

Taageer Finance Co. (SAOC)

Financial Statements

31 December 2002

Registered office and principal place of business:

Qurum House
P O Box No. 3509
Postal Code 112, Ruwi
Sultanate of Oman

Taageer Finance Co. (SAOC)

Financial statements

31 December 2002

<i>Contents</i>	<i>Page</i>
Report of the Auditors	1
Balance sheet	2
Income statement	3
Statement of changes in equity	4
Cash flow statement	5
Notes	6-16

**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
TAAGEER FINANCE CO. (SAOC)**

We have audited the balance sheet of Taageer Finance Co. (SAOC) (“the Company”), as at 31 December 2002 and the related statements of income and cash flows for the year ended 31 December 2002, set out on pages 2 to 16.

Respective responsibilities of the Board of Directors and Auditors

These financial statements are the responsibility of the Company’s Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. 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 the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Taageer Finance Co. (SAOC) as at 31 December 2002, and the results of its operations and its cash flows for the year ended 31 December 2002 in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board and comply with the Commercial Companies Law of 1974, as amended.

26 February 2003

KPMG

Taageer Finance Co. (SAOC)

Balance sheet

as at 31 December 2002

	<i>Note</i>	2002 RO'000	2001 RO'000
Assets			
Property and equipment	3	37	24
Net investment in finance leases	4	6,379	2,370
Working capital finance receivables		338	-
Receivables and prepayments	5	16	46
Due from shareholders		-	2
Statutory deposit	6	30	30
Bank and cash	7	378	4,403
Total assets		7,178	6,875
Shareholders' funds and liabilities			
Shareholders' funds			
Share capital	8	5,000	5,000
Legal reserve	9	34	17
Voluntary reserve	10	42	42
Retained earnings		310	156
Total shareholders' funds		5,386	5,215
Liabilities			
Bank borrowings	11	300	-
Creditors, accruals and other liabilities	12	1,464	1,637
Income tax payable		28	23
Total liabilities		1,792	1,660
Total shareholders' funds and liabilities		7,178	6,875
Net asset value per share (RO)	19	1.077	1.043

The notes on pages 6 to 16 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on ____ 2003 and signed on their behalf by:

_____ Chairman

_____ Director

The report of the Auditors is set forth on page 1.

Taageer Finance Co. (SAOC)

Income statement

		For the year ended 31 December 2002	For the period from 16 November 2000 to 31 December 2001
	<i>Note</i>	RO'000	RO'000
Revenue			
Lease income		520	55
Interest income		56	344
		<u>576</u>	<u>399</u>
Expenses			
General and administrative expenses	15	331	172
Depreciation	3	12	4
Interest expense		7	2
		<u>350</u>	<u>178</u>
Operating profit before provisions		226	221
Provision for doubtful lease contract receivables	4	(30)	(25)
Operating profit after provisions but before income tax		196	196
Income tax	13	(25)	(23)
Net profit for the period		171	173
		<u><u>171</u></u>	<u><u>173</u></u>
Basic earnings per share (baiza)	18	34	35
		<u><u>34</u></u>	<u><u>35</u></u>

The notes on pages 6 to 16 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

Taageer Finance Co. (SAOC)

Statement of changes in equity

for the year ended 31 December 2002

	<u>Share capital</u> RO'000	<u>Legal reserve</u> RO'000	<u>Voluntary reserve</u> RO'000	<u>Retained earnings</u> RO'000	<u>Total</u> RO'000
Shares issued – 15 November 2000	5,000	-	-	-	5,000
Voluntary reserve	-	-	42	-	42
Net profit for the period	-	-	-	173	173
Transfers	-	17	-	(17)	-
	<u>5,000</u>	<u>17</u>	<u>42</u>	<u>156</u>	<u>5,215</u>
31 December 2001	<u>5,000</u>	<u>17</u>	<u>42</u>	<u>156</u>	<u>5,215</u>
1 January 2002	5,000	17	42	156	5,215
Net profit for the year	-	-	-	171	171
Transfers	-	17	-	(17)	-
	<u>5,000</u>	<u>34</u>	<u>42</u>	<u>310</u>	<u>5,386</u>
31 December 2002	5,000	34	42	310	5,386

The notes on pages 6 to 16 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

Taageer Finance Co. (SAOC)

