTAL AND MANAGEMENT SERVICES (NET)

	2003 KD	2002 KD
Revenue	4,583,372	5,057,424
Less: Costs	(2,754,192)	(2,771,379)
	1,829,180	**2,286,045**

16. GAIN FROM INVESTMENT HELD FOR TRADING

	2003 KD	2002 KD
Net realized gain from investments held for trading	12,355,838	5,218,310
Unrealized gain (loss) from changes in fair value of investments held for trading	8,887,512	(320,735)
	21,243,350	**4,897,575**

17. GENERAL, ADMINISTRATIVE AND OTHER EXPENSES

General, administrative and other expenses include staff costs of KD 4,981,227 (2001-KD 4,324,460)

18. PROVISION FOR IMPAIRMENT

	2003	2002
	KD	KD
Loans and advances	331,450	94,041
Other receivables	(106,004)	120,183
Provision for (release of) non-cash facilities	(1,000)	(13,800)
	224,446	**218,024**

19. EXTRAORDINARY INCOME

During 2002, one of the subsidiaries received KD 1,552,390 from the United Nations Compensation Committee (UNCC) as full and final settlement for losses suffered as a result of the Iraqi invasion and occupation of State of Kuwait and was forwarded to the United Nations for settlement. After deducting minority interest, the group recorded KD 791,719 as extraordinary income.

20. EARNINGS PER SHARE

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

	2003	2002
	KD	KD
Earnings:		
Net profit for the year	23,861,905	9,311,441
Number of shares outstanding:		
Number of issued shares	500,000,000	500,000,000
Weighted average number of treasury shares	(5,780)	(5,780)
Weighted average number of shares outstanding	499,994,220	499,994,220
	Fils	Fils
Earnings per share	47.72	18.62
Earnings per share from extraordinary income net of contribution to KFAS	-	1.57

21. CASH AND CASH EQUIVALENTS

	2003	2002
	KD	KD
Cash-current and call accounts	2,818,281	2,675,514
Placements maturing within ninety days	9,818,534	20,610,729
Call and notice accounts and deposits maturing within ninety days	(35,730,779)	(63,120,884)
Bank overdrafts	-	(99,366)
	(23,093,964)	**(39,934,007)**

22. PROPOSED CASH DIVIDENDS

Subsequent to the balance sheet date, the Board of Directors of the group in their meeting on March 4, 2004 have proposed a cash dividend of 30 fils per share amounting to KD 14,999,827 after excluding treasury shares. This proposal is subject to the approval of the shareholders' annual general assembly.

During 2003 a cash dividend of 13 fils per share amounting to KD 6,449,925 after excluding treasury shares for the year ended December 31, 2002 was approved at the annual general meeting held on March 31, 2003 and any unpaid dividends are included under other liabilities.

23. SUBSIDIARY COMPANIES

Details of significant subsidiary companies are set out below:

Name	*Country of incorporation*	*Percentage of ownership*	*Purpose*
Kuwait International Fair Company K.S.C. (Closed)	Kuwait	51%	Property rental services
Kuwait National Real Estate Services Company K.S.C. (Closed)	Kuwait	100%	Property rental and management services
Credit Des Burges	Switzerland	100%	Investment management services
Kuwait Foreign Investment Inc.	USA	100%	Property rental and management services

Investments in unconsolidated subsidiaries, Credit Des Burges and Kuwait Foreign Investment Inc, are disclosed separately in Note 9.

A portion of the voting capital of Kuwait National Real Estate Services K.S.C. (Closed) is held by Kuwaiti individuals as nominees of the parent company. These nominees have confirmed in writing that the parent company is the beneficial owner of the shares.

The parent company is the sole shareholder in certain other enterprises which are in the nature of special purpose vehicles for investment management purposes. The parent company does not have significant benefits nor does it have any ownership risks in the assets managed through these entities. Accordingly, these enterprises are not consolidated and are not included in the list of subsidiaries.

