



التقرير السنوي ٢٠٠٤

ANNUAL REPORT 2004



شركة بيان للإستثمار ش.م.ك.م.  
**BAYAN INVESTMENT Co. K.S.C.C.**



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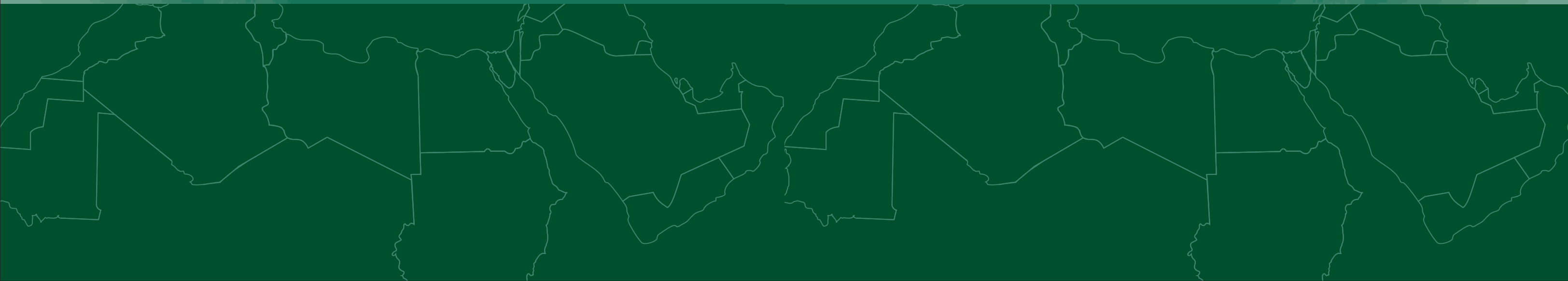


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**BAYAN INVESTMENT Co. K.S.C.C.**





## Chairman's Message

It gives me and the members of the board of directors of Bayan Investment Company a great pleasure to submit you the annual report in respect of the achievements and results of the financial year ended December 31st, 2001.

In light of the results achieved in 2001, the board of directors decided to recommend the distribution of the cash dividend in the amount of 9% (9 Fils for each share) and transfer the rest to the shareholders equity. This was the desire of the board of directors to accomplish a balance between the distribution of the reasonable revenues to the company's shareholders in addition to building up its reserves, supported by the ability of the Company in the future to grow and distribute consistently steady revenues over the years.

On behalf of the board, I take this opportunity to express the deep gratitude and appreciation to the company's shareholders for their trust in the board's efforts.

In light of the results achieved in 2001, the board of directors decided to recommend the distribution of the cash dividend in the amount of 9% (9 Fils for each share) and transfer the rest to the shareholders equity. This was the desire of the board of directors to accomplish a balance between the distribution of the reasonable revenues to the company's shareholders in addition to building up its reserves, supported by the ability of the Company in the future to grow and distribute consistently steady revenues over the years.

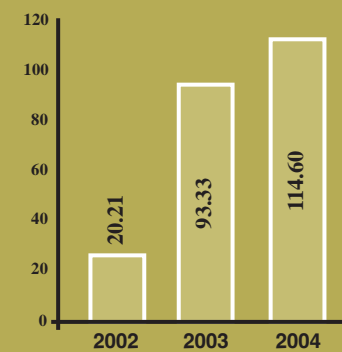
The company's shareholders for their trust in the board's efforts as well as to all the company's customers and all those who contributed to the company's success Last year, as in the previous years, your company sought to expand and diversify the sources of income based on the different investment opportunities, in addition to the provision of different services to our customers.

Yours in success in 2005  
Mr Tareq Ibrahim

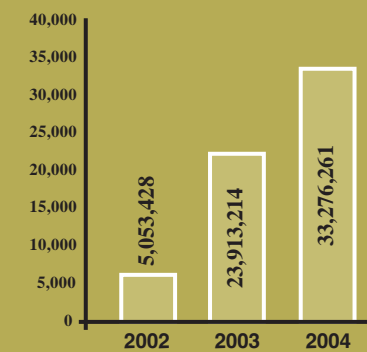
## SPREADING INFLUENCE

## Key Financial Statement

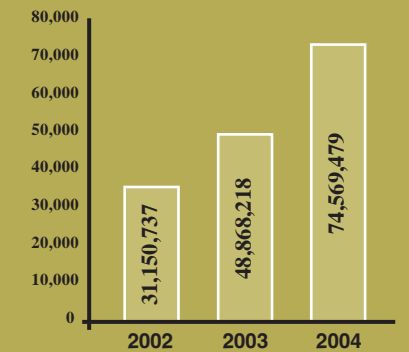
Growth in Earnings Per Share (fils)



Growth in Net Profit (1,000 KD)



Growth in Shareholders' Equity (1,000 KD)



## Management Report

### Local Investment Department:

It gives me and the members of the board of directors of Bayan Investment Company a great pleasure to submit you the annual report in respect of the achievements and results of the financial year ended December 31st, 2001.

directors decided to recommend the distribution of the cash dividend in the amount of 9% (9 Fils for each share) and transfer the rest to the shareholders equity. This was the desire of the board of directors to accomplish a balance between the distribution of the reasonable revenues to the company's shareholders in addition to building up its reserves, supported by the ability of the Company in the future to grow and distribute consistently steady revenues over the years.

