



**THE
INTERNATIONAL
INVESTOR**
INNOVATIVE ISLAMIC SOLUTIONS

Exploring
new horizons

Annual Report 2002



HH Sheikh Jaber Al-Ahmad Al Jaber Al-Sabah
Amir of the State of Kuwait



HH Sheikh Saad al-Abdallah al-Salem al-Sabah
Crown Prince and Prime Minister

- 02 Chairman's Statement
- 04 Board of Directors
- 05 Report of the Sharia Board
- 06 Auditors' Report to the Shareholders
- 07 Consolidated Financial Statements

The International Investor
PO Box 29233, Safat 13153 Kuwait
Telephone: (+965) 243 7070
Facsimile: (+965) 242 8080
E-mail: info@tii.com

www.tii.com

قَالَ تَعَالَى:

وَمَنْ يَتَّقِ اللَّهَ يَجْعَلْ لَهُ مَخْرَجاً وَيَرْزُقْهُ مِنْ حَيْثُ لَا يَحْتَسِبُ
وَمَنْ يَتَّوَكَّلْ عَلَى اللَّهِ فَهُوَ حَسْبُهُ إِنَّ اللَّهَ بَالِغُ أَمْرِهِ قَدْ جَعَلَ
اللَّهُ لِكُلِّ شَيْءٍ قَدْرًا. صَدَقَ اللَّهُ الْعَظِيمُ (سُورَةُ الطَّلَاقِ الْآيَاتِ ٢ وَ ٣)

And for those who fear God (ever), He prepares a way out.
And he provides for him from sources he never could imagine.
And if anyone puts his trust in God, sufficient is (God) for him,
for God will surely accomplish his purpose verily, for all things
has God appointed a due proportion. (Surah 65: 2-3)

Our management team will use all its expertise, creativity and enthusiasm to take TII to new and promising horizons.

On behalf of the Board of Directors, I have the privilege to present the annual report and audited accounts of The International Investor (TII) for the year ended 31 December 2002.

You will have noticed that the annual reports for 2001 and 2002 are separated by just a few months. This is because the annual report and audited accounts for the year ended 31 December 2001 were only recently approved by the General Assembly held in January 2003. The reasons for this delay were explained in the 2001 annual report.

In that report, we highlighted the need to absorb the expenses incurred in the acquisition of Dallah Albaraka Group's assets in nine commercial Islamic banks in the MENA region, pending the outcome of the arbitration process, in addition to the costs of refocusing our business activities. We also pointed out the need for TII to reconstruct its operational profits, which were affected as a result of focusing on the merger operation and the administration of the banks. In addition, we warned that the negative impact of these factors on TII's financial performance would continue throughout 2002.

However, TII remains a strong financial institution, with a proven track record for innovation, continuity and growth, and the capability and resources to weather such a setback. We remain confident that TII will return to profitability in 2003.

TII continues to pursue the optimum resolution for the dispute with Dallah Albaraka through litigation by arbitration, as was contractually agreed between both parties. At the same time, we will not overlook other possible alternatives that may reduce the time needed for settlement, provided that such alternatives comply with the law and protect the rights and interests of shareholders.

We are targeting a return to profitability in 2003 regardless of any settlement being finalised during the year and, taking the first quarter results into consideration, the indicators so far are most encouraging. However, it is worth noting that finalising a settlement during 2003 would help to substantially increase TII's profits for two main reasons. First, TII would retrieve at least part of the expenses and accruals incurred in previous years; and secondly, any settlement would restore a substantial part of TII's resources, thereby boosting productivity and providing added impetus towards achieving our goals.

TII's financial results for 2002 reflect the lost opportunities that resulted from focusing our activities on the merger operation and subsequently on the negotiations to dissolve the merger. The results also reflect the block imposed on a substantial part of TII's resources by the delay in settling the merger agreement with Dallah Albaraka. During the year, TII continued to focus on reducing expenditure and maximising resources throughout our operations.

Due to these challenges, TII is reporting a loss of KD 4.8 million for the year ended 31 December 2002. The Board of Directors is therefore not recommending a dividend payment for 2002.

TII continues to focus on establishing our new strategic line of business. We are also pursuing alternative opportunities on a number of different fronts in various parts of the region.

The Board of Directors is confident that, despite the challenges and difficulties, TII's management team, with all its remarkable expertise, innovation and enthusiasm, is capable of taking TII to new and promising horizons.