24. FIDUCIARY ASSETS

The group manages investment portfolios on behalf of a principal shareholder, Government agencies and financial institutions. The total value of those portfolios amounted at year-end to KD 1.79 billion (2002: KD 1.68 billion). Those portfolios are not reflected in the consolidated financial statements.

As an agent for its custody clients, the group enters into contractual agreements with counter parties, usually brokers, whereby the brokers can borrow the custody clients' securities for a specified period of time to enhance the return on clients' securities. A risk of loss occurs to the portfolio owners if the counter parties default.

25. RELATED PARTY TRANSACTIONS

These represent transactions with certain related parties who were customers of the group during the year. The terms of these transactions are approved by the group's management. The balances included in the consolidated financial statements at year-end are as follows:

	2003	2002
	KD	KD
Assets:		
Loans and advances	-	298,422
Other assets	234,036	192,418
	234,036	**490,840**
Liabilities:		
Call and notice accounts	598,229	587,457
Deposits	295,100	299,830
	893,329	**887,287**
Income statement:		
Commissions	368,298	318,206
Interest expense	95,851	52,572

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

In the opinion of management, except for Government debt bonds, carrying values of all other financial instruments are not significantly different from fair values.

It is not practicable to determine the fair value of Government debt bonds with sufficient accuracy, as the future cash flows are not determinable. Information on the principal characteristics of these bonds is presented in note 6 to the consolidated financial statements.

27. FINANCIAL INSTRUMENTS

In the ordinary course of business, the group uses financial instruments including derivatives. The use of financial instruments also brings with it the associated inherent risks. The group recognizes the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the group's strategic objectives.

The strategy of the group is to maintain a strong risk management culture and manage the risk/reward relationship within and across of the group's major risk-based lines of business.

The following sections describe the several risks inherent in the business, their nature and how they are managed.

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 group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continually assessing the creditworthiness of counter parties.

27. FINANCIAL INSTRUMENTS (CONTINUED)

Concentrations of credit risk arise when a number of counter parties 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 group's performance to developments affecting a particular industry or geographic location.

The group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business. It also obtains security when appropriate.

Geographical risk analysis

Geographical concentration of assets and liabilities:

	Assets		Liabilities, minority interest and shareholders' equity		Off balance sheet items	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
	KD 000	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**
G.C.C.	141,648	135,405	158,422	156,558	2,050	2,100
Other Middle East and Africa	1,804	1,256	–	–	–	–
Europe	7,252	8,565	661	1,885	–	–
North America	3,057	5,090	–	–	–	–
Asia	5,640	8,408	318	283	–	–
Others	–	2	–	–	–	–
	159,401	**158,726**	**159,401**	**158,726**	**2,050**	**2,100**

Financial instruments with contractual amounts representing credit risk

In the normal course of meeting the needs of its customers for liquidity, foreign exchange and interest rate protection, managing its own exposure to fluctuations in interest rates and foreign exchange rates, and earning trading and fee revenue, the group is a party to various derivative financial instruments. All financial instruments are subjects to normal credit standards, financial controls, risk management and monitoring procedures.

	2003	**2002**
	KD 000	**KD 000**
Commitments on behalf of customers for which there were corresponding liabilities by the customer concerned:		
Guarantees	2,050	2,100

B) INTEREST RATE RISK

Interest rate risk is the sensitivity of the group's financial condition to future movements in interest rates. The group is exposed to interest rate risk as a result of mismatches or 'gaps' in the amounts of assets and liabilities that mature or reprice in a given period. The group can reduce this risk by matching the repricing of assets and liabilities that mature or reprice in a given period. The group can reduce this risk by matching the repricing of assets and liabilities through a number of means.