On behalf of the board, I take this opportunity to express the deep gratitude and appreciation to the company's shareholders for their trust in the board's efforts as well as to all the company's customers and all those who contributed to the company's success in the amount of 9% (9 Fils for each share) and transfer the rest to the shareholders equity.

### International Investment Department:

This was the desire of the board of directors to accomplish a balance between the distribution of the reasonable revenues to the company's shareholders in addition to building up its reserves, supported by the ability of the Company in the future to grow and distribute consistently steady revenues over the years. in the amount of 9% (9 Fils for each share) and transfer the rest to the shareholders equity.

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### Marketing & Business Development Department:

On behalf of the board, I take this opportunity to express the deep gratitude and appreciation to the company's shareholders for their trust in the board's efforts as well as to all the company's customers and all those who contributed to the company's success Last year, as in the previous years, your company sought to expand and diversify the sources of income based on the different investment opportunities, in addition to the provision of different services to our customers.

Your company sought to expand and diversify the sources of income based on the different investment opportunities, in addition to the provision of different services to our customers.

Last year, as in the previous years, your company sought to expand and diversify the sources of income based on the different investment opportunities, in addition to the provision of different services to our customers.



CONSTANT MOVEMENT

## Key Financial Statement

### MAKING WAVES

#### IT Department:

It gives me and the members of the board of directors of Bayan Investment Company a great pleasure to submit you the annual report in respect of the achievements and results of the financial year ended December 31st, 2001.

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#### Administration & HR Department:

On behalf of the board, I take this opportunity to express the deep gratitude and appreciation to the company's shareholders for their trust in the board's efforts as well as to all the company's customers and all those who contributed to the company's success in the amount of 9% (9 Fils for each share) and transfer the rest to the shareholders equity.

This was the desire of the board of directors to accomplish a balance between the distribution of the reasonable revenues to the company's shareholders in addition to building up its reserves, supported by the ability of the Company in the future to grow and distribute consistently steady revenues over the years. in the amount of 9% (9 Fils for each share) and transfer the rest to the shareholders equity. Distribute consistently steady revenues over the years. in the amount of 9% (9 Fils for each share) and transfer the rest to the shareholders equity.

#### Banking and Finance:

In light of the results achieved in 2001, the board of directors decided to recommend the distribution of the cash dividend in the amount of 9% (9 Fils for each share) and transfer the rest to the shareholders equity. This was the desire of the board of directors to accomplish a balance between the distribution of the reasonable revenues to the company's shareholders in addition to building up its reserves, supported by the ability of the Company in the future to grow and distribute consistently steady revenues over the years.

On behalf of the board, I take this opportunity to express the deep gratitude and appreciation to the company's shareholders for their trust in the board's efforts as well as to all the company's customers and all those who contributed to the company's success Last year, as in the previous years.

#### Subsidiary Companies:

- **Arkan Holding Co.**  
sought to expand and diversify the sources of income based on the different investment opportunities, in addition to the provision of different services to our customers.

- **Bayan Tech**  
sought to expand and diversify the sources of income based on the different investment opportunities, in addition to the provision of different services to our customers.

- **Al-Noor Holding Co.**  
sought to expand and diversify the sources of income based on the different investment opportunities, in addition to the provision of different services to our customers.

## Auditor's Report

The Shareholders  
Bayan Investment Company K.S.C. (Closed)  
State of Kuwait

We have audited the accompanying Consolidated balance sheet of Bayan Investment Company K.S.C. (Closed) "the Company" as of December 31, 2004 and the related Consolidated statement of income, Consolidated changes in shareholders' equity and Consolidated cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on the 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 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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Group as of December 31, 2004, and the consolidated results of operations and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Also, in our opinion, the consolidated financial 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, physical stocktaking was carried out in accordance with recognized practice and the accounting information given in the Directors' report is in agreement with the books. To the best of our knowledge and belief, there are no violations during the year of the Commercial Companies' Law, Law No.32 of 1968 concerning currency, the Central Bank of Kuwait and the Organization of banking business and subsequent amendments thereto or of the company's Articles of Association which might have materially affected the Group's consolidated results or, its consolidated financial position.

Bader A. Al-Wazzan □  
Licence No. 62A  
Bader & Co., Pricewaterhouse Coopers □

Dr. Shuaib A. Shuaib  
Licence No. 33A  
Albazie & Co.  
Member of RSM International

State of Kuwait  
January \_\_\_\_, 2005

## ACHIEVING GOALS

## Financial Statements

EXHIBIT A

**BAYAN INVESTMENT COMPANY K.S.C. (CLOSED) AND ITS SUBSIDIARIES**  
**STATE OF KUWAIT**  
**CONSOLIDATED BALANCE SHEET**  
**December 31, 2004**