Cash flow statement

	For the year ended 31 December 2002 RO'000	For the period from 16 November 2000 to 31 December 2001 RO'000
Operating activities		
Interest and rental receipts	612	422
Interest paid	(7)	(2)
Cash paid to suppliers and employees	(509)	(1,001)
Net cash from pre-operation	-	42
	<u>96</u>	<u>(539)</u>
Changes in operating assets and liabilities		
Lease receivable	(4,376)	-
Bank borrowings	300	-
	<u>(3,980)</u>	<u>(539)</u>
Net cash from operating activities before tax	(3,980)	(539)
Income tax paid	(20)	-
	<u>(4,000)</u>	<u>(539)</u>
Investing activities		
Payment for statutory deposit	-	(30)
Purchase of property and equipment	(25)	(28)
	<u>(25)</u>	<u>(58)</u>
Cash flows from investing activities	(25)	(58)
Financing activities		
Proceeds from issue of share capital	-	5,000
	<u>(4,025)</u>	<u>4,403</u>
Net change in cash and cash equivalents	(4,025)	4,403
Cash and cash equivalents at beginning of the year	4,403	-
	<u>378</u>	<u>4,403</u>
Cash and cash equivalents at end of the year	378	4,403

The notes on pages 6 to 16 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

1 **Legal status and principal activities**

Taageer Finance Co. (SAOC) (“the Company”) is a closed joint stock company. The Company is engaged in the business of providing leasing, debt factoring, bridge loan and construction loans in Oman. Until 24 December 2002, the Company’s registered name was Taageer Finance & Assets Leasing Co. (SAOC). The shareholders at an extra-ordinary general meeting held on 26 October 2002 resolved to change the name to Taageer Finance Co. (SAOC).

2 **Principal accounting policies**

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”), interpretations issued by the International Financial Reporting Interpretation Committee (“IFRIC”) of the IASB and the requirement of the Commercial Companies Law of 1974, as amended.

Basis of preparation

These financial statements have been prepared under the historical cost basis.

The accounting policies have been consistently applied during the period in dealing with items which are considered material in relation to the Company’s financial statements.

Leases and lease income

Assets owned by the Company but subject to finance leases are included in the financial statements as “investment in finance leases” at an amount equivalent to the net investment in the leases.

The Company follows the “sum of the digits method” in accounting for recognition of lease income. At the commencement of a lease, the total unearned lease income consists of the excess of aggregate lease contract receivables over the cost of the leased assets. The unearned lease income is taken into income over the term of the lease, starting with the month in which the lease is executed, so as to produce a systematic return on the net investment in the lease.

Provision for doubtful lease contract receivables

Provision is made in these financial statements for potential doubtful lease contract receivables which are identified on a detailed review of leases.

Working capital finance receivables and interest income

Receivables arising from working capital finance, debt factoring, bridge finance and construction loan activities are stated at cost less impairment losses.

Interest income earned is accrued based on the application of the contracted rate to the actual daily outstanding. Service charges are recognised as income at the time of the transaction.

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

2 Principal accounting policies (continued)

Property & equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

The cost of property and equipment is written off in equal instalments over their estimated useful economic lives as follows:

	<i>Years</i>
Office equipment	3-4
Motor vehicles	3
Furniture and fittings	4

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. Bank borrowings that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

The carrying amounts of the Company's assets, other than net investment in finance leases [refer policy above] are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

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

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss has been recognised.

Dividends

Dividends are recognised as a liability in the year in which they are declared.

Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Company has the legal enforceable right to set off the transaction and also **intends either** to settle on a net basis or realise the asset and settle the liability simultaneously.

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

2 **Principal accounting policies** *(continued)*

Trade and other payables

Trade and other payables are stated at their cost.

Interest bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest method.

Interest expense on interest-bearing borrowings is recognised in the income statement as it accrues using the effective interest rate method.

Employee terminal benefits

Contributions to a defined contribution retirement plan, for Omani employees in accordance with the Oman Social Insurance Scheme, are recognised as expense in the income statement as incurred.

Provision for non-Omani employee terminal contributions, which is an unfunded defined benefit retirement plan, is made in accordance with Omani Labour Laws and is based on the liability that would arise if the employment of all employees were terminated at the balance sheet date.

Provision

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

2 Principal accounting policies (continued)

Foreign currency

Transactions denominated in foreign currencies are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rials Omani at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

3	Property and equipment	<u>Office equipment</u> RO'000	<u>Motor vehicles</u> RO'000	<u>Furniture and fittings</u> RO'000	<u>Total</u> RO'000
	<i>Cost</i>				
	1 January 2002	16	7	5	28
	Additions during the year	15	-	10	25
	31 December 2002	<u>31</u>	<u>7</u>	<u>15</u>	<u>53</u>
	<i>Depreciation</i>				
	1 January 2002	2	2	-	4
	Charge for the period	8	2	2	12
	31 December 2002	<u>10</u>	<u>4</u>	<u>2</u>	<u>16</u>
	<i>Net book value</i>				
	31 December 2002	<u>21</u>	<u>3</u>	<u>13</u>	<u>37</u>
	31 December 2001	<u>14</u>	<u>5</u>	<u>5</u>	<u>24</u>