Adnan Al Bahar
Chairman and Managing Director

Adnan Abdulaziz Al Bahar

Chairman and Managing Director

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

Najeeb Abdulla Al Mulla

Deputy Chairman

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

Anwar Naser Al-Bisher

Director

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

Sayer Bader Mohammed Al-Sayer

Director

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

Saleh Mohammed Al Wazzan

Director

Saleh is Chief Operating Officer of Al Wazzan Holding Group, one of Kuwait's largest companies.

Abdallah Mohamed Al-Baeijan

Director

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

Ali Mousa Al-Mousa

Director

Ali is a former Minister of Planning and Minister of State for Administrative Development, and a past Deputy Governor of the Central Bank of Kuwait. He previously worked for Kuwait Petroleum Company and the Ministry of Planning, and has been a Board member of companies and banks both inside and outside Kuwait.

Faisal Ebrahim Almusallam

Director

A qualified accountant, Faisal is responsible for private equity funds in the Direct Investment Department of Kuwait's Public Institution for Social Security.

Faisal Abdul Mohsin Al Khatrash

Director

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

**In the name of God, the Merciful, the
Compassionate**

**Report of the Fatwa and Sharia Supervisory
Board for the period 1 January 2002
through 31 December 2002**

Praise is to God, the Lord of the Worlds, and prayer and peace upon Prophet Muhammad, his family, companions and followers.

The Fatwa and Sharia Supervisory Board of The International Investor held several meetings during 2002. During these meetings, all matters such as enquiries and contracts relating to the Company's new operations of the year, which were referred to the Board by the Management of the Company, were discussed and appropriate recommendations, decisions and Fatwas were made.

The Board also considered the Company's internal Sharia Group's 2002 report, which was based on a sample of actual operations.

Based on that Group's report, the Board noted that the Company has violated a Sharia rule by paying fines on amounts due. Apart from that violation, the Board has found no other violation of Sharia rules and regulations, or of previous decisions of the Board, in the Company's transactions during the year 2002.

Ahmed Bazie Al-Yaseen

Chairman

Dr Khaled Al-Mathkour

Member

Dr Muhammad Fawzi Faidullah

Member

Dr Muhammad Abdulghafar Al-Sharif

Member

In addition to the Fatwa and Sharia Supervisory Board, The International Investor has been privileged to be guided, since its inception, by the advice of a number of major Sharia scholars, from outside Kuwait, who have outstanding expertise in financial transactions.

The International Investor takes this opportunity to thank all the above Ulema for their efforts in guiding the Company.

We have audited the accompanying consolidated balance sheet of The International Investor Company K.S.C. (Closed) and its subsidiaries (the group) as of 31 December 2002, and the related consolidated statements of income, cash flows and changes in shareholders' equity 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 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, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion, we draw attention to notes 4 and 12 to the consolidated financial statements. As more fully explained in the notes, the parent company has instituted the process for proceedings for arbitration under the International Chamber of Commerce in connection with the acquisition of holdings in certain financial institutions.

The counterparty has also filed cases against the parent company in the Kuwaiti courts on certain issues arising from these matters. The ultimate outcome of the arbitration and these legal cases cannot presently be determined, however, management and the Board of Directors of the parent company and its external legal counsel are confident that the outcome of the arbitration and legal cases will be positive to the group and will not result in any significant impact on the results and financial position of the group.

Furthermore, in our opinion proper books of account have been kept by the group and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2002 that might have had a material effect on the business of the parent company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2002.

Waleed A. Al Osaimi

Licence No. 68A
of Ernst & Young

Ali A. Al Hasawi

Licence No. 30 A
Burgan BDO
International Accountants

19 March 2003
Kuwait

Consolidated Balance Sheet	08
Consolidated Statement of Income	09
Consolidated Statement of Cash Flows	10
Consolidated Statement of Changes in Shareholders' Equity	11
Notes to the Consolidated Financial Statements	12

