

Oman ORIX Leasing Company SAOG

Financial Statements

31 December 2003

Registered and principal place of business:

Office No. 33, Third floor
Building No. 326 – Rumaila 106
Al Rumaila Road, Wattayah
P O Box 106
Postal Code 118
Muscat, Sultanate of Oman

Oman ORIX Leasing Company SAOG

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REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders

On behalf of the Directors, I am pleased to present the tenth annual report together with the audited financial statements for the financial year ended December 31, 2003.

Financial results

	RO '000
Operating profit before provisions	874
Provision for doubtful lease receivables	(812)
Operating profit after provisions before taxation	<u>62</u>
Taxation:	
Current	(99)
Deferred	304
	<u>205</u>
Net profit for the year	<u>267</u>
Accumulated profit brought forward	660
Profit available for appropriation	<u>927</u>
- Transfer to legal reserve	(27)
- Transfer to special reserve	(552)
Retained Earnings	<u><u>348</u></u>

Dividend

The Directors have not recommended distribution of dividend for 2003 and propose retaining the profits for the year to strengthen the Balance Sheet and to facilitate compliance with the Central Bank of Oman's Circular FM 13 dated January 10, 2004 as explained later in the report.

Review of operations

Your Company made an operating profit before provisions of RO 0.874 million being 10% higher than the previous year's operating profit of RO 0.797 million. Net profit after provisions and taxes amounted to RO 0.267 million. (2002: RO 0.512 million).

The Company continued its emphasis on writing good quality business and improving the quality of its lease portfolio. Business volumes were steadily increased to RO 10.5 million for the year, as compared to RO 6.2 million in 2002. As rate of collections was higher than disbursements made, lease portfolio reduced by 12% to RO 23.7 million (2002: RO 27.1 million). Consequently, lease income for the year was 16% lower at RO 2.65 million (2002: RO 3.17 million).

During the year, your Company was able to improve its profitability by remedying its funding constraints and reduce borrowing costs substantially. This is reflected in the lower financial cost for the year of RO 1.12 million as compared to RO 1.78 million for the previous year, a reduction of 37%. Operating costs were maintained at almost the same level at RO 0.890 million (2002: RO 0.885 million). The Company provided RO 0.812 million as specific provision for doubtful receivables during the year, which was 330% higher than that booked in the year 2002.

The Central Bank of Oman issued new rules on provisioning vide Circular No. FM 13 dated January 10, 2004 applicable to all finance and leasing companies. The provisions booked by the Company during the year in the amount of RO 0.812 million is in accordance with the International Financial Reporting Standards

("IFRS"). The calculation under CBO circular No. FM/13 results in a figure, which is in excess of IFRS requirements. This is due to the fact that in accordance with the Circular, leasing companies are required to calculate provisions for defaulting lease receivables after taking into account the residual value at 50% (instead of 100%) of the depreciated value of the leased asset for those leases where comprehensive insurance policies are not in Company's possession. Accordingly, the difference between the two calculations has been set aside in a special reserve which the Directors have resolved not to distribute without the prior approval of the Central Bank of Oman.

Credit rating

Nile Rating, a member of the Fitch Group, issued entity ratings as at November 2003. The Company's long term obligations are rated as A- (oma) and short term as F2 (oma). The rating outlook is given as stable.

Compliance with regulatory requirements

On behalf of the Board of Directors, I would like to express appreciation of measures adopted by the Capital Market Authority to promote transparency and full disclosure of material information. In this regard, your Company has always been keen to comply with regulatory requirements. It maintains high standards of integrity and is vigilant in promoting a culture that protects its corporate image and strives to uphold best corporate governance practices. The Audit Committee has performed its duties diligently and the internal audit reports issued by the internal auditors PricewaterhouseCoopers confirm that the Company has a sound internal control process in place. During the year, the Company adopted a Responsibilities & Authorities Manual developed on behalf of the Company by KPMG to comply with regulatory requirements.

The Code of Corporate Governance requires change of statutory auditors every four years. Consequently, KPMG, who have been auditors since inception of the Company will not be re-elected and a new firm of auditors will be appointed.

Future prospects

Your Company plans to open two new branches for expansion and geographic diversification of business. Your Company is also making vigorous efforts to develop new sources of funding and to further bring down borrowing costs. These matters will continue to be priorities for the immediate future and the result of efforts are expected to show during 2004.

Staff

On behalf of all Directors, I would like to thank the staff for their hard work and dedication. The Company fully realizes the importance of an efficient human resource base and will ensure that adequate resources are devoted to training and personnel development throughout the Company.

The Omanisation ratio currently stands at 61% (2002: 60%) as opposed to the required 45%.

Acknowledgement

On behalf of all Directors, I express our earnest gratitude to His Majesty Sultan Qaboos Bin Said, for his inspired leadership and progressive vision. We pray to Almighty God to assist Oman and its people attain further peace and prosperity. I take this opportunity to thank His Majesty's Government, the Central Bank of Oman and the Capital Market Authority for their encouragement and advice. I also express Directors' gratitude to customers, bankers and shareholders for their continuing support and confidence in the Company.