4	Net investment in finance leases	2002 RO'000	2001 RO'000
	Lease contracts receivable	7,694	2,979
	Unearned lease income	(1,260)	(584)
	Provision for doubtful lease contract receivables	(55)	(25)
		<u>6,379</u>	<u>2,370</u>

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

4	Net investment in finance leases <i>(continued)</i>	2002 RO'000	2001 RO'000
	Unearned lease income		
	Beginning of the year / period	584	-
	Addition during the year / period	1,196	639
	Recognized during the year / period	(520)	(55)
	31 December	<u>1,260</u>	<u>584</u>
	Provision for doubtful lease contract receivables		
	Beginning of the year / period	25	-
	Provided during the year / period	30	25
	Written off during the year / period	-	-
	31 December	<u>55</u>	<u>25</u>
5	Receivables and prepayments		
	Accrued interest	3	39
	Prepaid expenses	9	6
	Others	4	1
		<u>16</u>	<u>46</u>
6	Statutory deposit		
	The Company is required to maintain a deposit of RO 30,000 with the Central Bank of Oman in accordance with the licensing regulations. During the year, the deposit earned interest at the rate of 3.5% per annum (2001: 5%).		
7	Bank and cash		
	Deposits	425	4,374
	Current accounts	(50)	29
	Cash on hand	3	-
		<u>378</u>	<u>4,403</u>

Deposit accounts bear interest at rates ranging between 0.75% and 3.8% per annum (2001: 3% and 3.8%).

The Company has an overdraft facility from a commercial bank for an amount of approximately RO 50,000. Interest on bank overdraft was charged at the rate of 6% per annum.

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

8 Share capital

The Company's authorised share capital consists of 10 million ordinary shares of RO 1 each. The issued, subscribed and fully paid up share capital is RO 5 million comprising 5 million shares of RO 1 each.

Shareholder's who own 10% or more of the Company's share capital at 31 December 2002 are:

	<u>2002</u>		<u>2001</u>	
	<i>Shares held</i>	<i>%</i>	<i>Shares held</i>	<i>%</i>
The Arab Investment Company S.A.A.	1,500,000	30	1,500,000	30
Al Madina Financial & Investment Services Co. SAOC	1,350,000	27	1,350,000	27
Iran Foreign Investment Co.	1,000,000	20	1,000,000	20
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Directors' remuneration

In accordance with the Commercial Companies Law of 1974, Directors remuneration is accounted for an appropriation instead of an expense. For the year 2002, the Board of Directors have recommended Directors' remuneration in the amount of RO 12,000, pending approval of shareholders.

Proposed dividend

For the year 2002, the Board of Directors have recommended a proposed dividend of RO 250,000, pending approval of shareholders.

9 Legal reserve

In accordance with Article 106 of the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the profit for the period, are made to this legal reserve until the accumulated balance of the reserve is equal to one third of the Company's share capital. This reserve is not available for distribution.

10 Voluntary reserve

The excess of "share issue expenses" received from the Founder Shareholders subscription and bank interest on bank deposits over pre-operating expenses up to 15 November 2000 had been transferred to a voluntary reserve.

11 Bank borrowings

During the year, the Company acquired facilities with a commercial bank in the aggregate amount of approximately RO 500,000. During the year interest on bank borrowings was charged at 4.25% per annum.

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

12	Creditors, accruals and other liabilities	2002 RO'000	2001 RO'000
	Leased assets payable	1,425	1,605
	Accruals for expenses	35	30
	Employees terminal benefits	4	2
		1,464	1,637
		1,464	1,637

13 Income tax

Provision for income tax during the period has been made at 12% of taxable profits in excess of RO 30,000 in accordance with the income tax law of the Sultanate of Oman. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

Profit before income tax	196	196
Tax at the rates mentioned above	20	20
Contingencies	5	3
Income tax expense	25	23
	25	23

The Company's assessment for the tax period 2001 has not yet been finalised with the Secretariat General of Taxation at the Ministry of Finance. The Board of Directors believe that additional taxes, if any, in respect of the open tax year would not be material to the Company's financial position at 31 December 2002.