Consolidated Balance Sheet at 31 December 2002

	Notes	2002 KD	2001 KD
Assets			
Cash and bank balances		428,058	1,017,155
Mutual fund investments		2,244,080	1,755,947
Receivables	3	985,883	2,271,639
Amount paid to DBHC	4	64,911,550	62,262,776
Investment securities	5	2,062,821	2,726,482
Investment in associated companies	6	1,807,580	2,981,537
Furniture and equipment	7	74,269	165,319
Other assets	8	327,550	891,743
TOTAL ASSETS		72,841,791	74,072,598
Liabilities and Shareholders' Equity			
Liabilities			
Due to banks and financial institutions	9	-	1,566,090
Murabaha payable	10	7,485,750	-
Other liabilities	11	1,880,556	4,940,914
TOTAL LIABILITIES		9,366,306	6,507,004
Shareholders' Equity			
Share capital	12	38,364,213	38,081,302
Share premium	12	32,094,532	31,656,019
Statutory reserve	13	2,706,570	2,706,570
General reserve		2,165,779	2,165,779
Accumulated losses		(7,403,464)	(2,591,931)
Treasury shares reserve		(24,139)	(24,139)
Total reserves		(2,555,254)	2,256,279
Treasury shares	14	(4,428,006)	(4,428,006)
TOTAL SHAREHOLDERS' EQUITY		63,475,485	67,565,594
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		72,841,791	74,072,598



Adnan A. Aziz Al Bahar
Chairman and Managing Director

Consolidated Income Statement year ended 31 December 2002

	Notes	2002 KD	2001 KD
Operating Income			
Management fees		491,807	2,410,414
Placement and advisory fees		191,683	3,791,850
Gain on sale of investments		-	504,666
Unrealised gain on mutual fund investments		33,774	-
Realised gain on mutual fund investments		38,694	177,322
Share of profit (loss) from associated companies		49,887	(43,909)
Dividends		150	20,466
Murabaha and istisna'a income		171,497	387,273
Other income		4,407	2,898
		981,899	7,250,980
Operating Expenses			
General and administration	15	(3,411,065)	(4,654,713)
Murabaha costs		(184,507)	-
Depreciation		(118,966)	(162,146)
Foreign exchange (loss) profit		(232,306)	85,952
		(2,964,945)	2,520,073
(Loss) Profit from Operations		(2,964,945)	2,520,073
Impairment losses on financial assets		(1,846,588)	(7,772,354)
NET LOSS FOR THE YEAR		(4,811,533)	(5,252,281)
BASIC LOSS PER SHARE	16	(13) fils	(33) fils

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

Consolidated Statement of Cash Flows year ended 31 December 2002

	Note	2002 KD	2001 KD
Operating Activities			
Net loss for the year		(4,811,533)	(5,252,281)
Adjustment for:			
Depreciation		118,966	162,146
Impairment losses		1,846,588	7,772,354
Gain on sale of investments		-	(504,666)
Share of (profit) loss from associated companies		(49,887)	43,909
Foreign exchange loss (profit)		232,306	(85,952)
Operating profit before changes in operating assets and liabilities		(2,663,560)	2,135,510
Decrease (increase) in receivables		122,782	(1,454,441)
Increase in other assets		(49,846)	(1,134,879)
Decrease (increase) in other liabilities		(2,506,578)	2,185,223
Net cash (used in) from operating activities		(5,097,202)	1,731,413
Investing Activities			
Disposal of investment securities		-	2,781,258
Disposal of murabaha investments		-	3,000,345
Net purchase of furniture and equipment		(27,916)	(139,943)
Proceeds from sale of investments in associated companies		1,223,844	-
Amount paid to DBHC		(3,040,774)	(62,262,776)
Net cash used in operating activities		(1,844,846)	(56,621,116)
Financing Activities			
Murabaha financing received		7,685,750	-
Issue of shares		721,424	52,023,321
Dividend paid		-	(2,864,160)
Net purchase of treasury shares		-	(423,217)
Net cash from financing activities		8,407,174	48,735,944
Increase (decrease) in cash and cash equivalents		1,465,126	(6,153,759)
Cash and cash equivalents at 1 January		1,207,012	7,360,771
Cash and cash equivalents at 31 December	17	2,672,138	1,207,012