The group's interest rate repricing maturity profile, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

27. FINANCIAL INSTRUMENTS (CONTINUED)

AT DECEMBER 31, 2003

	Up to 1 month KD 000	1 - 3 months KD 000	3 - 12 months KD 000	Non interest sensitive KD 000	Total KD 000	Effective interest rate %
Assets						
Cash- current and call accounts	–	–	–	2,818	2,818	–
Placements	9,818	1,839	4,962	–	16,619	0.9375-6
Investments held for trading	–	–	–	48,892	48,892	–
Loans and advances	1,960	14,161	3,181	375	19,677	1.62-8
Government debt bonds	–	–	1,077	–	1,077	1.82
Investments available for sale	4,420	2,713	–	45,990	53,123	1.70125-5
Investments held to maturity	–	–	–	–	–	–
Unconsolidated subsidiaries and associates	–	–	–	2,833	2,833	–
Investment properties	–	–	–	6,523	6,523	–
Other assets	–	–	–	7,839	7,839	–
	16,198	**18,713**	**9,220**	**115,270**	**159,401**	
Liabilities, minority interest and shareholders' equity						
Call and notice accounts	2,915	–	–	–	2,915	0.75-2.5
Deposits	32,816	–	–	–	32,816	0.75-3.5
Accrued interest payable	–	–	–	37	37	–
Accruals and other liabilities	–	–	–	11,296	11,296	–
Minority interest	–	–	–	3,063	3,063	–
Shareholders' equity	–	–	–	109,274	109,274	–
	35,731	–	–	**123,670**	**159,401**	

27. FINANCIAL INSTRUMENTS (CONTINUED)
AT DECEMBER 31, 2003

	Up to 1 month KD 000	1 - 3 months KD 000	3 - 12 months KD 000	Non interest sensitive KD 000	Total KD 000	Effective interest rate %
Assets						
Cash - current and call accounts	–	–	–	2,676	2,676	–
Placements	14,611	7,649	9,560	–	31,820	1.25-6.125
Treasury bonds	196	–	–	–	196	3.75
Investments held for trading	–	–	–	44,942	44,942	–
Loans and advances	2,209	11,327	6,617	381	20,534	1.87-9
Government debt bonds	–	–	1,505	–	1,505	2.45
Investments available for sale	–	–	2,000	19,340	21,340	4.75
Investments held to maturity	2,998	750	12,400	–	16,148	2.18-6.75
Unconsolidated subsidiaries and associates	–	–	–	2,325	2,325	–
Investment properties	–	–	–	8,215	8,215	–
Other assets	–	–	–	9,025	9,025	–
	20,014	**19,726**	**32,082**	**86,904**	**158,726**	
Liabilities, minority interest and shareholders' equity						
Call and notice accounts	2,728	–	–	–	2,728	0.75-1.5
Deposits	54,393	6,000	–	–	60,393	1-4
Bank overdraft	99	–	–	–	99	5
Accrued interest payable	–	–	–	52	52	–
Accruals and other liabilities	–	–	–	9,084	9,084	–
Minority interest	–	–	–	3,569	3,569	–
Shareholders' equity	–	–	–	82,801	82,801	–
	57,220	**6,000**	**–**	**95,506**	**158,726**	

C) LIQUIDITY RISK

Liquidity risk is the risk that the group 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 summarizes the maturity profile of the group'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 group's deposit retention history and the availability of liquid funds. 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 the contractual repayment arrangements.

