

**TAMDEEN REAL ESTATE COMPANY – KSC (CLOSED)
AND SUBSIDIARY
KUWAIT**

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

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

For the year ended 31 December 2003

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
TAMDEEN REAL ESTATE COMPANY – KSC (CLOSED)
KUWAIT

We have audited the accompanying consolidated balance sheet of Tamdeen Real Estate Company (A Kuwaiti Closed Shareholding Company) and its subsidiary (the group) 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 group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2003, and the results of its operations, the changes in its shareholders' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton – Anwar Al-Qatami & Co.

Fawzia Mubarak Al-Hassawi
(Licence No. 80-A)
of Al-Fouz International Audit Bureau

Kuwait
6 March 2004

TAMDEEN REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARY

KUWAIT

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2003

ASSETS	NOTE	2003 KD	2002 KD
Current assets			
Cash and bank balances		451,785	253,613
Short-term bank deposits		883,501	31,023
Accounts receivable and other debit balances	5	543,779	435,971
Investments in land and real estate held for trading	6	129,975	7,047,484
Trading investments	7	3,504,477	1,578,516
		<u>5,513,517</u>	<u>9,346,607</u>
Non-current assets			
Available for sale investments	8	72,283,951	16,007,561
Investment in associated company	9	3,796,599	-
Investment properties	10	35,434,474	35,735,770
Projects in progress	11	13,476,468	7,158,424
Fixed assets	12	20,118	2,461
Total assets		<u><u>130,525,127</u></u>	<u><u>68,250,823</u></u>
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank facilities	13	1,012,448	3,047,026
Accounts payable and other credit balances	14	3,086,658	1,554,545
Current portion of term loans	15	6,118,187	3,720,900
		<u>10,217,293</u>	<u>8,322,471</u>
Non-current liabilities			
Term loans	15	40,291,210	17,462,582
Refundable rental deposits		883,101	900,477
Provision for end of service indemnity		228,821	168,824
		<u>41,403,132</u>	<u>18,531,883</u>
Total liabilities		<u>51,620,425</u>	<u>26,854,354</u>
Minority interest		<u>8,021,045</u>	<u>-</u>
Shareholders' equity			
Issued and paid-up share capital – 251,690,360 shares of 100 Kuwaiti Fils each		25,169,036	25,169,036
Treasury shares	16	(34,234)	-
Reserve of profit on sale of treasury shares		714,847	456,287
Legal reserve	17	2,553,303	2,080,565
Share premium		2,728,477	2,728,477
Voluntary reserve	17	3,951,378	3,478,640
Retained earnings		5,896,700	4,124,959
Cumulative changes in fair values		29,904,150	3,358,505
		<u>70,883,657</u>	<u>41,396,469</u>
Total liabilities, minority interest and shareholders' equity		<u><u>130,525,127</u></u>	<u><u>68,250,823</u></u>

Mohammed Jassim K. Al-Marzouk
Chairman and Managing Director

Ali Yacoub Ghafil Aryan
Vice-Chairman

The notes set out on pages 6 to 17 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2003

	NOTE	2003 <u>KD</u>	2002 <u>KD</u>
INCOME			
Real estate rental income		3,657,243	3,982,404
Real estate depreciation and expenses	19	(865,366)	(1,008,713)
Net real estate rental income		2,791,877	2,973,691
Other real estate income		352,854	270,691
Management fees from real estate owned by other		413,529	248,682
Profit on sale of land and real estate held for trading		897,959	425,539
Decline in value of investments in land and real estate held for trading		(117,509)	-
Net profit on sale of investment properties		-	25,368
Impairment in value of available for sale investments		(131,267)	(462,417)
Decline in value of projects in progress	11	(53,000)	-
Net income from investments	20	6,541,883	1,009,186
Other income		24,820	-
Foreign currency exchange loss	21	(507,962)	(171,909)
		<u>10,213,184</u>	<u>4,318,831</u>
EXPENSES AND OTHER CHARGES			
Goodwill amortisation	4	214,948	-
Staff costs		918,425	785,734
General and administrative expenses		1,813,835	724,251
Finance costs		1,855,234	640,404
		<u>4,802,442</u>	<u>2,150,389</u>
Net operating profit before minority interest		5,410,742	2,168,442
Minority interest		(489,613)	-
Net profit from operations		4,921,129	2,168,442
Provision for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(48,321)	(19,516)
Board of directors' remuneration		(51,000)	(35,000)
Provision for National Labour Support Tax		(94,429)	(47,427)
Net profit for the year		<u>4,727,379</u>	<u>2,066,499</u>
EARNINGS PER SHARE	22	<u>18.9 Fils</u>	<u>8.2 Fils</u>

The notes set out on pages 6 to 17 form an integral part of these consolidated financial statements.