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

	Reserves										
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Accumulated losses KD	Treasury share reserve KD	Fair value reserve KD	Total reserve KD	Treasury shares KD	Proposed dividend KD	Total KD
At 31 December 2001	38,081,302	31,656,019	2,706,570	2,165,779	(2,591,931)	(24,139)	-	2,256,279	(4,428,006)	-	67,565,594
Issue of capital	282,911	438,513	-	-	-	-	-	-	-	-	721,424
Net loss for the year	-	-	-	-	(4,811,533)	-	-	(4,811,533)	-	-	(4,811,533)
31 December 2002	38,364,213	32,094,532	2,706,570	2,165,779	(7,403,464)	(24,139)	-	(2,555,254)	(4,428,006)	-	63,475,485
At 31 December 2000	17,680,000	34,000	2,706,570	2,165,779	2,628,310	-	-	7,500,659	(4,028,928)	2,896,200	24,081,931
Effect of adoption of IAS 39	-	-	-	-	620,259	-	-	620,259	-	-	620,259
Issue of capital	20,401,302	31,622,019	-	-	-	-	-	-	-	-	52,023,321
Net loss for the year	-	-	-	-	(5,252,281)	-	-	(5,252,281)	-	-	(5,252,281)
Portion of profit on disposal of investments previously credited to retained earnings on the adoption of IAS 39	-	-	-	-	(124,478)	-	-	(124,478)	-	-	(124,478)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(449,218)	-	(449,218)
Sale of treasury shares	-	-	-	-	-	-	-	-	50,140	-	50,140
Loss on sale of treasury shares	-	-	-	-	-	(24,139)	-	(24,139)	-	-	(24,139)
Dividend adjustment	-	-	-	-	32,040	-	-	32,040	-	(32,040)	-
Dividend paid	-	-	-	-	-	-	-	-	-	(2,864,160)	(2,864,160)
Net movement in fair value reserve	-	-	-	-	-	-	(42,001)	(42,001)	-	-	(42,001)
Transfer to income statement for impairment of investments	-	-	-	-	(495,781)	-	42,001	(453,780)	-	-	(453,780)
31 December 2001	38,081,302	31,656,019	2,706,570	2,165,779	(2,591,931)	(24,139)	-	2,256,279	(4,428,006)	-	67,565,594

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

1 ACTIVITIES

The consolidated financial statements of The International Investor Company K.S.C. (Closed) and its subsidiaries (the group) were authorised for issue in accordance with a resolution of the directors on 19 March 2003 and were approved by the relevant regulatory authorities before issuance. The shareholders' general assembly has the power to amend these financial statements after issuance.

The parent company, The International Investor Company K.S.C. (Closed), was legally incorporated as a closed shareholding company on 29 November 1992 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The parent company is regulated by the Central Bank of Kuwait as an investment company. Details of subsidiaries are set out in Note 18.

The group is principally engaged in providing banking and investment advisory and financial services permissible under Islamic Sharia. Its registered office is at Wafra Real Estate Building, Ahmad Al-Jaber Street, Sharq, Kuwait.

The group primarily operates from the Gulf Cooperation Council countries and employed 50 employees as of 31 December 2002 (2001: 67).

2 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investment securities.

The accounting policies are consistent with those used in the previous year.

Basis of consolidation

Subsidiary companies are those companies in which the parent company owns directly or indirectly more than 50% of the voting capital and has control or are companies where the parent company owns 50% or less of the voting capital but has a sufficient degree of controlling power over the companies including the power to govern and control the financial and operating policies so as to benefit from their activities.

Subsidiaries are consolidated from the date when the parent company obtains control until such time as control ceases.

The group consolidates its subsidiaries on the total integration basis that is to say by consolidating fully their assets, liabilities and results for the year. All intra-group balances and transactions are eliminated from the consolidated financial statements.

The consolidated financial statements incorporate the financial statements of the parent company and the following subsidiaries:

- The International Investor Advisory Group Limited, U.K. (100% shareholding)
- ALBAIT S.A., Switzerland (60% shareholding)

Cash and cash equivalents

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

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

2 SIGNIFICANT ACCOUNTING POLICIES continued

Receivables

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

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

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

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

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

Investment securities

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

After initial recognition, investment securities are remeasured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity, along with any transition adjustment to retained earnings arising from the adoption of IAS 39, is included in the consolidated income statement for the period.

Fair values

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

Fair values for unquoted equity investments are determined by reference to the market value of a similar investment or are based on the expected discounted cash flows, or estimated using applicable price/earning or price/cash flow ratios defined to reflect the specific circumstances of the issuer.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the consolidated income statement.

Recognition and derecognition of financial assets and liabilities

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

Investment in associated companies

Associated company is a company over which the group exerts significant influence including a holding of 20% to 50% of the voting power of the investee company. The consolidated financial statements include the group's share of the associated companies' results using the equity method of accounting based on the latest audited financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in associated companies continued

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

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

Furniture and equipment

All items of furniture and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all furniture and equipment, which is 3 to 5 years. The carrying values are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount. When the carrying value exceeds this recoverable amount, assets are written down to their recoverable amount.