MANAGEMENT DISCUSSION & ANALYSIS REPORT

Introduction

The year 2003 was a year of consolidation and consequently the Company had conservative targets for its business. The prime objectives included resuming growth in volume of new business booked, restructuring the borrowing portfolio and reduction of overdues. Progress has been made on all these fronts and focus is being maintained on them to sustain the improvement. During the year OOLC continued its focus on small and medium ticket leases for diversification of risk and higher margins with additional emphasis on credit quality.

The following elaborates the Company's operating and financial position and should be read in conjunction with the financial statements and related notes for a better understanding.

Industry Trends & Development

Industry Structure

At present, there are six leasing companies in operation providing lease financing and hire purchase facilities along with banks. The automobile and equipment dealers form a major source of referred business to the leasing and finance companies. Continued involvement of banks in this sector along with mergers in banking sector has resulted in increased competition, lowered margins and reduced funding sources. The Company's excellent relationship with dealers, sound credit policies, efficient funds management, geographical expansion and introduction of new products will help the Company to achieve its controlled growth objective.

The Central Bank of Oman revised its loan classification and provisioning rules for finance and leasing companies vide its Circular FM 13 dated January 10, 2004, which is applicable for the year 2003. The impact of the new rules has already been discussed in the Directors' report.

Opportunities & Threats

On account of the numerous infrastructure projects announced by the Government, it is anticipated that there would be a growing demand for financing of equipment and commercial vehicles. This in addition to auto finance would be targeted areas of business.

The Company also perceives opportunity to introduce other financial products such as factoring to meet financing requirements of small and medium sized private enterprises.

The Company extends its policy on risk diversification to all aspects of its activities including borrowings and has availed facilities from all major banks and institutions. It enjoys good relationships with all its banks and financial institutions.

The challenges include rising indebtedness in the retail segment, decreasing oil production and increased competition in the sector, which the Company has duly addressed in its business plan and strategies.

Operating and Financial Performance

The financial performance of the Company for the last three years is as follows:

	RO in '000		
	2003	2002	2001
Lease Income	2,645	3,168	4,214
Financial Expenses	(1,124)	(1,777)	(2,168)
Net Lease Income	1,521	1,391	2,046
Interest and other income	243	291	226
Operating income	1,764	1,682	2,272
Operating expenses	(890)	(885)	(957)
Profit before provision and tax	874	797	1,315
Provision for doubtful receivables	(812)	(189)	(647)
Profit before income tax	62	608	668
Taxation	205	(96)	(158)
Net Profit for the year	267	512	510
Investment in leases	23,702	27,069	35,898
Less: General Provision for doubtful receivables	2,578	1,766	1,619
Net investment in leases	21,124	25,303	34,279
Total Borrowing	13,567	18,245	27,409
Total Shareholders Funds	6,521	6,237	5,992
NFA of infected portfolio	6,107	7,242	8,254
Return on average equity	4.18%	8.37%	8.41%
Return on average assets	1.11%	1.65%	1.44%
Debt equity ratio	2.08	2.93	4.57
Earnings per share (Baisas)	53	102	102

The highlights for the year 2003 were as follows:

- Net lease income registered a growth of 9% over the previous year and stands at RO 1.52 million.
- Profit before provisions was RO 874K, which was 10% higher than 2002.
- Provision for doubtful receivables were 10.88% of the investment in leases as against 6.5% in the previous year.
- Progress on reducing overdues was maintained. Net financed amount of the infected portfolio as at 2003 was 26% lower than 2001 and 16% lower than 2002.

Risk Management

The Company is exposed to credit risk, liquidity risk and interest rate risk.

Credit & Portfolio Risk

OOLC follows a conservative credit policy, which ensures the quality of the lease portfolio. The policy is reviewed at periodic intervals and revised in light of developments in the economic and regulatory framework.

The Company has an efficient system of receivables management with an automated process for follow up of delinquent accounts. The process is closely monitored by a team of debt collectors under the supervision of Head of Special Asset Management.

Asset / Liability Mismatch

The Company obtains long-term facilities wherever possible to minimize asset/ liability maturity mismatch.

Interest Rate Risk

As with any financial institution, the Company is exposed to interest rate risk due to rate changes arising from market factors. The Company mitigates this risk through differential pricing commensurate with maturity term of its assets, maintaining a constant spread on its new business, and borrowing at fixed rates wherever commercially viable.

Internal Audit and Compliance

The Company has well documented internal policies and procedures, which are strictly adhered to by its team members. The internal audit function is outsourced to one of the leading firms of Chartered Accountants, M/s PricewaterhouseCoopers. The audit findings along with the management responses are directly reviewed by the Audit Committee and reported to the Board of Directors. Further, the Company's operations are subject to examination by the Central Bank of Oman, the external auditors and a rating company.