**TAMDEEN REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARY
KUWAIT**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2003

	<u>Share capital</u>	<u>Treasury shares</u>	<u>Reserve of profit on sale of treasury shares</u>	<u>Legal reserve</u>	<u>Share premium</u>	<u>Voluntary reserve</u>	<u>Retained earnings</u>	<u>Cumulative changes in fair values</u>	<u>Total</u>
	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>
Balance at 31 December 2001	25,169,036	(406,008)	296,092	1,863,721	2,728,477	3,261,796	4,379,826	531,394	37,824,334
Dividends paid to shareholders (Note 18)	-	-	-	-	-	-	(1,887,678)	-	(1,887,678)
Sales of treasury shares	-	406,008	-	-	-	-	-	-	406,008
Profit on sales of treasury shares	-	-	160,195	-	-	-	-	-	160,195
Changes in fair value of available for sale investments	-	-	-	-	-	-	-	2,827,111	2,827,111
Net profit for the year	-	-	-	-	-	-	2,066,499	-	2,066,499
Transfer to reserves	-	-	-	216,844	-	216,844	(433,688)	-	-
Balance at 31 December 2002	25,169,036	-	456,287	2,080,565	2,728,477	3,478,640	4,124,959	3,358,505	41,396,469
Dividends paid to shareholders (Note 18)	-	-	-	-	-	-	(2,010,162)	-	(2,010,162)
Purchase of treasury shares	-	(3,423,440)	-	-	-	-	-	-	(3,423,440)
Sales of treasury shares	-	3,389,206	-	-	-	-	-	-	3,389,206
Profit on sales of treasury shares	-	-	258,560	-	-	-	-	-	258,560
Changes in fair value of available for sale investments	-	-	-	-	-	-	-	26,545,645	26,545,645
Net profit for the year	-	-	-	-	-	-	4,727,379	-	4,727,379
Transfer to reserves	-	-	-	472,738	-	472,738	(945,476)	-	-
Balance at 31 December 2003	25,169,036	(34,234)	714,847	2,553,303	2,728,477	3,951,378	5,896,700	29,904,150	70,883,657

The notes set out on pages 6 to 17 form an integral part of these consolidated financial statements.

**TAMDEEN REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARY
KUWAIT**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2003

	<u>NOTE</u>	<u>2003</u> <u>KD</u>	<u>2002</u> <u>KD</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		4,727,379	2,066,499
Adjustments for:			
Depreciation		316,451	569,243
Provision for end of service indemnity		100,339	54,943
Decline in value of projects in progress		53,000	-
Net income from investments		(6,410,616)	(546,769)
Finance costs		1,855,234	640,404
		<u>641,787</u>	<u>2,784,320</u>
End of services indemnity paid		(40,342)	(9,399)
Operating profit before changes in operating assets and liabilities		<u>601,445</u>	<u>2,774,921</u>
Changes in operating assets and liabilities:			
Accounts receivable and other debit balances		(107,808)	183,013
Accounts payable and other credit balances		3,932,113	580,134
Refundable rent deposits		(17,376)	21,758
Net cash generated from operating activities		<u>4,408,374</u>	<u>3,559,826</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale/(purchase) of investments in land and real estate held for trading		6,800,000	(6,241,842)
Net proceeds from sale of investment properties		-	3,103,494
Purchase of trading investments		(1,808,452)	(215,948)
Purchase of available for sale investments		(27,530,745)	(5,681,385)
Purchase of investment properties		(6,371,044)	(5,595,688)
Investment in associated company		(3,796,599)	-
Purchase of a subsidiary	4	(9,871,777)	-
Net purchase of fixed assets		(32,812)	(18,793)
Net income from investments		6,410,616	546,769
Net cash used in investing activities		<u>(36,200,813)</u>	<u>(14,103,393)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividend paid	18	(2,010,162)	(1,887,678)
Change in minority interest		8,021,045	-
Change in banks facilities		3,237,199	3,015,081
Purchase of treasury shares		(3,423,440)	-
Sales of treasury shares		3,647,766	566,203
Change in bank loans		25,225,915	9,169,220
Finance costs paid		(1,855,234)	(640,404)
Net cash generated from financing activities		<u>32,843,089</u>	<u>10,222,422</u>
Net increase/(decrease) in cash and cash equivalents		1,050,650	(321,145)
Cash and cash equivalents at the beginning of the year		284,636	605,781
Cash and cash equivalents at the end of the year	23	<u>1,335,286</u>	<u>284,636</u>