Murabaha payable

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

Provisions

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

Treasury shares

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

Offsetting

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

Revenue recognition

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

Foreign currencies

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

Trade date accounting

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

2 SIGNIFICANT ACCOUNTING POLICIES continued**Fiduciary assets**

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

3 RECEIVABLES

	2002 KD	2001 KD
Murabaha & istisna'a	3,658,834	4,118,048
Qard hassan	485,605	573,261
Less: provision for impairment	(3,158,556)	(2,489,670)
	985,883	2,271,639

The average profit rate attributable to receivables during the year was 8% p.a. (2001: 8% p.a.). No income is accrued on balances amounting to approximately KD 700,000. The balances not provided are adequately covered by the collateral held.

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

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

4 AMOUNT PAID TO DBHC

The balance represents the amount paid for acquisition of controlling or significant holdings of Sheikh Saleh Kamel, Dallah Albaraka Holding Company EC and related entities (collectively "DBHC") in nine financial institutions in the Middle East, Africa and Europe. The acquisition transaction having failed, in December 2002, the company filed for arbitration proceedings at the International Chamber of Commerce (ICC) for recovery of the amount as part of a claim of \$ 337 million (KD 102 million) representing the agreed value of the purchase transaction of \$ 315 million (KD 97 million) together with the guaranteed management fee of \$ 22 million (KD 7 million). Subsequent to 31 December 2002, ICC has admitted the application and the proceedings are expected to commence shortly. Except for the amount of \$ 212 million (KD 65 million) already paid to DBHC, the group has not booked the amount claimed under arbitration on a prudent basis.

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

The management and the company's external legal counsel are confident of a positive outcome of the arbitration and further believe that these court cases in Kuwait are without merit and do not expect that the ultimate decisions from these cases would impact the arbitration proceedings or result in any significant impact on the results and financial position of the group.

The balance is pledged as a security under the murabaha payable agreement (Note 10).

Under the Share Transfer Agreement signed on 6 October 2001, the parent company was to acquire controlling or significant holdings in DBHC. The total purchase consideration for the transaction was approximately \$ 315 million (KD 97 million). The amount was to be settled by way of payment of an initial consideration of approximately \$ 234 million (KD 72 million) and the balance of approximately \$ 81 million (KD 25 million) was deferred and was payable over a period of 3 years.

4 AMOUNT PAID TO DBHC continued

The "Completion", as defined in the Share Transfer Agreement, occurred in January 2002. At that time, the parent company had paid to DBHC approximately \$ 212 million (KD 65 million), of the initial consideration which was financed by an increase in share capital including approximately \$ 164 million (KD 50 million) subscribed by DBHC (see Note 12). The balance of the initial contribution of approximately \$ 22 million (KD 7 million) remained unpaid due to the matter discussed below. The transfer of the legal title to the shares in the nine financial institutions purchased by the parent company did not take place - however, under the arrangements agreed between the parties, the parent company holds in its possession the majority of the original share certificates of the holdings agreed to be acquired by the parent company under the Share Transfer Agreement and executed general powers of attorney over the transfer of those shares.

In April 2002, DBHC notified the parent company that it wished to cancel the Share Transfer Agreement and the increase in capital of the parent company subscribed by DBHC as in its opinion the parent company had failed to secure the capital increase contemplated in the arrangement. As the "Completion" (as defined in the Share Transfer Agreement) has taken place, management and the Board of Directors of the parent company and its legal counsel are of the opinion that the contention of DBHC is without merit.

Under the transfer agreement, DBHC was required to fulfil certain conditions including transfer of shares and the use of best endeavours to obtain regulatory consents. These conditions having not been met, in the period 7 October to 12 November the parent company issued letters reminding DBHC of its obligation and demanded payment of \$ 337 million (see above for the details on the amount demanded), however, DBHC maintained its position discussed in the preceding paragraph. Consequently, the parent company terminated the Share Transfer Agreement (as per the terms of termination described in the agreement) and as per the terms of the agreement, filed for arbitration at the ICC (discussed above).

5 INVESTMENT SECURITIES

	2002 KD	2001 KD
Available for sale investments:		
Quoted investments	1,606	3,648
Unquoted investments	2,061,215	2,722,834
	2,062,821	2,726,482

Unquoted investments have been fair valued using currently available financial statements and other information available to the management on the investee companies.