27. FINANCIAL INSTRUMENTS (CONTINUED)

C - LIQUIDITY RISK

	At December 31, 2003					At December 31, 2002				
	1 - 3 months	3 - 12 months	1 - 5 year	Over 5 year	Total	1 - 3 months	3 - 12 months	1 - 5 year	Over 5 year	Total
	KD 000	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**
ASSETS										
Cash - current and call accounts	2,818	–	–	–	2,818	2,676	–	–	–	2,676
Placements	11,657	4,962	–	–	16,619	20,611	9,560	1,649	–	31,820
Treasury bills and bonds	–	–	–	–	–	196	–	–	–	196
Investments held for trading	48,892	–	–	–	48,892	44,942	–	–	–	44,942
Loans and advances	–	5,264	12,881	1,532	19,677	–	10,271	10,263	–	20,534
Government debt bonds	–	–	1,077	–	1,077	–	–	1,505	–	1,505
Investments available for sale	13,510	7,133	12,053	20,427	53,123	–	2,282	5,011	14,047	21,340
Investments held to maturity	–	–	–	–	–	–	–	16,148	–	16,148
Unconsolidated subsidiaries and associates	–	–	–	2,833	2,833	–	–	–	2,325	2,325
Investment properties	–	1,340	–	5,183	6,523	–	1,594	–	6,621	8,215
Other assets	4,424	1,228	2,187	–	7,839	5,565	811	2,649	–	9,025
	81,301	**19,927**	**28,198**	**29,975**	**159,401**	**73,990**	**24,518**	**37,225**	**22,993**	**158,726**
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY										
Call and notice accounts	2,915	–	–	–	2,915	2,728	–	–	–	2,728
Deposits	32,816	–	–	–	32,816	60,393	–	–	–	60,393
Bank overdraft	–	–	–	–	–	99	–	–	–	99
Accrued interest payable	37	–	–	–	37	52	–	–	–	52
Accruals and other liabilities	3,232	2,942	886	4,236	11,296	1,860	2,459	935	3,830	9,084
Minority interest	–	–	–	3,063	3,063	–	–	–	3,569	3,569
Shareholders' equity	–	–	–	109,274	109,247	–	–	–	82,801	82,801
	39,000	**2,942**	**886**	**116,573**	**159,401**	**65,132**	**2,459**	**935**	**90,200**	**158,726**

27. FINANCIAL INSTRUMENTS (CONTINUED)

D) CURRENCY RISK

The group views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. Hedging transactions are used to mange any significant risk in other currencies.

The group had the following significant net exposures denominated in foreign currencies as at December 31, 2003.

	2003 KD000 equivalent long/(short)	2002 KD000 equivalent long/(short)
NET ASSETS (LIABILITIES):		
US Dollars	8,773	(1,188)
Euros	(350)	800
Pounds Sterling	2,275	(259)
Japanese Yen	43	152
Others	3,229	2,615

E) MARKET RISK

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, of factors affecting all securities traded in the market.

The group is exposed to market risk with respect to its investments.

The group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international equity and bond markets. In addition, the group actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

28. SEGMENTAL ANALYSIS

The group is organized into functional divisions to manage its various lines of business. The group operates mainly in the State of Kuwait and, accordingly, does not have a secondary segment. For the purposes of primary segment reporting, the group's management has grouped the group's products and services into the following business segments:

- Investment trading: Consists of securities trading and investment activities.
- Treasury: Consists of foreign exchange and money market activities.
- Asset management: Consists of investment portfolio activities.
- Other operations: Consists of lending, real estate, property rental and management activities and other activities.

There are no inter-segmental transactions. The following is the detail of the above segments, which constitutes the primary segment information:

	December 31, 2003					December 31, 2002				
	Investment Trading KD 000	Treasury KD 000	Asset management KD 000	Other operations KD 000	Total KD 000	Investment Trading KD 000	Treasury KD 000	Asset management KD 000	Other operations KD 000	Total KD 000
Segment operating income	28,024	1,441	2,458	3,150	35,073	10,129	2,043	1,337	3,776	17,285
Segment operating expense	(2,681)	(590)	(527)	(3,347)	(7,145)	(2,638)	(1,109)	(484)	(1,859)	(6,090)
Segment results	25,343	851	1,931	(197)	27,928	7,491	934	853	1,917	11,195
Other income					169					97
Extra ordinary income					–					792
Unallocated expenses					(4,235)					(2,773)
Net profit for the year					**23,862**					**9,311**
Other information:										
Segment assets	88,313	37,011	–	32,998	158,322	71,172	48,225	–	38,481	157,878
Unallocated assets					1,079					848
Total assets					**159,401**					**158,726**
Segment liabilities	–	35,813	–	2,502	38,315	–	63,172	–	2,726	65,898
Unallocated liabilities					8,749					6,458
Total Liabilities					**47,064**					**72,356**
Capital expenditures					578					2,631
Depreciation					1,983					486
Other non-cash expenses					137					482

29. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with the current year presentation.