Outlook

The Government has announced a number of infrastructure projects during the year, which shall continue to provide impetus to financing requirements for equipment and commercial vehicles. The auto market is not expected to grow significantly in 2004. Therefore, competitive pricing, renewed focus on the corporate sector, expansion of branch network and product diversification will be important factors in achieving targets. The Company with its controlled growth objectives and sound business model is confident of achieving profit targets in the ensuing year.

**Corporate Governance Report
For the year ended December 31, 2003**

1. Company philosophy:

Oman ORIX Leasing Company SAOG maintains an environment of highest integrity and is vigilant in promoting a culture that not only protects its corporate name, but which strives to uphold the best practices under the Code of Corporate Governance.

The highlights of the significant principles, which the Company applies to comply with the Code, are as follows:

- a) The Board comprises of 9 non-executive Directors out of which 4 Directors are nominees of institutional shareholders.
- b) The Board during the year adopted manual of Roles & Authorities and Credit Policy Manual.
- c) The internal audit function is outsourced to one of the leading firms of Chartered Accountants, PricewaterhouseCoopers, which undertakes its audit on a quarterly basis.

2. Board of Directors:

The present Directors were appointed in the Annual General Meeting held on 19th April 2003. The composition of Board of Directors is as follows:

Name of Directors	Position	Category		Entity Represented
Salem Nasser Al Ismaily	Chairman	Non-executive	Nominee	NLIC
Akbar Ali Habib*	Dy. Chairman	Non-executive	Nominee	ONICH
Shaikh Khalid Hilal Al Ma'awali	Director	Non-executive	Independent	None
Darius Soli Framroze	Director	Non-executive	Non-Shareholder	None
Yaser Gamali	Director	Non-executive	Nominee	MAFT
Tariq R. Al Majid	Director	Non-executive	Independent	None
Nagaaki Esaki	Director	Non-executive	Independent	None
Shakirullah Durrani*	Director	Non-executive	Nominee	OLP
Humayun Murad*	Director	Non-executive	Independent	None

*Reelected Directors.

The details of Directors who retired on their completion of office term during the year were as follows:

Name of Directors	Position	Category		Entity Represented
Mushtaq Abdullah Al Saleh	Chairman	Non-executive	Independent	None
Warith Mubarak Al Kharusi	Dy. Chairman	Non-executive	Independent	None
Hussain Saied Mohammed	Director	Non-executive	Nominee	NLIC
Abdulaziz Mohamed Al Hinai	Director	Non-executive	Nominee	ODB
Sami Haddad	Director	Non-executive	Nominee	IFC

NLIC = National Life Insurance Company SAOC
 ONICH = Oman National Investment Corporation Holding SAOG
 MAFT = Majid Al Futtaim Trust LLC
 OLP = ORIX Leasing Pakistan Limited
 ODB = Oman Development Bank SAOG
 IFC = International Finance Corporation

Board of Directors Meeting

During the year 7 meetings of Board of Directors were held on January 5, February 19, April 19 (two meetings), June 16, September 15, and October 26, 2003 respectively. The details of members' participation in the meetings along with their directorships in other companies are as follows:

Name of Directors	Position	Board meeting attended	Whether attended last AGM	Directorship in other Companies	Position in other Company
Salem Nasser Al Ismaily	Chairman	3	No*	Bank Muscat SAOG	Director
				Oman Oil Marketing Company	Director
				Renaissance Services	Director
Akbar Ali Habib	Deputy Chairman	7	Yes	Oman National Investment Corporation Holdings SAOG	Chief Executive
				Oman Investment & Finance Co.	Deputy Chairman
				National Life Insurance Company	Deputy Chairman
				Alliance Housing Bank	Director
				Gulf Warranties	Director
Shaikh Khalid Hilal Al Ma'awali	Director	4	No*	Port Services Corporation	Director
				Al Batinah Hotels	Vice Chairman
Darius Soli Framroze	Director	4	No*	Al Ahlia Insurance Co. SAOC	Director
				Al Anwar Holding Co. SAOG	Director
				Sun Packaging LLC	Director
Yaser Gamali	Director	3	No*	WWW. Networks FZ Co, UAE	Director
				YMNG Holding PTY Ltd, Australia	Director
				GAMCOR PTY Ltd, Australia	Director
Tariq R. Al Majid	Director	4	No*	MAF ORIX Finance PJSC, UAE	Chairman
Nagaaki Esaki	Director	4	No*	ORIX Leasing Pakistan Ltd. Pakistan	Director
				ORIX Investment Bank Pakistan Ltd. Pakistan	Director
				ORIX Leasing Egypt SAE, Egypt	Director
				MAF ORIX Finance PJSC, UAE	Managing Director
Shakirullah Durrani	Director	2	Yes	ORIX Leasing Pakistan Ltd. Pakistan	Vice Chairman
				ORIX Leasing Egypt SAE, Egypt	Director
				Saudi ORIX Leasing Company, K.S.A.	Director
				Frontier Ceramics Limited Pakistan	Director
Humayun Murad	Director	7	Yes	ORIX Leasing Pakistan Ltd. Pakistan	Chief Executive
				ORIX Investment Bank Pakistan Ltd. Pakistan	Director
				ORIX Leasing Egypt SAE, Egypt	Director
				Saudi ORIX Leasing Company. K.S.A.	Director
				MAF ORIX Finance PJSC. U.A.E.	Director
				Pakistan Oman Investment Co. Pakistan	Director

* Represents Directors elected in the Annual General Meeting held on April 19, 2003, but did not chair the meeting.