14 Related party transactions

The Company has entered into transactions in the ordinary course of business with entities in which certain Directors have a significant influence. Interest charged on long-term loan and other transactions are on terms, which the Directors believe correspond to terms of normal arm's length transactions with third parties. The nature of significant related party transactions during the period were approximately as follows:

Lease income	31	13
Net investment in finance leases	351	500
Sitting fees paid to Directors	9	8
Remuneration paid to Executive Director (for the period from 19 May 2001 to 31 December 2001)	-	7
Hotel expenses reimbursed to the Directors	7	4
Air travel expenses reimbursed to the Directors	5	6
	21	25
	21	25

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

15	General and administrative expenses	2002 RO'000	2001 RO'000
	Personnel costs	206	99
	Occupancy costs	20	16
	Professional fees and subscriptions	24	9
	Directors' sitting fees	9	8
	Advertising and sales promotion	16	4
	Communication costs	7	3
	Other office expenses	49	33
		<hr/> 331 <hr/>	<hr/> 172 <hr/>
	Personnel cost		
	Wages and salaries	177	71
	Other benefits	22	25
	Contributions to defined contributions retirement plan	3	1
	Liability for unfunded defined benefit retirement plan	4	2
		<hr/> 206 <hr/>	<hr/> 99 <hr/>

The number of employees as at 31 December 2002 was 24 (2001: 13).

Public Authority for Social Insurance Scheme ("the Scheme")

The Company contributes to the Scheme for all Omani employees. The Scheme, which is a defined contributions retirement plan, is administered by the Government of Oman. The Company and Omani employees are required to make monthly contributions to the Scheme based on fixed percentages of basic salaries.

Non Omani employee terminal benefits

The provision for end of service benefits for non-Omani employees is made in accordance with the requirements of Oman Labour Law of 1973. This is an unfunded defined benefits retirement plan. Employees are entitled to benefits based on length of service and final remuneration. Accrued staff terminal benefits are payable on termination of employment.

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

16 Analysis of significant assets and liabilities

a) Maturity analysis

	2002				2001			
	Assets		Liabilities		Assets		Liabilities	
	Gross investment Bank and cash	in finance leases	Creditors, accruals and Bank borrowings	other lia- bilities	Gross investment Bank and cash	in finance leases	Creditors, accruals and Bank borrowings	other lia- bilities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
<i>Maturity</i>								
0-12 months	378	2,570	300	1,464	4,403	769	-	1,637
1-2 years	-	2,299	-	-	-	745	-	-
2-3 years	-	1,589	-	-	-	693	-	-
3-4 years	-	872	-	-	-	506	-	-
Over 4 years	-	364	-	-	-	266	-	-
	<u>378</u>	<u>7,694</u>	<u>300</u>	<u>1,464</u>	<u>4,403</u>	<u>2,979</u>	<u>-</u>	<u>1,637</u>

b) Interest rate analysis

Effective interest rate

0% - less than 6%	378	-	300	1,464	4,403	-	-	1,637
6% - less than 12%	-	7,694	-	-	-	2,979	-	-
	<u>378</u>	<u>7,694</u>	<u>300</u>	<u>1,464</u>	<u>4,403</u>	<u>2,979</u>	<u>-</u>	<u>1,637</u>

c) Customer concentration

Gross investment in Finance Lease

	2002 RO'000	2001 RO'000
Personal	3,216	1,420
Corporate	4,478	1,559
	<u>7,694</u>	<u>2,979</u>
Working capital finance receivables		
Personal	-	-
Corporate	338	-
	<u>338</u>	<u>-</u>

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

16 Analysis of significant assets (continued)

d) Economic sector concentration of gross investment in finance leases

Gross investment in finance lease:

	2002	2001
	RO'000	RO'000
Manufacturing	660	-
Trading & Constructing	824	447
Services	2,993	1,112
Consumer	3,217	1,420
	<u>7,694</u>	<u>2,979</u>

Working capital finance receivables:

Manufacturing	309	-
Trading & Constructing	29	-
Services	-	-
Consumer	-	-
	<u>338</u>	<u>-</u>

17 Financial instruments

Financial assets of the Company include cash and bank balances, net investments in finance leases and receivables. Financial liabilities include creditors and bank overdrafts.

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Company's business.

Credit risk

Credit risk arises from the possibility of asset impairment occurring because counter parties cannot meet their obligations in transactions involving financial instruments. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements.

Interest rate risk

The Company manages its exposure to interest rate risk by ensuring that bank overdrafts are on a fixed rate basis.

Foreign currency risk

The foreign currency risk is minimal as all the transactions are incurred in Rials Omani.

Fair value

The Directors consider the fair values of all financial assets and liabilities to approximate their carrying value.

Taageer Finance Co. (SAOC)

Notes

forming part of the financial statements

18 Earnings per share

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

	2002	2001
	RO'000	RO'000
Net profit for the year	171	173
Number of shares outstanding at 31 December	5,000	5,000
Basic earnings per share (baiza)	34	35

19 Net assets per share

Net assets per share is calculated by dividing the net assets at the year end by the number of shares outstanding as follows:

	2002	2001
	RO'000	RO'000
Net assets	5,386	5,215
Number of shares outstanding at 31 December	5,000	5,000
Net assets per share (RO)	1.077	1.043

20 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in these financial statements.