

**KUWAIT AND MIDDLE EAST FINANCIAL
INVESTMENT COMPANY K.S.C. (CLOSED)**



**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2003**

**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY
K.S.C. (CLOSED)**



CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2003

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INDEPENDENT AUDITORS' REPORT

The Shareholders
Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

We have audited the accompanying consolidated balance sheet of Kuwait and Middle East Financial Investment Company K.S.C. (Closed) ("the Company") as at 31 December 2003, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

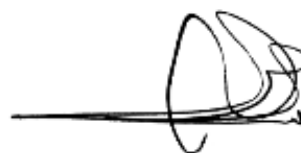
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2003, the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

We further report that we have obtained all the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Kuwait Commercial Companies Law of 1960, as amended, and the Company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Chairman's message in the annual report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2003, of the Kuwait Commercial Company Law of 1960, as amended, or of the Company's articles and memorandum of association, or of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business and its related regulations, that would materially affect the Company's activities or its financial position.



Qais M. Al-Nisf
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of KPMG Al Nisf & Partners
Member firm of KPMG International



Bader A. Al Wazzan
License No.62- A
PricewaterhouseCoopers

Date: 22 January 2004
Kuwait

**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY
K.S.C. (CLOSED)**

CONSOLIDATED BALANCE SHEET

As at 31 December 2003



	Note	2003 KD	2002 KD
ASSETS			
Cash and cash equivalents	3	2,577,823	1,602,749
Investments held for trading	4	7,809,258	8,530,094
Investments available for sale	5	4,277,434	1,985,187
Investment property	6	-	1,492,935
Loans and receivables	7	3,009,134	972,736
Investment in unconsolidated subsidiaries	8	293,974	307,151
Accrued income and other assets	9	1,298,395	1,529,889
Fixed assets	10	660,586	805,303
Total assets		19,926,604	17,226,044
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Loans from banks and financial institutions	11	1,059,959	1,067,987
Accounts payable and other liabilities		1,095,210	834,690
Total liabilities		2,155,169	1,902,677
Minority interest		-	86,978
Shareholders' equity			
Share capital	12	12,965,171	12,920,250
Share premium		101,407	89,355
Statutory reserve		1,959,057	1,772,042
General reserve		1,526,951	1,339,936
Retained earnings		2,308,361	905,730
Fair valuation reserve		(32,109)	(379,539)
Cumulative translation adjustments		13,965	12,789
Company's own shares		(1,230,316)	(1,431,939)
Gain from sale of Company's own shares		158,948	7,765
Total shareholders' equity		17,771,435	15,236,389
Total Liabilities and Shareholders' equity		19,926,604	17,226,044

Hamed Saleh Al-Saif
Chairman & General Manager

Sheikh Ahmed Yousef Al Sabah
Vice Chairman

The notes set out on pages 6 to 20 form an integral part of these consolidated financial statements.

**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY
K.S.C. (CLOSED)**

CONSOLIDATED STATEMENT OF INCOME

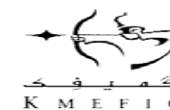
For the year ended 31 December 2003



	Note	2003 KD	2002 KD
INCOME			
Management fees		2,834,043	2,471,070
Performance fees		274,437	108,130
Interest and similar income		137,801	94,975
Commission income		493,105	67,051
Placement fees		18,171	129,217
Gains/(losses) on investments held for trading		643,275	(469,764)
Gain on disposal of investments available for sale		19,448	-
Gain/(loss) on disposal of investment property		1,919	(33,953)
Dividends		81,098	54,743
Rental income earned by subsidiaries		287,766	597,163
Income from unconsolidated subsidiaries		38,272	17,845
Foreign exchange losses		(12,776)	(29,784)
Other income		26,057	68,717
Total Income		4,842,616	3,075,410
EXPENSES AND OTHER CHARGES			
Staff expenses	13	1,739,030	1,348,348
Operating expenses relating to investment property		99,726	271,433
Other operating expenses		623,502	662,761
Management fees		142,729	198,041
Depreciation on investment property and fixed assets		272,769	327,570
Interest expense		44,407	102,835
Provision for loans and receivables		41,559	12,823
Total Expenses and Other Charges		2,963,722	2,923,811
Net income from operations		1,878,894	151,599
Minority interest		(8,744)	(16,123)
Net income before contributions to Kuwait Foundation for the Advancement of Sciences (KFAS), board of directors' remuneration and labour support tax		1,870,150	135,476
Contribution to KFAS		(16,831)	(1,219)
Board of Directors' remuneration		(35,000)	-
National Labour Support Tax	14	(41,658)	(3,018)
Net Income for the year		1,776,661	131,239
BASIC EARNINGS PER SHARE (Fils)	15	14.64	1.08
DILUTED EARNINGS PER SHARE (Fils)	15	14.51	1.07