Leave of absence was granted to Directors who could not attend Board meetings.

3. Audit and other committees:

a) Audit Committee

The present Audit Committee was appointed in April 2003 and comprises of 4 non-executive Board members. During the year 9 meetings of the Audit Committee were held including the 5 meetings attended by the new Committee. The details of the present members and their attendance in the meeting held are as follow:

Name of Directors	Position	Meeting attended	Date Of appointment
Shaikh Khalid Hilal Al Ma'awali	Chairman	5	19-04-03
Dairus Soli Framroze	Member	3	19-04-03
Yaser Gamali	Member	2	19-04-03
Nagaaki Esaki	Member	5	19-04-03

The main role of Audit Committee is to;

- assist the Board in assuring the integrity and credibility of the Company's financial reporting process,
- assist in appointing head of internal audit and selecting and evaluating external auditors, and
- oversee Company's internal control structure to prevent corporate improprieties, reduce the risk of unreliable financial reporting and protect Company's assets from misappropriation, and ensure legal and regulatory compliance.

b) Executive Committee

The Executive Committee consists of 4 nominated members of the Board and the General Manager. During the year 3 meetings of the Executive Committee were held including the 1 meeting by the new Committee. The current composition of the Committee and the number of meetings attended by each member are shown as under:

Name of Members	Position	Meetings attended	Date Of appointment
Akbar Ali Habib	Chairman	3	26-12-01
Yaser Gamali	Member	1	19-04-03
Tariq R. Al Majid	Member	1	19-04-03
Humayun Murad	Member	3	26-12-01
Sunil Kumar Pherwani	Member	3	09-11-02

The role of Executive Committee includes;

- review and recommend business plan to the Board,
- review and recommend write offs and rescheduling of receivables
- credit approvals as per the Company policy
- any other issues delegated by the Board from time to time.

4. Process of nomination of Directors:

The company is managed by a Board of Directors consisting of 9 members, elected for a term of three years subject to re-election as follows:

a) Those who wish to nominate themselves to the membership of the Company's Board must submit an application form pursuant to the pro-forma prepared by the Capital Market Authority at least 10 days before the general meeting at which the election of Directors will take place.

b) The Company reviews the application forms to ensure that the candidates satisfy the required conditions as per the provisions of the Commercial Companies Law.

5. Remuneration matters:

a) The Directors were paid RO 14,050 as sitting fees for the Board meetings, Executive Committee meetings and the Audit Committee meetings.

b) No Director's remuneration is payable for the year 2003.

c) The gross remuneration paid to the top 5 officers of the Company including variable components during the year 2003 was RO 101,725.

6. Details of non-compliance by the Company.

The Company has complied with all the regulatory requirements during the year 2003.

7. Means of communication with the shareholders and investors:

The Company publishes quarterly accounts in two national newspapers and also submits same to Muscat Securities Market. Annual reports are mailed to all shareholders.

8. Market price data:

a) High / low price and index

Months, 2003	Market Price (RO)		Volume Traded	MSM Index	Relevant Sector
	High	Low			
January	1.290	1.060	1,652	195.62	107.90
February	1.060	1.060	Nil	194.06	107.30
March	1.060	0.960	1,100	201.5	112.53
April	1.550	1.100	1,039,551	217.65	111.37
May	1.450	1.350	22,500	227.88	118.27
June	1.430	1.350	564,508	238.31	122.98
July	1.450	1.400	44,500	248.22	126.23
August	1.500	1.500	500	250.74	128.11
September	1.540	1.500	540,641	257.54	128.71
October	1.670	1.550	4,000	265.46	131.44
November	1.600	1.600	110	270.45	133.51
December	1.820	1.750	4,018	272.67	134.91

b) Distribution of Shares

Name of the Shareholder	No. of Shares	%age
Majid Al Futtaim Trust LLC	1,248,031	24.96%
Oman National Investment Corporation Holding SAOG	1,047,304	20.95%
ORIX Leasing Pakistan Limited, Pakistan	992,327	19.85%
Al-Sharqia Investment Holding Company SAOG	532,500	10.65%
Oman International Bank SAOG	249,981	5.00%
National Share Fund	249,690	4.99%
National Life Insurance Company SAOC	208,545	4.17%
Arabian Entertainment Services Co.	145,000	2.90%
Others	326,622	6.53%
Total	5,000,000	100.00%

9. Professional profile of statutory Auditors:

KPMG is an international accounting firm operating in 159 countries from 821 offices and having more than 100,000 staff. KPMG in Oman has over 70 employees including 3 partners and 12 managers and trains the largest number of Omanis in the auditing and accounting profession.

