

**KUWAIT FINANCING SERVICES COMPANY  
K.S.C. (CLOSED)**

**FINANCIAL STATEMENTS  
31 DECEMBER 2001**

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
KUWAIT FINANCING SERVICES COMPANY K.S.C. (CLOSED)**

We have audited the accompanying balance sheet of Kuwait Financing Services Company K.S.C. (Closed) as of 31 December 2001, and the related statements of income, cash flows and changes in equity for the period then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2001, and of the results of its operations and its cash flows for the period then ended in accordance with International Accounting Standards.

Furthermore, in our opinion proper books of account have been kept by the company and the financial statements, together with the contents of the report of the board of directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the period ended 31 December 2001 that might have had a material effect on the business of the company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the period ended 31 December 2001.

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

18 February 2002

Kuwait

# Kuwait Financing Services Company K.S.C. (Closed)

## BALANCE SHEET

31 December 2001

	<i>Notes</i>	<i>KD</i>
<b>ASSETS</b>		
Bank balances and cash	3	14,662,651
Investment in fund		331,991
Finance receivables	4	16,727,896
Long term investment		80,000
Fixed assets		222,025
Other assets		47,203
<b>TOTAL ASSETS</b>		<b>32,071,766</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Bank overdraft	3	470,432
Other current liabilities	5	787,038
Bonds	6	14,819,820
		16,077,290
<b>EQUITY</b>		
Share capital	7	15,000,000
Statutory reserve	8	120,992
General reserve	8	89,848
Retained earnings		33,636
Proposed dividends	9	750,000
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>32,071,766</b>

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Sheikh Abdullah Jaber Al-Ahmed Al- Sabah  
Chairman

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Nasser Ali Al-Attar  
Assistant General Manager

The attached notes 1 to 12 form part of these financial statements.

# Kuwait Financing Services Company K.S.C. (Closed)

## STATEMENT OF INCOME

31 December 2001

	<i>Note</i>	<i>KD</i>
Financing income		1,241,861
Realised gains on investment in fund		750,097
Unrealised gains on investment in fund		31,931
Interest income		495,701
<b>OPERATING INCOME</b>		<b>2,519,590</b>
Staff expenses		639,806
Marketing expenses		203,624
Provision for credit losses		393,818
Depreciation		42,073
Other operating expenses		221,580
<b>OPERATING EXPENSES</b>		<b>1,500,901</b>
<b>PROFIT FROM OPERATIONS</b>		<b>1,018,689</b>
Contribution to Kuwait Foundation for the Advancement of Sciences		(18,336)
Directors' fees	9	(25,000)
<b>NET PROFIT FOR THE PERIOD</b>		<b>975,353</b>

The attached notes 1 to 12 form part of these financial statements.

Kuwait Financing Services Company K.S.C. (Closed)

STATEMENT OF CASH FLOWS

31 December 2001

	<i>Note</i>	<i>KD</i>
<b>OPERATING ACTIVITIES</b>		
Net profit for the period		975,353
Adjustments for:		
Depreciation		42,073
Provision for credit losses		393,818
		<hr/>
Operating profit before working capital changes:		1,411,244
Increase in receivables		(17,121,714)
Increase in investment in fund		(331,991)
Increase in other assets		(47,203)
Increase in payables		787,038
		<hr/>
Net cash used in operating activities		(15,302,626)
		<hr/>
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets		(264,098)
Purchase of long term investments		(80,000)
		<hr/>
Net cash used in investing activities		(344,098)
		<hr/>
<b>FINANCING ACTIVITIES</b>		
Issue of share capital		15,000,000
Issue of bonds		14,819,820
Remaining balance of formation expenses		19,123
		<hr/>
Net cash from financing activities		29,838,943
		<hr/>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>3</b>	<b>14,192,219</b>
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The attached notes 1 to 12 form part of these financial statements.