The notes set out on pages 6 to 20 form an integral part of these consolidated financial statements.

**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY
K.S.C. (CLOSED)**



CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2003

	Share capital	Share premium	Statutory reserve	General reserve	Retained earnings	Fair valuation reserve	Cumulative translation adjustments	Company's own shares	Gain from sale of Company's own shares	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2002	12,920,250	367,080	1,758,494	1,326,388	2,017,047	(76,458)	36,330	(1,454,739)	-	16,894,392
Net income for the year	-	-	-	-	131,239	-	-	-	-	131,239
Dividends paid for 2001	-	-	-	-	(1,215,460)	-	-	-	-	(1,215,460)
Transfer to statutory reserve	-	-	13,548	-	(13,548)	-	-	-	-	-
Transfer to general reserve	-	-	-	13,548	(13,548)	-	-	-	-	-
Unrealised losses on investments available for sale	-	-	-	-	-	(303,081)	-	-	-	(303,081)
Cumulative translation adjustment	-	-	-	-	-	-	(23,541)	-	-	(23,541)
Sale of Company's own shares	-	-	-	-	-	-	-	22,800	7,765	30,565
Share premium derecognised (note 16)	-	(277,725)	-	-	-	-	-	-	-	(277,725)
Balance at 31 December 2002	12,920,250	89,355	1,772,042	1,339,936	905,730	(379,539)	12,789	(1,431,939)	7,765	15,236,389
Net income for the year	-	-	-	-	1,776,661	-	-	-	-	1,776,661
Transfer to statutory reserve	-	-	187,015	-	(187,015)	-	-	-	-	-
Transfer to general reserve	-	-	-	187,015	(187,015)	-	-	-	-	-
Issue of share capital - share options	44,921	12,052	-	-	-	-	-	-	-	56,973
Unrealised gains on investments available for sale	-	-	-	-	-	347,430	-	-	-	347,430
Cumulative translation adjustment	-	-	-	-	-	-	1,176	-	-	1,176
Purchases of Company's own shares	-	-	-	-	-	-	-	(192,212)	-	(192,212)
Sale of Company's own shares	-	-	-	-	-	-	-	393,835	151,183	545,018
Balance at 31 December 2003	12,965,171	101,407	1,959,057	1,526,951	2,308,361	(32,109)	13,965	(1,230,316)	158,948	17,771,435

The notes set out on pages 6 to 20 form an integral part of these consolidated financial statements.

**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY
K.S.C. (CLOSED)**



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2003

	2003	2002
Note	KD	KD
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before contributions to KFAS, board of directors' remuneration and National labour support tax	1,870,150	135,476
Adjustments:		
Unrealised gains on investments held for trading	(203,673)	(182,240)
Gain on disposal of investments available for sale	(19,448)	-
Provision for loans and receivables	41,559	12,823
Income from unconsolidated subsidiaries	(38,272)	(17,845)
(Gain)/ loss on disposal of investment property	(1,919)	33,953
Change in minority interest	(86,978)	(5,855)
Depreciation on investment property and fixed assets	272,769	327,570
	<u>1,834,188</u>	<u>303,882</u>
Operating income before changes in operating assets and liabilities	1,834,188	303,882
Investments held for trading	924,509	2,164,472
Loans and receivables	(2,077,957)	(641,142)
Accrued income and other assets	83,103	259,893
Accounts payable and other liabilities	167,031	(1,789)
Net cash from operating activities	930,874	2,085,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments available for sale	(2,462,598)	(87,470)
Proceeds from disposal of investments available for sale	537,229	215,982
Proceeds from disposal of investment property	1,426,741	689,736
Improvements to investment property	-	(71,842)
Capital distribution from unconsolidated subsidiaries	52,625	60,563
Purchase of fixed assets	(59,939)	(482,608)
Net cash (used in)/from investing activities	(505,942)	324,361
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans from banks and financial institutions	(8,028)	(806,082)
Dividends paid	-	(1,215,460)
Proceeds from employee share option plan	205,364	182,464
Sale of Company's own shares	545,018	30,565
Purchase of treasury shares	(192,212)	-
Net cash from/(used in) financing activities	550,142	(1,808,513)
Increase in cash and cash equivalents	975,074	601,164
Cash and cash equivalents at the beginning of the year	1,602,749	1,001,585
Cash and cash equivalents at the end of the year	3 2,577,823	1,602,749