6 INVESTMENT IN ASSOCIATED COMPANIES

	2002 KD	2001 KD
At 1 January	2,981,537	3,184,770
Share of profit (loss)	49,887	(43,909)
Provision for impairment	-	(159,324)
Sale of investment in associated companies	(1,223,844)	-
	1,807,580	2,981,537

The details of associated companies are as follows:

Name	Country of incorporation	2002 Voting capital held %	2001 Voting capital held %	Purpose
First Takaful Insurance Company	Kuwait	20	20	Islamic Insurance
The International Investor - Qatar	Qatar	45	45	Islamic Investment Banking
Al Khaleej Islamic Bank	Bahrain	-	35	Islamic Investment Banking (sold)

7 FURNITURE AND EQUIPMENT	2002 KD	2001 KD
Cost:		
At 1 January	1,595,865	1,455,922
Additions	28,834	139,943
Disposals	(5,459)	-
At 31 December	1,619,240	1,595,865
Depreciation:		
At 1 January	1,430,546	1,268,400
Provided during the year	118,966	162,146
Relating to disposals	(4,541)	-
At 31 December	1,544,971	1,430,546
Net book value at 31 December	74,269	165,319

8 OTHER ASSETS	2002 KD	2001 KD
Accrued income	68,046	614,303
Prepaid expenses and other receivables	259,504	277,440
	327,550	891,743

9 DUE (TO) FROM BANKS AND FINANCIAL INSTITUTIONS

Gross amounts of deposits exchanged and reported on a net basis in the financial statements are as follows:

	2002 KD	2001 KD
Due to banks and financial institutions	-	(4,859,842)
Due from banks and financial institutions	-	3,293,752
Net due to banks and financial institutions (Note 17)	-	(1,566,090)

In accordance with Islamic Sharia, no interest is payable or receivable on the above amounts.

10 MURABAHA PAYABLE

During the year the murabaha payable with an original maturity at 31 December 2002 has been renewed and will mature on 30 September 2003.

Under terms of the renewal agreement the amount payable is now secured by an assignment of the amount paid to DBHC (Note 4) and pledge of the company's treasury shares (Note 14) to the extent of the amounts owed to the counterparty during the term of the agreement.

The effective rate of profit payable approximates 2.7% per annum.

11 OTHER LIABILITIES	2002 KD	2001 KD
Accounts payable and accrued expenses	1,880,556	3,940,914
Qard hassan (Note 19)	-	1,000,000
	1,880,556	4,940,914

12 SHARE CAPITAL AND SHARE PREMIUM

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

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

The increase in share capital reflected in the financial statements at 31 December 2002 is made up as follows:

	2002 KD		2001 KD	
Authorised capital:				
Shares of KD 0.100 each	50,680,000		50,680,000	
Issued and subscribed:				
	2002		2001	
	Share capital KD'000	Share premium KD'000	Share capital KD'000	Share premium KD'000
<i>Fully paid</i> ⁽¹⁾				
Opening balance	38,081	31,656	17,680	34
Issued during the year	-	-	19,752	30,615
Closing balance	38,081	31,656	37,432	30,649
<i>Partly paid</i> ⁽¹⁾				
Issued during the year	283	439	649	1,007
TOTAL	38,364	32,095	38,081	31,656

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

A part of the increase in share capital financed part acquisition of certain financial institutions owned by DBHC (defined in Note 4). Consequently, the amount of capital subscribed by DBHC was paid out to DBHC as part settlement of the purchase consideration (see Note 4).

As more fully discussed in Note 4, in 2002, DBHC notified the parent company that it wished to cancel the transactions relating to the increase in capital and acquisition of the financial institutions. The parent company has instituted the process for arbitration to secure its rights under the Share Transfer Agreement. Further, it is the opinion of the parent company's management and the Board of Directors and the parent company's outside legal counsel that the increase in share capital has been properly issued and subscribed, and the increase in share capital cannot be legally cancelled, therefore, share capital has been properly reflected in the financial statements after the issue of additional shares.

13 STATUTORY RESERVE

As required by the Law of Commercial Companies and the parent company's articles of association, 10% of the net profit for the year is required to be transferred to statutory reserve. As the group incurred losses, no transfer has been made. Distribution of this reserve is limited to the amount required to enable a payment of 5% of share capital in years when accumulated profits are not sufficient from the payment of a dividend of that amount.

14 TREASURY SHARES

Treasury shares comprise 17,680,000 shares (2001: 17,680,000 shares) which represent 4.35% (2001: 4.35%) of the total issued shares as of 31 December 2002. The cost of acquiring these shares is KD 4,428,006 (2001: KD 4,428,006). These shares are not entitled to receive any cash dividend. The market value of these shares as at the last traded date, 26 March 2002 was KD 3,429,920 (31 December 2001: KD 3,677,440).

These shares are pledged as a security under the murabaha payable agreement (Note 10).