	Note	December 31, 2004 KD	December 31, 2003 KD
<b>ASSETS</b>			
Cash and cash equivalents	4	1,396,543	1,371,654
Held for trading investment	5	21,986,817	23,833,158
Accounts receivable and other debit balances	6	861,875	2,048,073
Available for sale investment	7	68,459,353	40,601,192
Investment in unconsolidated subsidiaries	8	1,700,000	-
Property, plant and equipment	9	1,281	36,325
<b>Total assets</b>		<b>94,405,869</b>	<b>67,890,402</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Loans and bank facilities	10	15,827,726	17,011,459
Accounts payable and other credit balances	11	3,873,168	1,950,404
End of service indemnity		91,462	60,321
<b>Total liabilities</b>		<b>19,792,356</b>	<b>19,022,184</b>
<b>Shareholders' equity:</b>			
Authorized, issued and paid up capital	12	30,187,500	26,250,000
Treasury shares	13	(2,445,733)	(2,445,733)
Statutory reserve	14	7,027,797	3,579,739
Voluntary reserve	15	5,890,269	2,442,211
Retained earnings		33,953,680	19,042,001
<b>Total shareholders' equity</b>		<b>74,613,513</b>	<b>48,868,218</b>
<b>Total liabilities and shareholders' equity</b>		<b>94,405,869</b>	<b>67,890,402</b>

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

## BUILDING



## CAPACITY

## EXHIBIT B

BAYAN INVESTMENT COMPANY K.S.C. (CLOSED) AND ITS SUBSIDIARIES  
STATE OF KUWAIT  
CONSOLIDATED STATEMENT OF INCOME  
For the year ended December 31, 2004

	Note	2004 KD	2003 KD
<b>Revenues:</b>			
Investments income	16	37,305,312	25,849,799
Portfolio's management fees		256,614	83,398
Consultancy income		86,142	71,880
Interest income		23,272	15,584
Foreign exchange gain □		12,629	150
Total revenues		37,683,969	26,020,811
<b>Expenses and other charges:</b>			
General and administrative expenses	17	(1,988,428)	(1,152,620)
Finance charges		(1,214,966)	(446,086)
Board of Directors remuneration		(84,000)	(52,500)
Contribution to Kuwait Foundation for the Advancement of Sciences	18	(310,325)	(219,799)
National Labour Support Tax	19	(765,159)	(236,592)
Total expenses and other charges		(4,363,674)	(2,107,597)
Net profit for the year		33,320,295	23,913,214
Earnings per share (fils)	20	114.75	81.16

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

BAYAN INVESTMENT COMPANY K.S.C. (CLOSED) AND ITS SUBSIDIARIES  
STATE OF KUWAIT  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
For the year ended December 31, 2004

	Capital KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Retained earnings KD	Total KD
Balance as of January 1, 2003	25,000,000	-	1,137,528	-	5,013,209	31,150,737
Cash dividends (15% - 2002)	-	-	-	-	(3,750,000)	(3,750,000)
Bonus shares (5% - 2002)	1,250,000	-	-	-	(1,250,000)	-
Treasury shares	-	(2,445,733)	-	-	-	(2,445,733)
Net profit for the year	-	-	-	-	23,913,214	23,913,214
Transfer to reserves	-	-	2,442,211	2,442,211	(4,884,422)	-
Balance as of December 31, 2003	26,250,000	(2,445,733)	3,579,739	2,442,211	19,042,001	48,868,218
Cash dividends( 30% - 2003)	-	-	-	-	(7,575,000)	(7,575,000)
Bonus shares (15% - 2003)	3,937,500	-	-	-	(3,937,500)	-
Net profit for the year	-	-	-	-	33,320,295	3,320,295
Transferred to reserves	-	-	3,448,058	3,448,058	(6,896,116)	-
<b>Balance as of December 31, 2004</b>	<b>30,187,500</b>	<b>(2,445,733)</b>	<b>7,027,797</b>	<b>5,890,269</b>	<b>33,953,680</b>	<b>74,613,513</b>

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



IMPROVEMENT

BAYAN INVESTMENT COMPANY K.S.C. (CLOSED) AND ITS SUBSIDIARIES  
STATE OF KUWAIT  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the year ended December 31, 2004

	2004 KD	2003 KD
<b>Cash flows from operating activities:</b>		
Net profit for the year	33,320,295	23,913,214
Adjustments:		
Depreciation	146,352	6,897
Investments income	(37,305,312)	(25,849,799)
Interest income	(23,272)	(15,584)
End of service indemnity	39,591	10,145
Provision for loans	1,400	
Finance charges	1,214,966	446,086
Operating loss before changes in working capital	(2,605,980)	(1,489,041)
Trading investments	6,456,724	(1,581,274)
Decrease (increase) in accounts receivable and other debit balances	1,190,852	(1,776,190)
Increase in accounts payable and other credit balances	2,406,192	1,792,625
Cash generated from (used in) operating activities	7,447,788	(3,053,880)
Payment of finance charges	(1,214,966)	(446,086)
Payment of Board of Director's remuneration	(52,500)	(35,000)
Payment of end of service indemnity	(8,450)	(3,077)
Payment of Kuwait Foundation for Advancement of Sciences	(219,799)	(46,212)
Payment of National Labor Support Tax	(236,592)	-
Net cash generated from (used in) operating activities	5,715,481	(3,584,255)
<b>Cash flows from investing activities:</b>		
Dividend income received	1,356,861	1,230,850
Purchase of investments available for sale	(7,632,320)	(11,148,521)
Proceeds from sale of investments available for sale	11,112,227	8,306,702
Investment in unconsolidated subsidiaries	(1,700,000)	-
Interest income received	17,218	15,584
Purchase of property, plant and equipment	(111,308)	(34,689)
Net cash generated from (used in) investing activities	3,042,678	(1,630,074)
<b>Cash flows from financing activities:</b>		
Proceeds from loans and bank facilities	7,816,267	19,178,940
Settlement of loans and bank facilities	(9,000,000)	(10,377,808)
Purchase of treasury shares	-	(2,445,733)
Payment of dividends to shareholders	(7,549,537)	(3,750,000)
Net cash (used in) generated from financing activities	(8,733,270)	2,605,399
Net decrease in cash and cash equivalents	24,889	(2,608,930)
Cash and cash equivalents at beginning of year	1,371,654	3,980,584
Cash and cash equivalents at end of year (Note 4)	1,396,543	1,371,654