The notes set out on pages 6 to 20 form an integral part of these consolidated financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Kuwait and Middle East Financial Investment Company (the “Company”) is a Kuwaiti Shareholding Company incorporated on 1 January 1984. The Company is engaged in carrying out investment and portfolio management activities for its own account and for clients. The Company’s shares are listed on the Kuwait Stock Exchange. The Company’s registered head office is at 13th floor, Kuwait Real Estate Bank Building, Joint Banking Center, Kuwait city, Kuwait. The number of employees as at 31 December 2003 was 70 (31 December 2002: 79). The Company is a subsidiary of Bank of Kuwait and the Middle East (parent company) which is listed on the Kuwait Stock Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 22 January 2004 and will be submitted to the shareholders of the Company for approval at the forthcoming Annual General Assembly.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (“IASB”), interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB and the requirements of the Kuwait Commercial Company law, and the Company’s Articles and Memorandum of Association.

b) Basis of presentation

The consolidated financial statements are presented in Kuwaiti Dinars (“KD”). The consolidated financial statements are prepared on a fair value basis for financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The consolidated financial statements include the Company and the following subsidiaries, which are consolidated on a line by line basis.

- Al Awsat Real Estate Company, a closed Kuwaiti shareholding company, in which the Company has a 100% effective ownership.
- Missouri Center (Joplin) Ltd, a California Limited Partnership in which the Company had a 90% ownership, (see note 6).

All significant intra-group balances and transactions, and any unrealised gains arising from intra-group transactions have been eliminated on consolidation.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, short-term deposits with an original maturity of three months or less and investments in money market funds.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Investments

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

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. After initial recognition, investments, which are classified as held for trading and those classified as available for sale, are valued at fair value. Provision is made for any impairment in value of available for sale investments (see note 2o).

For investments traded in organised financial markets, fair value is determined by reference to the last quoted bid price on the balance sheet date. Investments in funds which are not traded in stock exchanges are valued at net asset values provided by the fund managers.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected cash flows or the underlying net asset base of the investment. Investments whose fair value cannot be reliably measured are carried at amortised cost less impairment losses (see note 2o).

Gains or losses arising from changes in fair value of investments held for trading are included in the statement of income in the period in which they arise. Gains or losses arising from changes in fair value of investments available for sale are recognised directly in equity. When the available for sale investment is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses.

All "regular way" purchases and sales of investments, are recognised on the trade date i.e. the date entity commits to purchase or sell the asset.

e) Loans and receivables

Loans and receivables originated by the Company are recognised on the settlement date and are carried at amortised cost less impairment losses (see note 2o). Specific provisions are made to reduce impaired loans and receivables to their estimated recoverable amount. General provision for loans is made in accordance with the Central Bank of Kuwait regulations.

f) Investment in subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries, other than those which are held with a view to disposal in the near future and subsidiaries which are considered as not material to the consolidated financial statements, are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Investment in subsidiaries which are not considered material to the consolidated financial statements of the Company are equity accounted (see note 8).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Investment property

Investment property, other than freehold land, is stated at cost less accumulated depreciation and impairment losses (see note 2o).