15 GENERAL AND ADMINISTRATION

General and administration expenses include staff costs amounting to KD 2,271,212 (31 December 2001: KD 1,738,377).

16 BASIC LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss for the year by the weighted average number of shares outstanding during the year as follows:

	2002 KD	2001 KD
Loss for the year	(4,811,533)	(5,252,281)
Weighted average number of shares outstanding during the year	365,254,840	160,582,270
Loss per share	(13) fils	(33) fils

No figure for diluted earnings per share has been presented as the parent company has not issued any instruments which would have an impact on earnings per share when exercised.

17 CASH AND CASH EQUIVALENTS

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

	2002 KD	2001 KD
Cash and bank balances	428,058	1,017,155
Mutual fund investments	2,244,080	1,755,947
Due to banks and financial institutions (Note 9)	-	(1,566,090)
	2,672,138	1,207,012

18 SUBSIDIARY COMPANIES

The group comprises the parent and the following subsidiary companies:

Name	Country of incorporation	Voting capital held %	Purpose
SAALT 1 EC	Bahrain	100	Special purpose company for fiduciary assets
SAALT 2 EC	Bahrain	100	Special purpose company for fiduciary assets
SAALT 3 EC	Bahrain	100	Special purpose company for fiduciary assets
SAALT 4 EC	Bahrain	100	Special purpose company for fiduciary assets
TII Property Management Limited	B.V.I.	100	Special purpose company for fiduciary assets
TII USD I Fund Limited	B.V.I.	100	Investment fund
TII KD Fund I Limited	B.V.I.	100	Investment fund
TII Short Term Sterling Fund Limited	B.V.I.	100	Investment fund
TII Global USD Lease Fund I Limited	B.V.I.	100	Investment fund
United Residential Real Estate Limited	B.V.I.	100	Investment fund
Al Khawarizmi Fund	Cayman Islands	100	Investment fund
TII Small-Cap Equity Fund	Cayman Islands	100	Investment fund
TII USD II Fund Limited	B.V.I.	100	Investment fund
Advisory Group Limited	U.K.	100	Investment management company
The International Investor Real Estate Fund Limited	B.V.I.	50	Investment fund
TII UK Property Fund Limited	B.V.I.	100	Investment fund
IBN Majid Emerging Markets Fund	Cayman Islands	100	Investment fund
ALBAIT S.A.	Switzerland	60	Investment management company

18 SUBSIDIARY COMPANIES continued

The carrying value of the unconsolidated investments in subsidiary companies included in available for sale investments in the parent company's financial statements at 31 December 2002 amounted to KD 5,305 (2001: KD 5,275).

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

19 RELATED PARTY TRANSACTIONS

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

	2002	2001
	KD	KD
Management fees	94,197	781,647
Placement fees	-	1,434,950
Income from short term investments	72,468	176,765
Qard hassan (Note 11)	-	1,000,000

In addition, mutual fund investments amounting to KD 2,244,080 (2001: KD 1,755,947) are currently invested in funds managed by certain of the subsidiaries listed in Note 18.

20 FIDUCIARY ASSETS

The group manages funds and portfolios on behalf of others and maintains cash balances and securities in fiduciary accounts which are not reflected in the group's balance sheet. Assets under management at 31 December 2002 amounted to KD 258,947,387 (2001: KD 380,063,439).

21 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

The estimated fair values of financial assets and liabilities approximate their respective net book values at the balance sheet date.

22 SEGMENTAL ANALYSIS

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

Revenue and net loss

	GCC Revenue KD'000	International Revenue KD'000	Total Revenue KD'000	Net Loss KD'000
<i>31 December 2002</i>				
Investment management and advisory services	572	114	686	(3,024)
Proprietary investment management	261	35	296	(1,788)
TOTAL	833	149	982	(4,812)

	GCC Revenue KD'000	International Revenue KD'000	Total Revenue KD'000	Net Loss KD'000
<i>31 December 2001</i>				
Investment management and advisory services	4,411	1,791	6,202	3,265
Proprietary investment management	1,135	-	1,135	(8,517)
TOTAL	5,546	1,791	7,337	(5,252)

Assets and liabilities*31 December 2002*

	GCC KD'000	International KD'000	Total KD'000
Assets:			
Investment management and advisory services	162	19	181
Proprietary investment management	72,123	538	72,661
TOTAL ASSETS	72,285	557	72,842
Liabilities:			
Proprietary investment management	9,097	269	9,366