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

## REFLECTIONS

## Notes to Consolidated Financial Statements

### BAYAN INVESTMENT COMPANY K.S.C. (CLOSED) AND ITS SUBSIDIARIES, STATE OF KUWAIT NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2004

#### 1. Company's incorporation and activities

Bayan Investment Company -K.S.C. (Closed) was incorporated pursuant to establishment agreement No. 1491/Vol. 1 dated July 21,1997 as amended on March 28,2001. The Company is registered under the commercial registration No. 70718 on August 30, 1997, the Company was listed in the Kuwait Stock Exchange effective May 5, 2003.

Bayan Investment Company's address is Fahad Al-Salem St., Area 12, Building No. 21, Souad Commercial Building, P.O. Box No. 104 Al Dasman, 35151 State of Kuwait

The parent Company and its subsidiaries are together referred to as "the Group" in the financial statements.

#### The Parent Company's activities are as follows:

- 1) Investment in different economic sectors through  participation in the establishment of specialized  companies or purchasing shares in such companies.
- 2)  Sale and purchase of securities and bonds traded  in the State of Kuwait and abroad.
- 3)  Acting as investment trustees and managing  investment portfolios of all types for others and  engaging in related lending and borrowing  transactions.
- 4)  Intermediation in lending and borrowing  transactions for commission or fees.
- 5)  Financing and intermediation in international trade  transactions.
- 6)  Conducting research, studies and other technical  services pertaining to investment transactions and  fund management for others.
- 7)  Establishing and managing different types of  investment funds in accordance with the Law.

- 8)  Performing the functions of underwriters for bonds  issued by companies and entities.
- 9)  Preparing studies and providing economic  consultancy in relation to investment in privatization  projects.
- 10)  Rendering all services and performing all activities,  which help to develop the financial and monetary  market in the State of Kuwait.
- 11)  Issuing guarantees for others for specific amounts  and terms.
- 12)  Investing the cash surplus available with the  company in financial and real estate portfolios  managed by specialized companies and institutions.
- 13)  Preparing the necessary studies and research  pertaining to Company's activities.

The Company may have an interest or associate itself in any way with entities practicing activities similar to its own or which may assist the Company in achieving its objectives in Kuwait or abroad, or may establish, participate in or acquire those entities or have them affiliated to it.

The number of employees as of December 31, 2004 is 43 (December 31, 2003 - 30 employees).

These consolidated financial statements were approved for issue by the Board of Directors in its meeting held on January 2005 and in subject to approval of shareholders at their forthcoming Annual General Assembly.

#### 2. Basis of preparation and significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

##### a) Basis of preparation

The consolidated financial statements are presented  in Kuwaiti Dinars and are prepared under the historical  cost convention except for investments for trading  and investments available-for-sale that are stated at  their fair value. The accompanying accounting policies

## SATIFYING RESULTS

## FORWARD MOTION

### b) Basis of consolidation

Subsidiaries are those enterprises controlled by the parent 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 these consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Financial statements of the parent company and subsidiaries are combined on a line by line basis by adding together like items of assets and liabilities, equity, income and expenses. Equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and statement of income, respectively. Inter-company balances and transactions, including inter-company 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.

Investment subsidiaries which are not considered material to the consolidated financial statement of the parent company are equity accounted (Note 8).

These consolidated financial statements include the financial statements of the Parent Company and the financial statements of the following wholly owned subsidiaries which are consolidated on a line by line basis:

- Bayan Tech Information Technology Co., W.L.L., Kuwait, incorporated in 1999 as a limited liability Kuwaiti company, which is wholly owned and engaged in the development of computer software.
- Arkan Holding Company (K.S.C.H) incorporated in 2003 as a closed Kuwaiti holding company which is wholly owned and engaged in establishing and acquisition of shares for all types of companies.
- Al Nour Holding Company (K.S.C.H.) incorporated in 2004 as a closed Kuwaiti Holding Company which is wholly owned and engaged in establishing and acquisition of shares for all types of companies

The total assets of the subsidiaries amounted to KD 1,972,305 as of December 31, 2004 (December 31, 2003 - KD 1,034,592) and its net loss for the year then ended

amounted to KD 68,824 (December 31, 2003 - net profit KD 4,186).

### Foreign currencies

Foreign currency translation is recorded in Kuwaiti Dinars at the rates of exchange ruling on the trade dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into Kuwait Dinars at the average of buying and selling rates at year end. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical or amortized cost, are translated to Kuwaiti Dinars at the rates of exchanges ruling at the trade date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at dates that the values were determined.

All realized and unrealized exchange gains or losses are credited or charged to the statement of income except in the case of gains or losses on translation of the Company's share of the net assets of unconsolidated subsidiaries, which is included in the cumulative translation adjustment account in shareholders' equity.