Salem Nasser Al Ismaily
Chairman

Akbar Ali Habib
Deputy Chairman

The report of the Auditors on Corporate Governance is set forth on page 12.

Report to the Shareholders of Oman ORIX Leasing Company SAOG (“the Company”) of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority (“CMA”) Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Company (“the Report”) and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance (“the Code”) issued under Circular No. 11/2002 dated 3 June 2002, and its amendments. The Report is set out on pages 6 to 11.

Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Company's annual report for the year ended 31 December 2003 and does not extend to the financial statements or any other reports of Oman ORIX Leasing Company SAOG, taken as a whole.

20 March 2004

KPMG

**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
OMAN ORIX LEASING COMPANY SAOG**

We have audited the balance sheet of Oman ORIX Leasing Company SAOG ("the Company") as of 31 December 2003 and the related statements of income, changes in equity and cash flows for the year then ended, set out on pages 14 to 29.

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 Oman ORIX Leasing Company SAOG as at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board and the disclosure requirements of the Capital Market Authority, and comply, in all material respects, with the Commercial Companies Law of 1974, as amended.

Oman ORIX Leasing Company SAOG

Balance sheet

As at 31 December 2003

	Note	2003 RO'000	2002 RO'000
Assets			
Property and equipment	3	172	142
Investment in finance leases	4	23,702	27,069
Provision for doubtful lease receivables	5	(2,578)	(1,766)
Net investment in finance leases		21,124	25,303
Receivables and prepayments		157	186
Deferred tax asset	15	304	-
Statutory deposit	6	30	30
Cash and Bank	7	171	616
Total assets		21,958	26,277
Shareholders' funds and liabilities			
Shareholders' funds			
Share capital	8	5,000	5,000
Legal reserve	9	390	363
General reserve	10	-	231
Special reserve	11	783	-
Retained earnings		348	643
Total shareholders' funds		6,521	6,237
Liabilities			
Long-term loans	12	7,016	13,153
Bank overdrafts and short-term loans	13	6,551	5,092
Creditors, accruals and other liabilities	14	1,582	1,527
Tax payable		288	268
Total liabilities		15,437	20,040
Total shareholders' funds and liabilities		21,958	26,277
Net assets		6,521	6,237
Net assets per share (Rials Omani)		1.304	1.247

The notes on pages 18 to 29 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on February 28th 2004 and signed on their behalf by:

Chairman

Deputy Chairman

The report of the Auditors is set forth on page 13.

Oman ORIX Leasing Company SAOG

Income statement

For the year ended 31 December 2003

	Note	2003 RO'000	2002 RO'000
Revenue			
Lease income	16	2,645	3,168
Interest and other income		243	291
		<u>2,888</u>	<u>3,459</u>
Expenses			
Interest expense	12, 13 & 16	1,124	1,777
Selling, general and administrative expenses	17	830	802
Depreciation	3	60	62
Depreciation on assets subject to operating leases		-	21
		<u>2,014</u>	<u>2,662</u>
Operating profit before provisions		874	797
Provision for doubtful lease receivables	5	(812)	(189)
Operating profit after provisions before taxation		62	608
Taxation	15	205	(96)
Net profit for the year		267	512
Basic earnings per share (Baisas)	19	53	102

The notes on pages 18 to 29 form an integral part of these financial statements.

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Oman ORIX Leasing Company SAOG

Statement of changes in equity

For the year ended 31 December 2003

	Share capital RO'000	Legal reserve RO'000	Foreign currency reserve RO'000	General reserve RO'000	Special reserve RO'000	Proposed dividend RO'000	Retained Earnings RO'000	Total RO'000
2003								
1 January	5,000	363	-	231	-	-	643	6,237
Net profit for the year	-	-	-	-	-	-	267	267
Directors' remuneration	-	-	-	-	-	-	17	17
Transfer to reserve	-	27	-	-	-	-	(27)	-
Transfer to special reserve	-	-	-	(231)	783	-	(552)	-
31 December	<u>5,000</u>	<u>390</u>	<u>-</u>	<u>-</u>	<u>783</u>	<u>-</u>	<u>348</u>	<u>6,521</u>
2002								
1 January	5,000	312	231	-	-	250	199	5,992
Net profit for the year	-	-	-	-	-	-	512	512
Directors' remuneration	-	-	-	-	-	-	(17)	(17)
Dividend paid	-	-	-	-	-	(250)	-	(250)
Transfer to reserve	-	51	-	-	-	-	(51)	-
Other transfers	-	-	(231)	231	-	-	-	-
31 December	<u>5,000</u>	<u>363</u>	<u>-</u>	<u>231</u>	<u>-</u>	<u>-</u>	<u>643</u>	<u>6,237</u>

The notes on pages 18 to 29 form an integral part of these financial statements.

The report of the Auditors is set forth on page 13.