Depreciation is provided on investment property, other than freehold land, at rates calculated to write off the cost of assets on a straight-line basis over its expected useful life. The estimated useful lives are as follows:

- Buildings: 30 years
- Tenant improvements: life of the lease.

h) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses if any (see note 2o). Depreciation is calculated based on the estimated useful lives of the applicable assets using the straight-line method. The estimated useful lives of fixed assets are 4 to 7 years. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Expenditure incurred to replace a component of fixed asset that is accounted for separately and significant improvement that increases the future economic benefits embodied in the item of fixed assets are capitalised. Gains and losses on disposal of fixed assets are included in the statement of income.

i) Fiduciary assets

Third party assets managed by the Company and assets held in trust or in a fiduciary capacity are not treated as assets of the Company and accordingly are not included in these consolidated financial statements.

j) Employees' end of service indemnity

Provision is made for employees' end of service indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of involuntary termination of staff at the balance sheet date.

k) Company's own shares

When the Company's own shares are purchased, the amount of consideration paid, including directly attributable costs is classified as a reduction from shareholders' equity. Profits less losses on sale of own shares are included in shareholders' equity.

With effect from 1999, Company's own shares are not entitled to any cash dividend that the Company may propose. In accordance with the instructions of the Central Bank of Kuwait dated 15 December 1999, dividend earned in prior years on the Company's own shares are transferred to the general reserve and are not available for distribution.

l) Revenue recognition

Fee and commission income is recognised when earned in accordance with the substance of the agreement. Interest income is recognised on the accrual basis taking account of the principal outstanding and the rate applicable. Interest income includes the difference between the initial amount of investment in money market and bond fund and its fair value at the balance sheet date. Dividend income is recognised when the right to receive payment is established. Rental income is recognised on a straight-line basis over the term of the lease.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Foreign currency translation

Foreign currency transactions are 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 Kuwaiti 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 amortised cost, are translated to Kuwaiti Dinars at the rates of exchange 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 realised and unrealised 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.

n) De-recognition of financial instruments

A financial asset is derecognised when the Company loses control of the contractual rights that comprise the financial assets and a financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

o) Impairment

Fixed assets, investment property, loans and receivables and investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the assets' recoverable amount is estimated.

Fixed assets and investment property

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The impairment losses are recognised in the statement of income.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Loans and receivables

The recoverable amount of receivables is calculated as the total amount of expected collections. The receivables are of a short duration and therefore the expected future cash collections are not discounted.

Credit risk provision for loans impairment is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is determined as the difference between the carrying amount and the recoverable amount of the asset. The recoverable amount is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

Impairment losses are recognised in the statement of income. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest. Where the asset is impaired, and a decline in value of the asset was previously recognised directly in equity, the write down is transferred to the income statement and recognised as part of the impairment loss. Where an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognised in the income statement.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

3. CASH AND CASH EQUIVALENTS

	2003	2002
	KD	KD
Cash and bank balances	2,063,310	432,213
Fixed deposits	514,513	502,563
Investment in money market fund	-	667,973
	<u>2,577,823</u>	<u>1,602,749</u>

4. INVESTMENTS HELD FOR TRADING

	2003	2002
	KD	KD
Quoted equities	302,125	-
Quoted funds	7,507,133	8,530,094
	<u>7,809,258</u>	<u>8,530,094</u>

5. INVESTMENTS AVAILABLE FOR SALE

	2003	2002
	KD	KD
Quoted equities	2,637,066	-
Unquoted funds (at net asset value)	785,547	1,121,474
Unquoted securities (at cost)	854,821	863,713
	<u>4,277,434</u>	<u>1,985,187</u>

The fair value of unquoted securities cannot be reliably determined and therefore these are carried at cost. There is no active market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

6. INVESTMENT PROPERTY

During the year ended 31 December 2003, Missouri Centers (St. Joplin) Ltd, California Limited Partnership in which the Company had a 90% ownership, sold its rental property to an unrelated party for US\$ 6.5 million. The funds realized on the sale were used to repay the bank loan of US\$ 3,275,513. The gain on sale of the above property is included in the consolidated statement of income.