### Cash and cash equivalents

Cash includes cash in hand and at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

### Investments

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

An investment is recognized when the Group becomes a party to the contractual provisions of the instrument. An investment is derecognized when the Group loses control of the contractual rights that comprise the financial statements.



## POSITIVE GROWTH

After the initial recognition, both investments held for trading and investments available-for-sale are measured at fair value. The fair value of investments traded in recognized financial markets is their quoted market price based on the current bid price. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis or option pricing models. Investments, whose fair value cannot be reliably measured, are carried at cost less impairment losses.

Any gains or losses arising from changes in fair value for investments classified as held for trading and available-for-sale are recognized in statement of income.

### • Future sale contract

The Group enters into future sale contract on its shares held for trading purpose. Derivatives arising from this contract are carried as assets when fair value is positive and as liabilities when fair value is negative.

The advance installment arising from future sale contract recorded in liabilities, and any gain arising from future sale taken to the income statement on a time proportion basis over the contract period. Deferred portion is shown in balance sheet date under other accounts payable.

### • Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method over their estimated useful lives from 0 to 4 years.

Whereas the carrying amount of an asset is greater than its estimated recoverable amount is written down immediately to its recoverable amount.

### • Borrowings

Borrowings are initially recognized at cost which represents the proceeds received, net of transaction costs incurred. Subsequently, borrowings are stated at amortized cost using the effective yield method. Any difference between proceeds and the redemption value is recognized in the income statement over the period of the borrowings.

### • Provisions

A provision is 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.

### • End of service indemnity

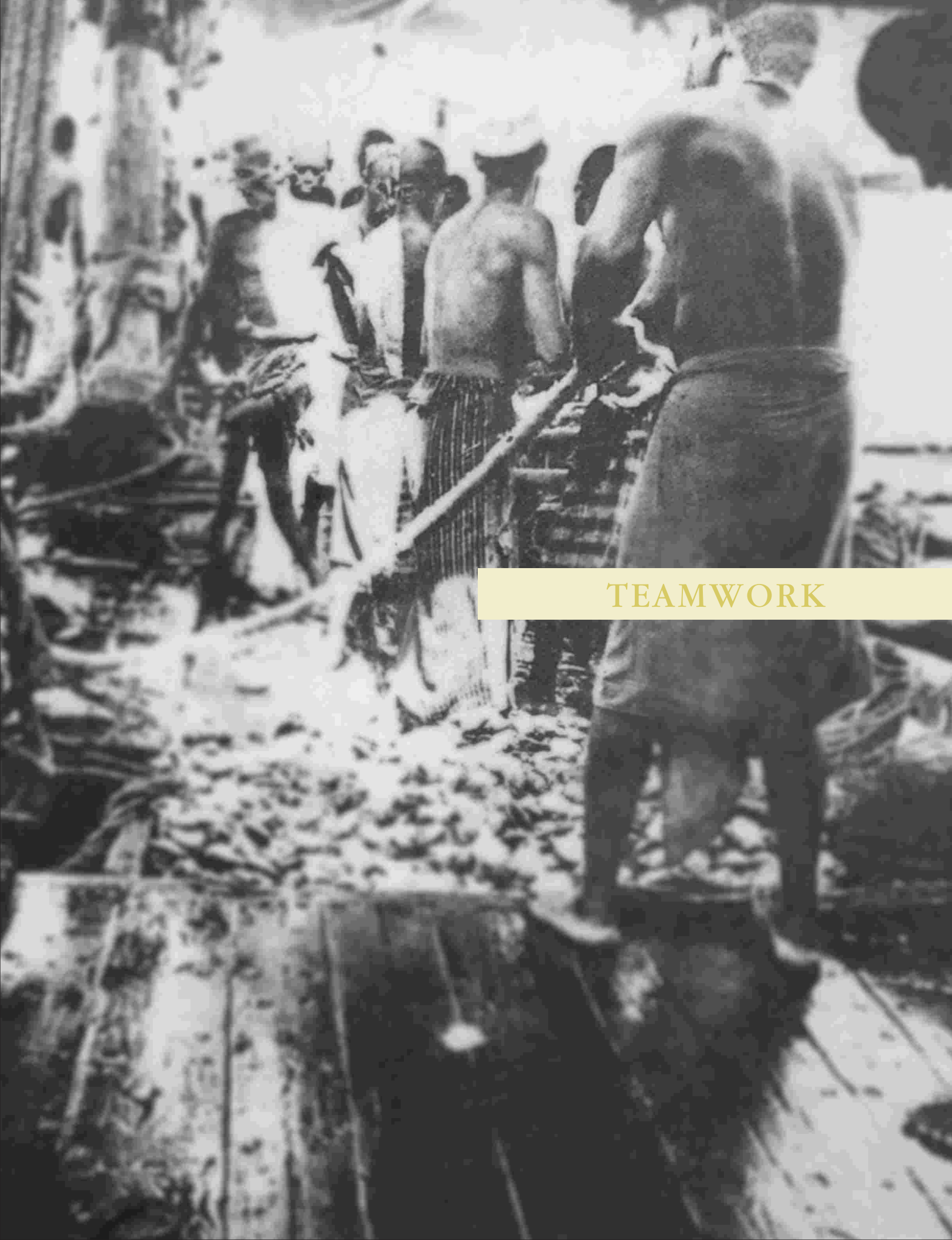
Provision is made for amounts payable to employees under the Kuwaiti Labor Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the obligation.