Oman ORIX Leasing Company SAOG

Cash flow statement

For the year ended 31 December 2003

	2003 RO'000	2002 RO'000
Operating activities		
Interest and rental receipts	13,895	16,886
Interest paid	(1,140)	(1,827)
Cash paid to suppliers and employees	(765)	(861)
Cash generated from operations	<u>11,990</u>	<u>14,198</u>
Income tax paid	(79)	(78)
Change in operating assets and liabilities		
Net investment in finance leases	(7,582)	(4,945)
Cash flows from operating activities	<u>4,329</u>	<u>9,175</u>
Investing activities		
Proceeds from sale of assets subject to operating lease	-	47
Proceeds from sale of property and equipment	1	4
Purchase of property and equipment	(97)	(25)
Cash flows from investing activities	<u>(96)</u>	<u>26</u>
Financing activities		
Director's remuneration paid	-	(33)
Term loans	(6,137)	(610)
Dividend Paid	-	(250)
Cash flows from financing activities	<u>(6,137)</u>	<u>(893)</u>
Net change in cash and cash equivalents	(1,904)	8,308
Cash and cash equivalents at beginning of the year	(4,476)	(12,784)
Cash and cash equivalents at end of the year	<u>(6,380)</u>	<u>(4,476)</u>
Cash and cash equivalents comprise:		
Bank and cash	171	616
Bank overdrafts and short-term loans	(6,551)	(5,092)
	<u>(6,380)</u>	<u>(4,476)</u>

The notes on pages 18 to 29 form an integral part of these financial statements.

The report of the Auditors is set forth on page 13.

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1 Legal status and principal activities

Oman ORIX Leasing Company SAOG (“the Company”) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The principal activity of the Company is leasing business.

2 Principal accounting policies

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority.

Basis of preparation

The financial statements are presented in Omani Rials, rounded off to the nearest thousand. These financial statements are prepared under the historical cost basis.

The accounting policies have been consistently applied in dealing with items which are considered material in relation to the Company’s financial statements and are consistent with those used in the previous year.

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 “financing 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. At the time a lease is executed, a portion of unearned lease income, which approximates the initial costs directly associated with negotiating and consummating the lease is taken into income. The remainder of 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.

Assets subject to operating leases are included in the financial statements as tangible fixed assets. Income from operating lease is recognised on a straight-line basis over the year of the lease.

General provision for doubtful lease contract receivables

General provision is made in these financial statements for potential doubtful lease receivables which are not presently identifiable but which are inherent in any portfolio.

Property & equipment

Property and equipment are stated at cost less accumulated depreciation. The cost of property and equipment is written off in equal instalments over their estimated useful economic lives of five years.

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2 **Principal accounting policies (continued)**

Depreciation on assets subject to operating leases

Assets subject to operating leases are depreciated over 3-5 years, having regard to the estimated residual value of the leased assets.

Cash and cash equivalents

Cash and cash equivalent comprises cash balances and call deposits. Bank overdrafts 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 flow.

Directors' remuneration

In accordance with the Commercial Companies Law of 1974, Directors' remuneration is shown as an appropriation of profit instead of an expense.

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 to realise the asset and settle the liability simultaneously.

Employee benefits

Contribution 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.

Foreign currency

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

Taxation

Tax for the year comprises current tax and deferred tax in accordance with the laws that have been enacted by the balance sheet date. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates applicable for the year, and any adjustment of tax payable for previous years.

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2 Principal accounting policies (continued)

Taxation (continued)

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3 Property and equipment

	<u>Office equipment</u> RO'000	<u>Motor vehicles and fittings</u> RO'000	<u>Furniture</u> RO'000	<u>Total</u> RO'000
<i>Cost</i>				
1 January 2003	170	76	121	367
Additions	29	21	47	97
Disposals	-	-	(13)	(13)
31 December 2003	199	97	155	451
<i>Depreciation</i>				
1 January 2003	100	44	81	225
Charge for the year	26	14	20	60
Disposals	-	-	(6)	(6)
31 December 2003	126	58	95	279
<i>Net book value</i>				
31 December 2003	73	39	60	172
31 December 2002	70	32	40	142

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4	Investment in finance leases	2003	2002
		RO'000	RO'000
	Lease contract receivables	27,219	31,175
	Unearned lease income	(3,517)	(4,106)
		23,702	27,069

Unearned lease income

1 January		4,106	6,210
Addition during the year		2,056	1,016
Recognized during the year		(2,645)	(3,120)
31 December		3,517	4,106

Income is suspended on lease contract receivables, which are overdue for more than 90 days and is included in the unearned lease income. At 31 December 2003 suspended income amounted to approximately RO 0.556 million (2002: RO 0.565 million).

As at 31 December 2003 net finance amount of contracts on which income has been suspended amounted to approximately RO 6.107 million (2002: RO 7.242 million).

5 Provision for doubtful lease receivables

1 January		1,766	1,619
Provided during the year		812	189
Written off during the year		-	(42)
31 December		2,578	1,766

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 2.5% (2002: 3.5%)

7 Cash and Bank

Deposit		121	362
Current accounts		49	253
Cash in hand		1	1
		171	616

During the year, the deposit placed with a local commercial bank earned interest at the rates of 1.25% (2002: ranging between 1.25% and 7.5%) per annum. The deposit is under lien against borrowing facilities (see note 12).