The notes set out on pages 6 to 17 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

1. INCORPORATION AND ACTIVITIES

The parent company was incorporated in Kuwait on 16 December 1982 in accordance with the Commercial Companies Law. Its shares are listed on the Kuwait Stock Exchange.

The principal activities of the parent company are investing in land and real estate both inside and outside the State of Kuwait, for the purposes of ownership, resale, leasing and renting. The parent company is also engaged in the development and construction of buildings and real estate projects, managing the properties of others, establishing and managing real estate funds, real estate studies and consultancy, and investing in companies with activities similar to its own and in portfolios managed by professional fund managers. The subsidiary company is engaged in holding investments for trading and long-term purposes both inside and outside Kuwait.

At 31 December 2003, the group employed 124 people (124 people in 2002).

The address of the parent company's registered office is PO Box 21816 Safat, 13079 Safat, State of Kuwait.

The consolidated financial statements for the year ended 31 December 2003 were authorised for issue by the parent company's board of directors on 6 March 2004 and are subject to the approval of the general assembly of the shareholders.

2. SIGNIFICANT ACCOUNTING POLICIES

Preparation of financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The comparative figures represent the financial statements of the parent company only, as the subsidiary company was taken during the year.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company and its subsidiary from the date of acquisition. All significant inter-company balances, transactions and profits have been eliminated on consolidation.

Investment in associated company

An associate is an enterprise over which the group is in a position to exercise significant influences, through participation in the financial and operating policies of the investee. The equity method of accounting was used to account for this investment. Any impairment in value is recognised as and when it occurs.

Good will

Good will arising on consolidation represents the excess of the cost of acquisition over the parent company's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary company at the date of acquisition. Goodwill is recognised as an asset and amortised in full during the year of acquisition.

Investments in land and real estate held for trading

Investments in land and real estate held for trading are regarded as current assets, and are stated at the lower of cost and market value, assessed on an individual investment basis. Realised gains and losses, and changes in carrying value are taken to the statement of income

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in securities

The group classifies investments in securities as follows:

- i) Trading investments
- ii) Available for sale investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. After initial recognition, investments are measured at fair value, unless fair value cannot be reliably measured.

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to an earnings multiple, an industry specific earnings multiple or a value based on a similar publicly traded company, or is based on the expected cash flows of the investment, or the underlying net asset base of the investment. Fair value estimates take into account liquidity constraints and assessment for any permanent impairment.

Gains and losses arising from measurement to fair value for trading investments are taken to the statement of income.

In relation to investments which are available for sale, any gain or loss arising from a change in fair value of such investments are recognised directly within equity in the “cumulative changes in fair values” until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognised in the “cumulative changes in fair values” is included in the statement of income for the year.

Trade and settlement date accounting

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

Fair value

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.

Investment properties

Investment properties are valued at cost less accumulated depreciation and any impairment losses, which is assessed on an individual basis, based on an annual external valuation performed by an independent real estate valuer.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Treasury shares

In accordance with the instructions from Ministry of Commerce and Industry the company's holding in its treasury shares is stated at cost and as a deduction of shareholders' equity, with no entitlement to cash dividends that the company may distribute. Gains/(losses) resulting from the company trading in its own shares are credited/(debited) directly to shareholders' equity as "reserve of profit on sale of treasury shares".

Where the "reserve of profit on sale of treasury shares" fall short of any losses from the sale of treasury shares, the difference is charged initially to retained profits and then reserves; subsequently, should profits arise upon the sale of treasury shares an amount is transferred to retained profits and reserves equivalent to the loss previously charged to these accounts.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The company depreciates its fixed assets at annual rates estimated to fully depreciate the cost of the assets over their expected useful lives.