### • Treasury shares

Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid 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.

### • Revenue recognition

Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale. Dividend income is recognized when the right to receive payment is established. Interest income is recognized on a time proportion basis. Management fees is recognized on accrual basis.



**TEAMWORK**

• **Finance charges**

Finance charges are recognized in the statement of income on a time proportion basis.

• **Operating lease cost**

Leases where all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments for leased assets under operating lease are charged to the income statement on straight-line basis over the lease contracts period.

• **Fiduciary assets**

Assets which are kept by the Group as an agency or under a fiduciary capacity are not considered as Group's assets.

**3. Financial risk management**

The Group is exposed to a variety of financial risks, including the effects of changes in debt, equity market prices and rates of return.

The Group manages these risks based on policies approved by the Board of Directors.

**Credit risk**

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. Cash and cash equivalents represent the significant asset exposed to credit risk. The Group has no significant risk concentrations of credit risk as the fixed deposits and call accounts are deposited in credit worthy financial institutions.

**Foreign exchange risk**

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates that may adversely affect the cash flow of the Group or the values of its monetary assets and liabilities that are denominated in foreign currency.

The balance of investments in foreign currency amounted to KD 6,376,958 as of December 31, 2004 (2003 - KD 5,544,814). The Group manages these risks by regularly monitoring changes in exchange rates.

The following is the foreign currency position as of balance sheet date:

	2004	2003
U.S. Dollars	19,587,012	15,755,603
Euro	2,663,757	2,385,172
Sterling Pound	34,974	20,107

**Liquidity risk**

Liquidity risk is the risk that the Group may encounter difficulty in raising funds to meet commitments associated with financial instruments.

## INSPIRATION

The Group's management mitigates these risks by dealing with reputed counter parties, diversifying its investments and matching the maturities of financial assets against financial liabilities. The following is an analysis of maturities of assets and liabilities:

December 31, 2004

	During 3 months KD	From 3 months to 1 year KD	From 1 year to 5 years KD	More than 5 years KD	Total KD
<b>Assets</b>					
Cash and cash equivalents	1,396,543	-	-	-	1,396,543
Trading investments	21,986,817	-	-	-	21,986,817
Accounts receivable and other debit balances	861,875	-	-	-	861,875
Available for sale investments	-	-	68,459,353	-	68,459,353
Investment in unconsolidated subsidiaries	-	-	-	1,700,000	1,700,000
Property, plant and equipment	-	-	-	1,281	1,281
	24,245,235	-	68,459,353	1,701,281	94,405,869
<b>Liabilities</b>					
Loans and bank facilities	15,827,726	-	-	-	15,827,726
Accounts payable and other credit balances	2,204,227	1,668,941	-	-	3,873,168
End of service indemnity	-	-	-	91,462	91,462
	18,031,953	1,668,941	-	91,462	19,792,356
Net liquidity gap	6,213,282	(1,668,941)	68,459,353	1,609,819	74,613,513

December 31, 2003

	During 3 months KD	From 3 months to 1 year KD	From 1 year to 5 years KD	More than 5 years KD	Total KD
<b>Assets</b>					
Cash and cash equivalents	1,371,654	-	-	-	1,371,654
Trading investments	23,833,158	-	-	-	23,833,158
Accounts receivable and other debit balances	2,048,073	-	-	-	2,048,073
Available for sale investments	-	-	40,601,192	-	40,601,192
Property, plant and equipment	-	-	-	36,325	36,325
	27,252,885	-	40,601,192	36,325	67,890,402
<b>Liabilities</b>					
Loans and bank facilities	-	17,011,459	-	-	17,011,459
Accounts payable and other credit balances	-	1,950,404	-	-	1,950,404
End of service indemnity	-	-	-	60,321	60,321
	-	18,961,863	-	60,321	19,022,184
Net liquidity gap	27,252,885	(18,961,863)	40,601,192	(23,996)	48,868,218





## ADVANCEMENT

### Interest rate risk

This represents the Group's exposure to the effect of fluctuation in interest rates on its general position. The Group manages this risk by obtaining facilities in Kuwaiti Dinars that reprice with changes in discount rate. The table below summarizes the Group's exposure to interest rates risk. Included in the table are the carrying amounts of the Group's assets and liabilities, categorized by the earlier of contractual repricing or maturity dates and effective interest rate:-

December 31, 2004

	During 3 months KD	From 3 months to 1 year KD	Items non- sensitive to interest rate KD	Total KD
<b>Assets</b>				
Cash and cash equivalents	1,396,543	-	-	1,396,543
Trading investments	-	-	21,986,817	21,986,817
Accounts receivable and other debit balances	-	-	861,875	861,875
Available for sale investments	-	-	68,459,353	68,459,353
Investment in unconsolidated subsidiaries	-	-	1,700,000	1,700,000
Property, plant and equipment	-	-	1,281	1,281
	1,396,543	-	93,009,326	94,405,869
<b>Liabilities</b>				
Loans and bank facilities	15,827,726	-	-	15,827,726
Accounts payable and other credit balances	-	-	3,873,168	3,873,168
End of service indemnity	-	-	91,462	91,462
	15,827,726	-	3,964,630	19,792,356
Net interest rate gap	(14,431,183)	-	89,044,696	74,613,513