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8 Share capital

Authorised and paid up capital

The authorised capital consists of 8 million (2002: 8 million) shares of RO 1 each and paid up capital consists of 5 million (2002: 5 million) shares of RO 1 each.

Shareholders

Shareholders who own 10% or more of the Company's share capital are:

	2003		2002	
	RO'000 Shares held	(%)	RO'000 Shares held	(%)
Majid Al Futtaim Trust LLC	1,248,031	24.9	-	-
Oman National Investment Corporation Holding SAOG	1,047,304	20.9	1,057,304	21.1
ORIX Leasing Pakistan Limited	992,327	19.8	1,012,327	20.2
Al-Sharqia Investment Holding Company SAOG	532,500	10.6	-	-
Oman National Insurance Company SAOC	-	-	513,004	10.3
International Finance Corporation	-	-	500,001	10.0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 year, are made to this legal reserve until the accumulated balance of the reserve is equal to one third of the Company's paid up share capital. This reserve is not available for distribution.

10 General reserve

This represents a distributable reserve established during the year ended 31 December 2002 by a transfer from foreign currency reserve. The Foreign currency reserve was created as per the directives of the Central Bank of Oman for un-hedged foreign currency loan. During 2002, this reserve was released and transferred to a general reserve, as the un-hedged foreign currency loan was fully settled.

11 Special reserve

The Board of Directors has resolved to establish a special reserve, which is currently classified as a non-distributable by re-classifying an amount of RO 0.552 million from retained earnings and an amount of RO 0.231 million from general reserve. This reserve has been created to cover future potential lease losses. The basis of the calculation of the reserve amount is in accordance with Central Bank of Oman circular No. FM/13 dated 10 January 2004.

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12	Long-term loans	2003	2002
		RO'000	RO'000
	Commercial banks	6,895	12,791
	International Finance Corporation	121	362
		<u>7,016</u>	<u>13,153</u>

The Company has entered into long-term loan agreements with commercial banks in the aggregated amount of RO 17.29 million (2002: RO 19.54 million). These loans carry interest at the rate ranging between 3.1% and 9.25% (2002: 4.3% and 10.25%) per annum. These loans are secured against pari-passu floating charge over the assets of the Company and lien on deposit (see note 7).

The Company has entered into a long-term loan agreement with International Finance Corporation ("IFC"), whereby IFC has provided a loan to the Company in the total amount of RO 1.93 million. Interest is charged at 8-3/16% per annum. The loan is repayable in sixteen half yearly instalments of RO 120,625 commencing 1 December 1996. The loan is secured against pari-passu floating charge over the assets of the Company or negative pledge, provided no other long-term lender has a first charge on the assets of the Company. The final instalment is due on 1 June 2004.

13 Bank overdrafts and short-term loans

The Company has borrowing facilities from commercial banks for an aggregate amount of approximately RO 7.75 million (2002: RO 6.8 million), which are entirely secured against pari passu floating charge over the assets of the Company. Interests on bank borrowings ranged between 3.02% and 8% (2002: 3.25% and 10%) per annum.

14 Creditors, accruals and other liabilities

Leased assets payable	1,241	559
Interest and financial charges	41	57
Accruals for expenses	114	92
Staff terminal benefits	52	37
Directors' remuneration payable	-	17
Other liabilities	134	765
	<u>1,582</u>	<u>1,527</u>

During the year 2002, remuneration was initially proposed by the Directors, which was subsequently reversed. In compliance with Capital Market Authority's Circular No. 15/2003, the Company during the year has transferred (unclaimed dividends for the years 1996 to 2001) amounting to RO 2,436 to the investors' trust fund.

Staff terminal benefits

The movement in the net liability in respect of unfunded defined benefit retirement plan during the year is as follows:

1 January	37	28
Expense recognised in the income statement	17	21
Paid to employees during the year	(2)	(12)
31 December	<u>52</u>	<u>37</u>

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15	Taxation	2003 RO'000	2002 RO'000
	Components of taxation:		
	Current income tax	99	99
	Deferred tax	<u>(304)</u>	<u>(3)</u>
		<u>(205)</u>	<u>96</u>

Reconciliation of tax expense:

The Company is liable to income tax, in accordance with the income tax laws of the Sultanate of Oman, at 12% of taxable profits in excess of RO 30,000. The following is reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

Profit before taxation	<u>62</u>	<u>608</u>
Tax at the rate mentioned above	4	69
Contingencies	-	27
Deferred tax asset	<u>(209)</u>	<u>-</u>
Tax (income) / expense	<u>(205)</u>	<u>96</u>

The deferred tax asset has arisen due to the timing difference on account of disallowance of provision for doubtful lease contract receivable as a deduction from the taxable income.