7. LOANS AND RECEIVABLES

	2003	2002
	KD	KD
Loans to staff	25,681	33,563
Loans to others	3,044,864	959,024
	<u>3,070,545</u>	<u>992,587</u>
General provision	(61,411)	(19,851)
	<u><u>3,009,134</u></u>	<u><u>972,736</u></u>

8. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

	<u>Country of incorporation</u>	<u>Ownership</u>	2003	2002
			KD	KD
Safat Ltd.	Antigua & Barbuda	100%	267,821	273,740
KME Investors Services Ltd.	Antigua & Barbuda	100%	324	330
KME Investment Services Ltd.	U.K.	100%	525	480
KME Fund Managers Ltd.	Guernsey	100%	9,915	18,373
KME Management Services Ltd.	U.S.A.	100%	15,389	14,228
			<u>293,974</u>	<u>307,151</u>

9. ACCRUED INCOME AND OTHER ASSETS

	2003	2002
	KD	KD
Accrued management fee – local	786,217	475,055
Accrued management fee – international	267,841	422,247
Employee share option plan receivables	-	148,391
Other	244,337	484,196
	<u><u>1,298,395</u></u>	<u><u>1,529,889</u></u>

10. FIXED ASSETS

	Furniture and Equipment	Computers	Software	Total
	KD	KD	KD	KD
Cost				
At 1 January 2003	560,211	258,486	331,394	1,150,091
Additions	3,983	29,987	25,969	59,939
Disposals	(272)	(3,262)	-	(3,534)
At 31 December 2003	<u>563,922</u>	<u>285,211</u>	<u>357,363</u>	<u>1,206,496</u>
Accumulated depreciation				
At 1 January 2003	229,004	98,247	17,537	344,788
Depreciation	102,233	53,360	49,063	204,656
Disposals	(272)	(3,262)	-	(3,534)
At 31 December 2003	<u>330,965</u>	<u>148,345</u>	<u>66,600</u>	<u>545,910</u>
Net book value				
At 31 December 2003	<u>232,957</u>	<u>136,866</u>	<u>290,763</u>	<u>660,586</u>
At 31 December 2002	<u>331,207</u>	<u>160,239</u>	<u>313,857</u>	<u>805,303</u>

11. LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

	2003	2002
	KD	KD
Borrowings by Missouri Centres (Joplin) Ltd. collateralised by future rents and a lien on the investment property	-	1,067,987
Bank loans	974,776	-
Other loans	85,183	-
	<u>1,059,959</u>	<u>1,067,987</u>

12. SHAREHOLDER'S EQUITY

- The authorised share capital consists of 132,825,000 shares of 100 fils each (2002: 132,825,000 shares of 100 fils each). Issued and fully paid up share capital consists of 129,651,707 shares of 100 fils each (2002: 129,202,500 shares of 100 fils each) which includes 2,864,207 shares (2002: 2,415,000 shares) on account of share option plan for employees (see note 16).
- In accordance with the Commercial Company Law and the Company's Articles of Association, 10% of the net income for the year is required to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of share capital in years when retained earnings are not sufficient for payment of a dividend of that amount.

- c) In accordance with the Company's Articles of Association, 10% of the net income for the year is required to be transferred to the general reserve. The transfer to this reserve can be discontinued by a resolution adopted by the Board of Directors.
The general reserve includes dividends payable on the Company's own shares amounting to KD 36,500 (2002: KD 36,500) which are non-distributable.
- d) As at 31 December 2003 the Company held 6,466,545 shares (2002: 7,536,545 shares) of its own shares, equivalent to 4.99% (2002: 5.83%) of the total issued share capital at that date. The market value of the Company's own shares as at 31 December 2003 was KD 1,551,971 (2002: KD 1,522,382).
- e) Reserves equivalent to the cost of the Company's own shares amounting to KD1,230,316 (2002: KD 1,431,939) are non-distributable.

13. STAFF EXPENSES

During the year Board of Directors approved a staff early retirement scheme and the payment of staff indemnity liability relating to the pre-invasion period, based on current salary, for staff who have been employed since the invasion.

Staff expenses include an amount of KD 103,185 paid to staff who opted for early retirement scheme and an amount of KD 70,723 in respect of provision for the pre-invasion indemnity.

14. NATIONAL LABOUR SUPPORT TAX

In accordance with Article 12 of National Labour Support Law No. 19 of 2000, 2.5% of the Company's net annual distributable profit has been provided for in respect of National Labour Support Tax.