December 31, 2003

	During 3 months KD	From 3 months to 1 year KD	Items non- sensitive to interest rate KD	Total KD
<b>Assets</b>				
Cash and cash equivalents	1,371,654	-	-	1,371,654
Trading investments	-	-	23,833,158	23,833,158
Accounts receivable and other debit balances	-	-	2,048,073	2,048,073
Available for sale investments	-	-	40,601,192	40,601,192
Property, plant and equipment	-	-	36,325	36,325
	1,371,654	-	66,518,748	67,890,402
<b>Liabilities</b>				
Loans and bank facilities	-	17,011,459	-	17,011,459
Accounts payable and other credit balances	-	-	1,950,404	1,950,404
End of service indemnity	-	-	60,321	60,321
	-	17,011,459	2,010,725	19,022,184
Net interest rate gap	1,371,654	(17,011,459)	64,508,023	48,868,218



## SUPPORTIVE STRUCTURE

### Fair value of financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, investments, accounts receivable and accounts payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

### 4. Cash and cash equivalents

	2004 KD	2003 KD
Cash on hand and at banks	1,076,506	1,181,180
Cash at financial institutions	320,037	190,474
	<b>1,396,543</b>	<b>1,371,654</b>

### 5. Held for trading investments

	2004 KD	2003 KD
Quoted securities - local	19,503,933	16,368,656
Future contract portfolio (sold)	496,030	5,364,715
Future contract portfolio (purchased)	-	68,121
Portfolios - foreign	1,986,854	2,031,666
	<b>21,986,817</b>	<b>23,833,158</b>

Certain investments in quoted local securities amounting to KD 5,633,361 are pledged against loans and bank facilities as of December 31, 2004 (Note 10) (December 31, 2003 - KD 5,426,460).

### 6. Accounts receivable and other debit balances

	2004 KD	2003 KD
Due from Kuwait Clearing Company	102,520	1,022,392
Payment for investment in subsidiary under incorporation	500,000	1,000,000
Loans granted to others (net)	68,600	-
Accrued interest income	6,054	17,500
Due to related parties	158,263	-
Others	26,438	8,181
	<b>861,875</b>	<b>2,048,073</b>

## BREAKING THE NORMS

### 7. Available for sale investments

	2004 KD	2003 KD
Quoted securities - local	51,469,946	32,043,990
Unquoted securities - local	12,599,302	5,044,054
Unquoted securities - G.C.C.	2,207,311	1,573,659
Unquoted securities - foreign	2,182,794	1,939,489
	<b>68,459,353</b>	<b>40,601,192</b>

Certain investments in quoted local securities amounting to KD 37,063,812 are pledged against loans and bank facilities as of December 31, 2004 (Note 10) (December 31, 2003 - KD 21,189,098).

Unquoted local investments amounting to KD 6,070,321 and all other unquoted investments - G.C.C. and foreign were stated at cost where there was no indication of impairment in its value. All other unquoted investments were stated at cost less impairment in value based on the recent available financial information for each investment.

The movement of the available for sale investments during the year is as follows:

	2004 KD	2003 KD
Beginning balance	40,601,192	21,242,858
Purchase during the year	7,632,320	11,148,521
Sales during the year	(6,757,626)	(1,791,288)
Changes in fair value	26,983,467	10,873,753
Impairment losses	-	(872,652)
Ending balance	<b>68,459,353</b>	<b>40,601,192</b>

### 8. Investment in unconsolidated subsidiaries

	2004 KD	2003 KD
Al-Roudatin Co.	1,000,000	-
Sawt Al-Ghad Co.	250,000	-
Bayan International Services Co.	250,000	-
Al-Sanabel Consulting Co.	100,000	-
Al-Derah Al-Oula Co	50,000	-
Al-Safwa International Consulting Co.	50,000	-
	<b>1,700,000</b>	<b>-</b>

These wholly owned subsidiaries were incorporated in Kuwait during the year, but have not commenced its operations till December 31, 2004, and hence they were not consolidated.

**9. Property, plant and equipment**

The depreciation charged to the statement of income for the year ended December 31, 2004 amounted to KD 146,352 (December 31, 2003 - KD 6,897). During the year the parent company reviewed the useful life of its property, plant and equipment and decided to completely depreciate its property, plant and equipment, resulted increase of depreciation charged for the year amounting to KD 123,129, and reduction in the book value of property, plant & equipment by the same amount.

**10. Loans and bank facilities**

	2004 KD	2003 KD
Short term loans	3,839,097	13,988,629
Bank facilities	11,988,629	3,022,830
	15,827,726	17,011,459

The average effective interest rate on loans and bank facilities as of December 31, 2004 is 7.17% (2003 - 4.5%).