Status of tax assessments:

The Company's income tax assessment upto the years 2001 have been completed by the Secretariat General for Taxation at the Ministry of Finance ("the Department"). The Department has sought to disallow provision for doubtful lease contract receivables as a deduction from the taxable income. The Company has filed appeals with the Tax Committee in respect of the years 1996-1997 and for the years 1998-2001. The Company's income tax assessment for the year 2002 has not been finalised by the Department. The Directors are of the opinion that any taxes, which may be assessed following the decisions of the Tax Committee, would not be significant to the Company's financial position at 31 December 2003.

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16 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 transactions involving related parties or holders of 10% or more of the company's shares, or their family members, and the amounts involved during the period were as follows.

	2003	2002
	RO'000	RO'000
Lease income	-	1
Interest expense	323	43
Office rent expense	-	4
Insurance expense	7	6
Directors' sitting fees and remuneration	14	42
Due to:		
Interest Payable	21	3
Long Term Loan	2,620	382
Short Term Loan	<u>1,003</u>	<u>-</u>

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17	Selling, general and administrative expenses	2003 RO'000	2002 RO'000
	Personnel costs	527	517
	Direct costs of leasing	69	66
	Occupancy costs	41	44
	Communication costs	52	51
	Professional fees and subscriptions	58	53
	Advertising and sales promotion	11	11
	Directors' sitting fees	13	9
	Other office expenses	59	51
		830	802

Personnel costs

Wages and Salaries	367	381
Other benefits	131	103
Contributions to defined contribution retirement plan	12	12
Increase in liability for unfunded defined benefit retirement plan	17	21
	527	517

The number of employees as at 31 December 2003 was 69 (2002: 73).

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.

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Notes

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18 Analysis of significant assets and liabilities

a) Maturity analysis

	Assets		Liabilities	
	Bank and cash	Gross investment in finance leases	Bank overdrafts and short term loans	Long term loans
	RO'000	RO'000	RO'000	RO'000
2003				
0-6 months	171	9,711	5,384	2,062
6-12 months	-	4,560	1,167	1,571
1-2 years	-	6,730	-	2,454
2-3 years	-	3,493	-	929
3-4 years	-	1,925	-	-
4-5 years	-	800	-	-
Over 5 years	-	-	-	-
	171	27,219	6,551	7,016
2002				
0-6 months	374	10,216	5,092	3,863
6-12 months	121	5,371	-	3,132
1-2 years	121	8,360	-	3,020
2-3 years	-	5,077	-	2,150
3-4 years	-	1,793	-	988
4-5 years	-	358	-	-
Over 5 years	-	-	-	-
	616	31,175	5,092	13,153

b) Interest rate analysis

2003				
0% - less than 6%	171	-	5,264	3,645
6% - less than 12%	-	760	1,287	3,371
12% and above	-	26,459	-	-
	171	27,219	6,551	7,016
2002				
0% - less than 6%	616	-	2,092	769
6% - less than 12%	-	531	3,000	12,384
12% and above	-	30,644	-	-
	616	31,175	5,092	13,153

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Notes

forming part of the financial statements

18 Analysis of significant assets and liabilities (continued)

c) Geographical concentration

	Assets		Liabilities	
	Bank and cash	Gross investment in finance leases	Bank overdrafts and short term loans	Long term loans
	RO'000	RO'000	RO'000	RO'000
2003				
Sultanate of Oman	171	27,219	6,551	4,970
Other countries	-	-	-	2,046
	171	27,219	6,551	7,016
2002				
Sultanate of Oman	616	31,175	5,092	12,021
Other countries	-	-	-	1,132
	616	31,175	5,092	13,153

d) Customer concentration of gross investment in finance leases

	2003 RO'000	2002 RO'000
Personal	16,244	18,509
Corporate	10,975	12,666
	27,219	31,175

e) Economic sector concentration of gross investment in finance leases

	2003	2002
Trading and Constructing	1,839	2,094
Manufacturing	308	354
Services	8,828	10,218
Consumer	16,244	18,509
	27,219	31,175

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19 Basic earnings per share

The calculation of basic earnings per share is based on net profit for the year attributable to ordinary shareholders in the amount of approximately RO 0.267 million (2002: RO 0.512 million) and on 5 million (2002: 5 million) being the weighted average number of ordinary shares outstanding during the year.

20 Commitments

	2003	2002
	RO'000	RO'000
Approved leased commitments	<u>295</u>	<u>244</u>

21 Financial instruments

Financial assets of the Company include cash and bank balances, net investment in finance leases and receivables. Financial liabilities include creditors, bank overdrafts and long-term loans.

Exposure to credit, interest rate, maturity mismatch 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.

Maturity mismatch risk

The Company faces a maturity mismatch risk as the weighted average life of assets are marginally above the weighted average life of liabilities. This risk is being mitigated by the Management by negotiating revolving credit facilities from commercial banks.

Foreign currency risk

The foreign currency transactions are in US Dollars. The Company enters into forward exchange contracts to hedge any significant risks arising from foreign currency transactions. At 31 December 2003, forward contracts outstanding were in the aggregate amount of USD 3.5 million (approximately RO 1.34 million).

Fair value

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

22 Comparative figures

Certain comparative figures have been reclassified in order to conform to the current year presentation.