Kuwait Financing Services Company K.S.C. (Closed)

STATEMENT OF CHANGES IN EQUITY

31 December 2001

	<i>Share capital KD</i>	<i>Statutory reserve KD</i>	<i>General reserve KD</i>	<i>Retained earnings KD</i>	<i>Proposed dividends KD</i>	<i>Total KD</i>
Issue of share capital	15,000,000	-	-	-	-	15,000,000
Remaining amount of formation expenses	-	19,123	-	-	-	19,123
Net profit for the period	-	-	-	975,353	-	975,353
Transfer to reserves	-	101,869	89,848	(191,717)	-	-
Proposed cash dividends	-	-	-	(750,000)	750,000	-
Balance at 31 December 2001	<b>15,000,000</b>	<b>120,992</b>	<b>89,848</b>	<b>33,636</b>	<b>750,000</b>	<b>15,994,476</b>

The attached notes 1 to 12 form part of these financial statements.

## 1 ACTIVITIES

The financial statements of Kuwait Financing Services Company KSC (Closed) (the company) for the period ended 31 December 2001 were authorised for issue in accordance with a resolution of the directors on 18 February 2002. Kuwait Financing Services Company K.S.C. (Closed) is a Kuwaiti closed shareholding company incorporated on 29 March 2000 in accordance with the provisions of the Commercial Companies Law No. 15 of 1960 and amendments thereto. The company is regulated by the Central Bank of Kuwait as an investment company.

The company is principally engaged in consumer and commercial financing activities. Its registered office is at Building number 2, Rashid Salim Ali Al-Rashid Building, Murqab, Kuwait City.

The company operates in Kuwait and employed 50 people as of 31 December 2001.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation:**

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

These financial statements cover the period from the date of incorporation, 29 March 2000 to 31 December 2001.

### **Accounting convention:**

The financial statements are prepared under the historical cost convention, except for the revaluation of investment in fund.

The financial statements have been presented in Kuwaiti Dinars.

The significant accounting policies adopted are as follows:

### ***Cash and cash equivalents***

For the purpose of the statement of cash flows, cash and cash equivalents consist of bank balances and cash, net of outstanding bank overdraft.

### ***Investment in fund***

These investments are by their nature readily realisable and are not intended to be held for more than one year. They are carried at market value. Realised and unrealised gains and losses are included in the statement of income.

### ***Finance receivables***

Finance receivables are carried at the gross amount of the receivable, net of deferred income and provision for credit losses.

Provisions for credit losses comprise both specific and general provisions. Specific provisions are made to reduce any impaired receivables to their expected realisable value. General provisions are made on the basis of the guidelines of the Central Bank of Kuwait, past experience, economic conditions and other relevant factors, to provide for losses known from experience to exist but not yet specifically identified.

### ***Long term investments***

Long term investments are carried at cost less provision for any decline, other than temporary in value, determined on an individual basis.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Accounts payable and accruals***

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether billed by the supplier or not.

***Bonds***

Bonds are carried on the balance sheet at their principal amount, net of directly related costs of issuing the bonds to the extent that such costs have not been amortised. These costs are amortised through the income statement over the life of the bonds using the effective interest rate method.

Interest is charged as an expense as it accrues, with unpaid amounts included in accounts payable and accruals.

***Revenue recognition***

Financing income is recognised on a time proportion basis, so as to yield a constant periodic rate of return based on the balance outstanding.

***Financial instruments***

Financial instruments include investment in fund, long term investment, finance receivables, bank balances and cash and other liabilities. Fair values of financial instruments are based on quoted bid prices for the fund, or estimated fair values, calculated using methods such as net present values of future cash flows.

**3 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the following:

	<i>KD</i>
Bank balances and cash	14,662,651
Bank overdraft	(470,432)
	<u>14,192,219</u>

Included in bank balance and cash are bank deposits of KD 14,063,121 with a commercial bank in Kuwait. These are denominated in Kuwaiti Dinars with an effective interest rate of 2%.

**4 FINANCE RECEIVABLES**

	<i>KD</i>
Gross receivables	20,927,008
Less: deferred income	(3,805,294)
	<u>17,121,714</u>
Less: provision for credit losses	(393,818)
	<u>16,727,896</u>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**4 FINANCE RECEIVABLES (continued)**

The maturity profile of gross receivables is as follows:

	<i>KD</i>
Within one year	7,986,134
One to three years	8,704,889
Over three years	4,235,985
	<u>20,927,008</u>

Finance receivables carry interest at normal commercial rates.