Bank facilities are secured by quoted local investments presented in Notes (5&7)

**11. Accounts payable and other credit balances**

	2004 KD	2003 KD
Due to Kuwait Clearing Company	278	-
Accrued expenses	519,548	167,350
Accrued bonus	270,000	250,000
Due to related parties	1,668,941	-
Dividends payable	25,463	-
Accrued leave	67,795	52,821
Liabilities - future sale contract	-	19,156
Advances on future sale contracts	160,863	952,186
Kuwait Foundation for the Advancement of Sciences	310,325	219,799
National Labor Support Tax	765,955	236,592
Board of Directors' remuneration	84,000	52,500
	3,873,168	1,950,404

**12. Authorized, issued and paid up capital**

The Company's extraordinary General Assembly held on March 6, 2004, approved the proposed dividends for the year ended December 31, 2003 by distributing 15% bonus shares with an increase in capital from KD 26,250,000 to KD 30,187,500. These dividends were distributed for the shareholders registered in the Company's records at the date of the General Assembly meeting. Accordingly the Company's authorized, issued and paid up capital becomes KD 30,187,500 divided into 301,875,000 shares with a nominal value of 100 fils each.



THRIVING



## POSITIVE CHANGES

### 13. Treasury shares

	2004	2003
Number of shares	11,500,000	10,000,000
Percentage of issued shares	3.81%	3.81%
Market value (KD)	4,887,500	3,700,000
Cost (KD)	2,445,733	2,445,733

### 14. Statutory reserve

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of the net profit for the year has been transferred to statutory reserve. The General Assembly may resolve to discontinue such annual transfers when this reserve reaches 50% of the paid up capital. This reserve is not available for distribution except for the payment of a dividend of up to 5% of the paid up capital in years where the cumulative retained earnings are not adequate for such distribution.

### 15. Voluntary reserve

Under the Company's Articles of Association, the Board of Directors may propose percentage of net profit of the year to be transferred to voluntary reserve and its subject to the approval of the General Assembly.

On February 17, 2004, the general assembly meeting approved the proposal of the Board of Directors to transfer 10% of the net profit of the year to voluntary reserve.

### 16. Investments income

	2004 KD	2003 KD
Dividends income	1,356,861	1,230,850
Gain on sale of investments held for trading	1,886,194	3,645,583
Gain on sale of investments available for sale	4,354,601	6,515,414
Gain on sale of future contracts	329,288	224,924
Changes in fair value of investments held for trading	2,394,901	4,231,927
Changes in fair value of investments available for sale (Note 7)	26,983,467	10,873,753
Impairment in value of investments available for sale	-	(872,652)
	37,305,312	25,849,799

## DRIVE

**17. General and administrative expenses**

Staff costs included in general and administrative expenses are as follows:

	2004 KD	2003 KD
Salaries and wages	600,183	325,399
Bonus	270,000	240,000
Staff leave cost	38,341	27,800
End of service indemnity	43,477	10,145
Other	77,360	25,935

**18. Contribution to Kuwait Foundation for Advancement of Science share (KFAS)**

	2004 KD	2003 KD
Net profit for the year	33,320,295	23,913,214
	<b>Shares</b>	<b>Shares</b>
Number of shares at beginning of the year	262,500,000	262,500,000
Add: Bonus shares	39,375,000	39,375,000
Less: Weighted average number of treasury shares	(11,500,000)	(7,217,967)
Weighted average number of outstanding shares	290,375,000	294,657,033
	<b>Fils</b>	<b>Fils</b>
Earnings per share	114.75	81.16

**19. National Labor Support Tax**

National Labor Support Tax is calculated at 2.5% of profit, excluding contribution to Kuwait Foundation for Advancement of Sciences and board of directors' remuneration and the amount transferred to the statutory reserve.

**20. Earning per share**

Earning per share is computed based on net profit and the weighted average number of common shares outstanding. The following is the computation of earnings per share.

**21. Proposed dividend**

The Board of Directors has proposed a dividend of 45% of the paid up capital (30% in cash and 15% as bonus shares) for the year ended December 31, 2004.

On February 17, 2004, General Assembly meeting approved the proposal of the Board of Directors to distribute dividends of 45% of the paid up capital (30% in cash and 15% as bonus shares) for the year ended December 31, 2003.

## A BRIGHT FUTURE

### 22. Geographical distribution of assets and liabilities

	Assets		Liabilities	
	December 31, 2004 KD	December 31, 2003 KD	December 31, 2004 KD	December 31, 2003 KD
Kuwait	88,028,911	62,345,586	19,792,356	19,022,184
GCC countries	2,207,311	1,573,660	-	-
United States of America	1,974,037	3,007,803	-	-
Europe	2,195,610	963,353	-	-
	<b>94,405,869</b>	<b>67,890,402</b>	<b>19,792,356</b>	<b>19,022,184</b>

### 23. Fiduciary assets

Fiduciary assets comprise portfolios and funds managed by the parent company on behalf of the clients. There are no assets of the Company and accordingly are not included in the financial statements.

	2004 KD	2003 KD
Customers' portfolios	37,055,117	41,373,728
Investment funds	21,399,000	5,000,000
	<b>58,454,117</b>	<b>46,373,728</b>

### 24. Contingent liabilities and future commitments

	2004	2003
Uncalled capital of investments	1,851,460	2,025,932
Letters of guarantee	469,200	125,200
Forward stock contracts	-	280,000
Lease contracts	-	100,800

### 25. Related party transactions

The operation of the Group includes transactions with related parties represented with shareholders, executive board of directors, manager and subsidiary companies.

The volume of these transactions is immaterial. All transactions with related parties are based on the approval of Group's management and in the same condition with other parties.