15. EARNINGS PER SHARE

	2003	2002
Net income for the year (KD)	1,776,661	131,239
Weighted average number of shares in issue	129,202,500	129,202,500
Weighted average number of company's own shares	(8,023,586)	(7,586,627)
Weighted average number of shares issued - employee share option plan	150,661	-
Adjusted weighted average number of shares (Basic)	121,329,575	121,615,873
Weighted average number of employee share options outstanding	1,091,149	1,494,955
Adjusted weighted average number of shares (Diluted)	122,420,724	123,110,828
Basic earnings per share (Fils)	14.64	1.08
Diluted earnings per share (Fils)	14.51	1.07

16. EMPLOYEE SHARE OPTION PLAN

The Annual General Assembly of the shareholders held on 12 March 2001 approved a share option plan for employees. In accordance with the plan, the Board of Directors of the Company are authorised to issue up to 6,037,500 shares as stock options to the employees. The options vest over a four-year period starting from 13 March 2001, and can be exercised starting from 13 March 2002, as follows:

Not more than 40% until 12 March 2003;
Not more than 80% until 12 March 2004;
Not more than 100% until 12 March 2005.

The option price was fixed at 252 fils per share and was determined based on the average market price for the three months prior to 31 December 2000, less a discount of 25%. During the year ended 31 December 2001 the equity of the Company was increased by 2,415,000 shares, representing share options that the employees can exercise starting from 13 March 2002. The exercise price per share in excess of 100 fils per share (the par value of shares) was recognised as share premium. The increase in share capital and share premium totalling KD 608,580 was included in accrued income and other assets.

The Annual General Assembly of the shareholders held on 10 April 2002 approved a revision of the option price for 2,415,000 shares issued in 2001 (see paragraph above), from 252 fils to 137 fils. Accordingly the Company reduced share premium and accrued income and other assets by KD 277,725.

The Annual General Assembly of the shareholders held on 10 April 2002 also approved the revision of option price for the remaining unissued shares, from 252 fils to a price to be determined, based on the book value per share as per the last published quarterly or annual financial statements of the Company when the option is exercised.

The Board of Directors are authorised to allocate unexercised share options relating to employees who resign or are terminated from services, to new employees of the Company.

17. PROPOSED DIVIDEND AND ISSUE OF BONUS SHARES

The Board of Directors have proposed a cash dividend of 5 % amounting to 5 fils per share (2002: Nil).

The Board of Directors have also proposed an issue of 5 bonus shares for every 100 shares held (2002: Nil). The financial statements have not been adjusted to reflect the dividend or the issue of bonus shares as they are subject to the approval of the shareholders in the Annual General Assembly meeting.

18. LEASE RENTAL INCOME

The rental income relates to investment property leased by the Company's subsidiary, Missouri Centres (Joplin) Ltd., under operating leases. Non-cancellable operating lease receivables were as follows:

	2003	2002
	KD	KD
Less than one year	-	401,313
Between one and five years	-	1,140,768
More than five years	-	143,674
	-	1,685,755

19. RELATED PARTY TRANSACTIONS

Related parties primarily comprise subsidiaries, shareholders, directors and executive officers of the Company, their families and companies of which they are principal owners. All related party transactions are carried at terms approved by the Company's management.

The related party transactions included in the consolidated financial statements are as follows:

	2003	2002
	KD	KD
Board of directors remuneration	35,000	-
Management and placement fees earned	670,284	710,363
Investments and funds managed in a fiduciary capacity	37,018,369	21,754,998
Loans to directors and senior management	4,177	14,221

20. COMMITMENTS AND CONTINGENCIES

	2003	2002
	KD	KD
Bank guarantees	100,000	100,000
Uncalled capital contributions relating investments available for sale	627,541	477,545
Outstanding foreign exchange commitments	10,236,884	9,493,227

21. FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the Company on behalf of clients. These are not assets of the Company and accordingly are not included in the financial statements. As at the balance sheet date total fiduciary assets managed by the Company amounted to KD 585 million equivalent to US\$ 1,983 million (2002: KD 416 million equivalent to US\$ 1,388 million).

22. FINANCIAL INSTRUMENTS

The Company in the normal course of business, uses various types of financial instruments. Information on financial risks and fair value of these financial instruments is set out below.

Credit risk

The Company is exposed to credit risk if counterparties fail to perform as contracted. Financial assets which potentially subject the Company to credit risk consist principally of cash equivalents, loans and receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of the above assets disclosed in the balance sheet. Credit risk inherent in outstanding foreign exchange commitments disclosed in note 20, if the counterparty is unable to settle, is limited to the difference between the contracted value of the transaction and the cost of completing it with another party.