Related party transactions

Related parties consist of directors, executive officers, their close family members and companies of which they are principal owners. All related party transactions are conducted on an arm's length basis and are approved by management.

End of service indemnity

Provision for end of service indemnity is computed on the basis of employees' accumulated periods of service at the balance sheet date, in accordance with Kuwait labour law for the private sector and the parent company's bye-laws.

Recognition of income and expenditure

Profits and losses on sale of investments are recognised as and when they are realised. Dividend income is recognised when the right to receive payment is established. Other income and expenditure are accounted for under the accrual basis.

Finance costs

Finance costs are recognised in the statement of income for the year on a time proportion basis over the maturity period of the related liabilities.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated into Kuwaiti Dinars using the rates of exchange prevailing at the balance sheet date. Foreign currency transactions during the year are translated into Kuwaiti Dinars at the rates of exchange prevailing at the time of transaction. Exchange differences arising from translation are taken to the statement of income.

Cash and cash equivalents

Cash and cash equivalents as stated in the statement of cash flows are represented by bank and cash balances and short term bank deposits.

3. FINANCIAL INSTRUMENTS

Credit risk

Financial assets, which potentially subject the group to concentrations of credit risk, consist principally of investments, accounts receivable, and bank and cash balances. The group's investments are presented at fair value and accounts receivable are presented net of any provisions for doubtful debts. The group's bank accounts are placed with high credit quality financial institutions.

Interest rate risk

The bank overdrafts and loans bear interest at commercial rates. The overdraft accounts are repayable upon demand whilst the loans are due for repayment upon fixed dates.

Fair values

At 31 December 2003 and 2002 the carrying amounts of financial assets and liabilities approximated their fair values.

Derivative financial instruments

The group does not speculate in or engage in the trading of derivative financial instruments.

4. INVESTMENT IN SUBSIDIARY

Investment in subsidiary represents the parent company's investment in 55.7% of the share capital of Tamdeen Investment Co. – KSC (Closed) (previously called Gulf Projects Investment Co.) which was acquired effectively at the beginning of the year for a total consideration of KD9,871,777. Goodwill arising on acquisition amounted to KD214,948 was written off during the year.

The financial statements of subsidiary company at 31 December 2003 comprise of:

	<u>2003</u>
	<u>KD</u>
Assets	70,027,573
Liabilities	<u>(23,857,105)</u>
Net assets	<u>46,170,468</u>
Net profit	<u>1,105,628</u>

5. ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES

	<u>2003</u>	<u>2002</u>
	<u>KD</u>	<u>KD</u>
Receivable from tenants	262,123	334,684
Accrued income	20,645	27,300
Real estate investment fund	274,771	151,477
Other debit balances	250,914	181,391
	<u>808,453</u>	<u>694,852</u>
Provision for doubtful debts	<u>(264,674)</u>	<u>(258,881)</u>
	<u>543,779</u>	<u>435,971</u>

	<u>2003</u>	<u>2002</u>
	<u>KD</u>	<u>KD</u>
Cost		
At 1 January	7,047,484	2,581,505
Additions	-	8,115,000
Disposals	(6,800,000)	(3,649,021)
	<u>247,484</u>	<u>7,047,484</u>
Decline in value	(117,509)	-
	<u><u>129,975</u></u>	<u><u>7,047,484</u></u>

7. TRADING INVESTMENTS

	<u>2003</u>	<u>2002</u>
	<u>KD</u>	<u>KD</u>
Investment in real estate fund	797,201	840,105
Local managed portfolios	17,857	12,690
Investment in funds managed by others	2,686,346	725,721
International trading investment	3,073	-
	<u><u>3,504,477</u></u>	<u><u>1,578,516</u></u>

The parent company established a real estate investment fund in 1994 for the purpose of investing in real estate properties in Kuwait. The capital of the fund is KD15,000,000, which is fully subscribed, issued and paid, and of which the parent company's participation is 5%. The parent company maintains entirely separate books of account in respect of the fund, which it also manages in return for a fee calculated at 5% of the net profit of the fund for each year, being KD274,233 for the year (KD177,250 in 2002) included under management fees from real estate owned by other in the income statement. The fund will be expired in June 2004 and there is no intention by the fund management to renew it.