Assets and liabilities*31 December 2001*

	GCC KD'000	International KD'000	Total KD'000
Assets:			
Investment management and advisory services	613	-	613
Proprietary investment management	72,600	860	73,460
TOTAL ASSETS	73,213	860	74,073
Liabilities:			
Proprietary investment management	6,507	-	6,507

23 RISK MANAGEMENT

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

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

a) Credit Risk

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

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

	2002		2001	
	Assets KD	Liabilities and equity KD	Assets KD	Liabilities and equity KD
Geographic region:				
GCC	72,285	72,573	73,213	74,073
Europe	511	269	774	-
USA	46	-	82	-
Asia	-	-	1	-
Africa	-	-	3	-
	72,842	72,842	74,073	74,073

b) 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 opposite summarises 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 retention history and the availability of liquid funds except for the amount paid to DBHC which is based on management's expectation. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

23 RISK MANAGEMENT continued

The maturity profile of assets, liabilities and shareholders' equity at 31 December 2002 is as follows:

	Up to 1 month KD'000	1 to 3 months KD'000	3 to 6 months KD'000	6 months to one year KD'000	1 to 3 years KD'000	Over 3 years KD'000	Total KD'000
Assets							
Cash and bank balances	428	-	-	-	-	-	428
Mutual fund investments	2,244	-	-	-	-	-	2,244
Receivables	-	-	-	-	986	-	986
Amount paid to DBHC	-	-	-	-	64,912	-	64,912
Investment securities	-	-	-	-	2,063	-	2,063
Investment in associated companies	-	-	-	-	1,808	-	1,808
Furniture and equipment	-	-	-	-	74	-	74
Other assets	-	-	-	327	-	-	327
TOTAL ASSETS	2,672	-	-	327	69,843	-	72,842
Liabilities and shareholders' equity							
Murabaha payable	-	-	-	7,486	-	-	7,486
Other liabilities	-	1,231	-	-	650	-	1,881
Shareholders' equity	-	-	-	-	-	63,475	63,475
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	-	1,231	-	7,486	650	63,475	72,842

The maturity profile of assets, liabilities and shareholders' equity at 31 December 2001 is as follows:

	Up to 1 month KD'000	1 to 3 months KD'000	3 to 6 months KD'000	6 months to one year KD'000	1 to 3 years KD'000	Over 3 years KD'000	Total KD'000
Assets							
Cash and bank balances	1,017	-	-	-	-	-	1,017
Mutual fund investments	1,756	-	-	-	-	-	1,756
Receivables	-	-	-	-	2,272	-	2,272
Amount paid to DBHC	-	-	-	-	62,263	-	62,263
Investment securities	-	-	-	-	2,726	-	2,726
Investment in associated companies	-	-	1,378	-	1,604	-	2,982
Furniture and equipment	-	-	-	-	165	-	165
Other assets	-	-	-	892	-	-	892
TOTAL ASSETS	2,773	-	1,378	892	69,030	-	74,073
Liabilities and shareholders' equity							
Due to banks and financial institutions	-	1,566	-	-	-	-	1,566
Other liabilities	-	1,000	-	-	3,941	-	4,941
Shareholders' equity	-	-	-	-	-	67,566	67,566
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	-	2,566	-	-	3,941	67,566	74,073

c) Foreign exchange risk

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

23 RISK MANAGEMENT continued

d) Price risks

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

The group is not exposed to any risk in terms of the repricing of its liabilities since in accordance with Islamic Sharia the group does not provide contractual rates of return on its liabilities.

24 ZAKAT

The parent company's articles of association do not authorise management to pay zakat directly; the responsibility of paying zakat is that of the shareholders. However, in accordance with a resolution of the annual general assembly meeting, the board of directors is empowered to compute and pay zakat on behalf of the shareholders. Zakat is computed on the basis of net current assets of the company based on the latest available financial statements.

As advised by the company's Sharia internal advisory committee no zakat is payable for 2002 and accordingly no accrual has been made (2001: Nil).

25 EMPLOYEES' SHARE OPTION SCHEME

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

During the year this period has expired and company did not issue share options up to the 12% limit. Accordingly, under the terms of this scheme and as provided by the articles of association, this period has been renewed for a further 10 years subject to the approval of the Board of Directors and will now expire in 2012.

These shares carry full dividend and voting rights. During 2002 no new share options were issued or exercised (2001: Nil).

26 COMMITMENTS

The group has commitments in respect of uncalled capital contribution in respect of investments amounting to KD 1 million (2001: KD 1 million).

27 COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.