The Company seeks to manage its credit risk by monitoring credit exposures and assessing the creditworthiness of counterparties. The Company also obtains security when appropriate.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Financial instruments, which potentially subject the Company to interest rate risk consist principally of cash equivalents, loans and receivables and loans from banks and financial institutions. The Company manages this risk by matching the repricing of related assets and liabilities.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Financial instruments, which potentially subject the Company to market risk consist principally of investments held for trading and investments available for sale. The Company manages this risk by diversifying its investments and monitoring market movements.

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. The Company's exposure to currency risk is equal to the carrying amount of net assets denominated in foreign currencies (note 26). A significant portion of exposure to foreign currencies is in US Dollars which is pegged to Kuwaiti Dinars.

Fair value of financial assets and liabilities

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

In the opinion of the management, the estimated fair value of financial assets (other than unquoted securities) and liabilities that are not carried at fair value as at the balance sheet date approximated their carrying amounts. Fair value of unquoted securities cannot be reliably determined (note 5).

**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2003



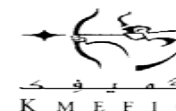
23. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

	Kuwait		North America		Europe		Far East		Other		Total	
	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD
Assets												
Cash and cash equivalents	2,006,751	1,522,075	556,872	80,674	983	-	-	-	13,217	-	2,577,823	1,602,749
Investments held for trading	2,165,024	1,613,244	4,192,350	3,956,017	855,059	2,821,648	164,583	139,185	432,242	-	7,809,258	8,530,094
Investments available for sale	2,454,950	825,000	571,799	945,186	144,673	92,054	98,896	122,947	1,007,116	-	4,277,434	1,985,187
Investment property	-	-	-	1,492,935	-	-	-	-	-	-	-	1,492,935
Loans and receivables	2,705,356	679,295	-	-	-	-	-	-	303,778	293,441	3,009,134	972,736
Investment in unconsolidated subsidiaries	-	-	293,974	307,151	-	-	-	-	-	-	293,974	307,151
Accrued income and other assets	999,427	1,027,541	298,968	502,348	-	-	-	-	-	-	1,298,395	1,529,889
Fixed assets	660,586	805,303	-	-	-	-	-	-	-	-	660,586	805,303
	<u>10,992,094</u>	<u>6,472,458</u>	<u>5,913,963</u>	<u>7,284,311</u>	<u>1,000,715</u>	<u>2,913,702</u>	<u>263,479</u>	<u>262,132</u>	<u>1,756,353</u>	<u>293,441</u>	<u>19,926,604</u>	<u>17,226,044</u>
Liabilities and shareholders' equity												
Loans from banks and financial institutions	974,776	-	85,183	1,067,987	-	-	-	-	-	-	1,059,959	1,067,987
Accounts payable and other liabilities	1,095,210	806,013	-	28,677	-	-	-	-	-	-	1,095,210	834,690
Minority interest	-	-	-	86,978	-	-	-	-	-	-	-	86,978
Shareholders' equity	17,771,435	14,547,198	-	689,191	-	-	-	-	-	-	17,771,435	15,236,389
	<u>19,841,421</u>	<u>15,353,211</u>	<u>85,183</u>	<u>1,872,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,926,604</u>	<u>17,226,044</u>

**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY
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24. MATURITIES AND EFFECTIVE INTEREST RATES OF ASSETS AND LIABILITIES