The fair value of finance receivables as at the balance sheet date is KD 17,300,000.

The company's credit policy and exposure to credit risk is monitored on an ongoing basis. The company seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of lending activities. It also obtains security when appropriate.

There are no significant concentrations of credit risk with respect to finance receivables.

**5 OTHER LIABILITIES**

	<i>KD</i>
Trade accounts payable	560,221
Advances from customers	1,629
Accrued expenses and other payables	225,188
	<u>787,038</u>

Trade payables are normally settled within 30 to 60 days of the date of purchase.

**6 BONDS**

On 31 December 2001, the company issued floating rate bonds with a principal amount of KD 15,000,000 at an issue price of 100%. The bonds bear interest at a rate of 1.25% per annum above the Central Bank of Kuwait Discount Rate, payable semi-annually in arrears. Interest is payable at a minimum rate of 5.25% per annum. The bonds will mature on 31 December 2004.

**7 SHARE CAPITAL**

	<u>Authorised</u>	<u>Issued and fully paid</u>
	<i>KD</i>	<i>KD</i>
Shares of KD 0.100 each	15,000,000	15,000,000



## 8 STATUTORY AND GENERAL RESERVE

As required by the Commercial Companies Law and the company's articles of association, 10 % of the profit for the year has been transferred to statutory reserve. The company may resolve to discontinue such annual transfers when the reserve totals 50 % of the issued share capital.

In addition to the above, unutilised balance remaining from the amount contributed by the shareholders of the company towards formation expenses has been transferred to statutory reserve.

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

There are no restrictions on the distribution of the general reserve.

## 9 PROPOSED DIVIDENDS AND DIRECTORS' REMUNERATION

The board of directors of the company have proposed a dividend of 5 fils per share. These dividends and directors' remuneration are subject to the approval of the ordinary general assembly of the shareholders of the company.

## 10 RELATED PARTY TRANSACTIONS

These represent transactions with related parties i.e. shareholders represented by directors of the company. Pricing policies and terms of these transactions are approved by the company's management.

Transactions with related parties included in the statement of income are as follows:

	<i>KD</i>
Realised gain on investment in fund	750,097
Unrealised gain on investment in fund	31,931
Interest income	492,042

The period end balances in respect of related parties are as follows:

	<i>KD</i>
Investment in fund	331,991
Bank balance and cash	14,469,979
Bank overdraft	(470,432)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**11 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below summarises the maturity profile of the company's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period from the balance sheet date to the contractual maturity date.

Maturity profile of assets and liabilities at 31 December 2001:

	<i>Up to 1 month KD</i>	<i>1 - 3 months KD</i>	<i>3 - 12 months KD</i>	<i>1 - 3 years KD</i>	<i>Over 3 years KD</i>	<i>Total KD</i>
<b>ASSETS</b>						
Bank balances and cash	14,662,651	-	-	-	-	14,662,651
Investment in fund	-	-	331,991	-	-	331,991
Finance receivables	392,548	836,369	4,597,518	7,006,366	3,895,095	16,727,896
Long term investment	-	-	-	-	80,000	80,000
Fixed assets	-	-	-	-	222,025	222,025
Other assets	-	-	47,203	-	-	47,203
	<u>15,055,199</u>	<u>836,369</u>	<u>4,976,712</u>	<u>7,006,366</u>	<u>4,197,120</u>	<u>32,071,766</u>
<b>LIABILITIES</b>						
Bank overdraft	470,432	-	-	-	-	470,432
Other current liabilities	-	787,038	-	-	-	787,038
Bonds	-	-	-	14,819,820	-	14,819,820
	<u>470,432</u>	<u>787,038</u>	<u>-</u>	<u>14,819,820</u>	<u>-</u>	<u>16,077,290</u>

**12 FAIR VALUES**

Except for finance receivables, which is dealt with in Note 4, the fair values of financial assets and liabilities are not materially different from their carrying values at the balance sheet.