	Within one year		Over one year		Non-interest sensitive		Total		Effective Interest rate %	
	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD
Assets										
Cash and cash equivalents	2,577,823	1,602,749	-	-	-	-	2,577,823	1,602,749	2.86%	3.60%
Investments held for trading	7,809,258	8,530,094	-	-	7,809,258	8,530,094	7,809,258	8,530,094	-	-
Investments available for sale	-	-	4,277,434	1,985,187	4,277,434	1,985,187	4,277,434	1,985,187	-	-
Investment property	-	-	-	1,492,935	-	1,492,935	-	1,492,935	-	-
Loans and receivables	3,009,134	972,736	-	-	-	-	3,009,134	972,736	4.80%	3.84%
Investment in unconsolidated subsidiaries	-	-	293,974	307,151	293,974	307,151	293,974	307,151	-	-
Accrued income and other assets	1,298,395	1,529,889	-	-	1,298,395	1,529,889	1,298,395	1,529,889	-	-
Fixed assets	-	-	660,586	805,303	660,586	805,303	660,586	805,303	-	-
	<u>14,694,610</u>	<u>12,635,468</u>	<u>5,231,994</u>	<u>4,590,576</u>	<u>14,339,647</u>	<u>14,650,559</u>	<u>19,926,604</u>	<u>17,226,044</u>		
Liabilities and shareholders' equity										
Loans from banks and financial institutions	1,059,959	1,067,987	-	-	-	-	1,059,959	1,067,987	3.35%	4.17%
Accounts payable and other liabilities	513,214	340,852	581,996	493,838	1,095,210	834,690	1,095,210	834,690	-	-
Minority interest	-	-	-	86,978	-	86,978	-	86,978	-	-
Shareholders' equity	-	-	17,771,435	15,236,389	17,771,435	15,236,389	17,771,435	15,236,389	-	-
	<u>1,573,173</u>	<u>1,408,839</u>	<u>18,353,431</u>	<u>15,817,205</u>	<u>18,866,645</u>	<u>16,158,057</u>	<u>19,926,604</u>	<u>17,226,044</u>	-	-

**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. SEGMENT REPORTING

Business segments

The Company operates in the following distinguishable business segments. These business segments form the basis on which the Company reports its primary segmental information.

- International Investment Division, which is engaged in carrying out investment activities for own account and for clients, in international markets;
- Real Estate Division, which is engaged in investing in real estate;
- Local Market Division, which is engaged in carrying out investment activities for own account and for clients, in the local Kuwaiti market; and
- On-line trading division which engages in on-line trading for own account and for clients in International and Local market.

Financial information about business segments for the year ended 31 December 2003 and 31 December 2002 are set out below:

	International Investments		Real Estate		Local Markets		On-line Trading		Total	
	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD	2003 KD	2002 KD
Segment revenue	224,925	126,264	918,591	1,082,565	3,042,763	1,745,353	523,879	72,633	4,710,158	3,026,815
Segment expenses	597,299	872,400	498,595	839,700	790,835	660,741	501,587	310,164	2,388,316	2,683,005
Segment result	(372,374)	(746,136)	419,996	242,865	2,251,928	1,084,612	22,292	(237,531)	2,321,842	343,810
Unallocated revenues									132,458	48,595
Unallocated expenses									677,639	261,166
Net income for the year									1,776,661	131,239
Segment assets	8,483,119	7,710,800	1,753,906	2,776,129	2,951,241	2,088,298	360,897	391,732	13,549,163	12,966,959
Unallocated assets									6,377,441	4,259,085
Total assets									19,926,604	17,226,044
Segment liabilities	-	-	-	971,671	-	-	-	-	-	971,671
Unallocated liabilities									2,155,169	931,006
Total liabilities									2,155,169	1,902,677
Capital expenditure	-	-	-	71,842	-	-	39,736	417,218	39,736	489,060
Unallocated capital expenditure									20,203	65,390
Total capital expenditure									59,939	554,450
Depreciation	-	-	68,113	171,886	-	-	70,571	25,486	138,684	197,372
Unallocated depreciation									134,085	130,198
Total depreciation									272,769	327,570
Income from unconsolidated subsidiaries	38,272	17,845	-	-	-	-	-	-	38,272	17,845
Total income from unconsolidated subsidiaries									38,272	17,845

GEOGRAPHICAL SEGMENTS

The Company operates from one location in Kuwait and majority of its customers are based in Kuwait. The Company's assets relate to different geographical areas of the world. The carrying amount of the Company's assets and liabilities by geographical area are presented in note 23 to the consolidated financial statements.

**KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY
K.S.C. (CLOSED)**



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26. ASSETS DENOMINATED IN FOREIGN CURRENCIES

As at the balance sheet date the Company had the following significant net asset exposures denominated in foreign currencies:

	<u>2003</u>	<u>2002</u>
	KD	KD
US Dollars	12,464	2,816,622
Qatari Riyal	449,000	-
Other	43,256	37,518
	<u>504,720</u>	<u>2,854,140</u>