8. AVAILABLE FOR SALE INVESTMENTS

	<u>2003</u>	<u>2002</u>
	<u>KD</u>	<u>KD</u>
Local managed portfolios and funds	5,145,793	15,212,638
Equity participation in unquoted local company shares	118,000	609,413
Participations in capital of companies located outside Kuwait	67,020,158	185,510
	<u><u>72,283,951</u></u>	<u><u>16,007,561</u></u>

Participation in capitals of companies outside Kuwait mainly include subsidiary investments having a fair value of KD66,968,000 (Nil at 31 December 2002) as at the balance sheet date, representing quoted investments in foreign markets. Included in these participation, is an investment by the subsidiary in the shares of a Gulf quoted financial institution with a total market value of KD61,858,355 with cumulative change in fair value of KD28,210,569 all of which have been provided as security for bank loans (Note 15).

9. INVESTMENT IN ASSOCIATED COMPANY

Investment in associated company represent the cost of the group's investment in 9.85% of the share capital of Kuwait National Cinemas Company – KSC as at the end of the year. This investment was classified as associated company due to the existence of significant influence at year end and the acquisition of additional shares to reach 19.85% of its capital in the subsequent period.

**TAMDEEN REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARY
KUWAIT**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

10. INVESTMENT PROPERTIES

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>2003 Total</u>	<u>2002 Total</u>
	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>
Cost					
At 1 January	26,750,000	9,487,681	1,965,458	38,203,139	40,418,702
Purchases	-	-	-	-	-
Sales	-	-	-	-	(2,215,563)
At 31 December	<u>26,750,000</u>	<u>9,487,681</u>	<u>1,965,458</u>	<u>38,203,139</u>	<u>38,203,139</u>
Provision for decline in value					
At 1 January	-	-	-	-	209,932
Additions	-	-	-	-	-
Disposals related to properties sold	-	-	-	-	(209,932)
At 31 December	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>607,242</u>
Accumulated depreciation					
At 1 January	-	1,709,435	757,934	2,467,369	2,614,706
Charge for the year (Note 19)	-	170,266	131,030	301,296	530,662
Related to properties sold	-	-	-	-	(677,999)
At 31 December	<u>-</u>	<u>1,879,701</u>	<u>888,964</u>	<u>2,768,665</u>	<u>2,467,369</u>
Net book value					
At 31 December	<u>26,750,000</u>	<u>7,607,980</u>	<u>1,076,494</u>	<u>35,434,474</u>	<u>35,735,770</u>
Fair value				<u>50,059,250</u>	<u>45,328,087</u>

**TAMDEEN REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARY
KUWAIT**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

10. INVESTMENT PROPERTIES (CONTINUED)

Investment properties include: Land, buildings, machinery and equipment, and the group depreciates them as following:

Buildings	50 years
Machinery and equipment	15 years

The above fair value has been assessed by an independent valuer.

The investment properties have been provided as security for bank loan (see Note 15).

The parent company changed the estimated useful life of its investment properties to 50 years (25 years in 2002). Depreciation expense will be changed on the remaining net book value of these properties starting this year. The change in estimate resulted in reducing the depreciation charge for the year by KD212,430.

11. PROJECTS IN PROGRESS

	<u>2003</u>	<u>2002</u>
	<u>KD</u>	<u>KD</u>
Cost		
At 1 January	7,765,666	2,169,978
Additions	6,371,044	5,595,688
At 31 December	<u>14,136,710</u>	<u>7,765,666</u>
Provision for decline in value		
At 1 January	607,242	607,242
Additions	53,000	-
At 31 December	<u>660,242</u>	<u>607,242</u>
Net book value	<u><u>13,476,468</u></u>	<u><u>7,158,424</u></u>

KUWAIT**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2003

12. FIXED ASSETS

	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Furniture, fixtures and office equipment</u>	<u>2003 Total</u>	<u>2002 Total</u>
	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>
Cost					
At 1 January	15,721	3,010	217,445	236,176	222,115
Additions	23,015	-	9,798	32,813	18,795
Disposals	-	(3,010)	-	(3,010)	(4,734)
At 31 December	<u>38,736</u>	<u>-</u>	<u>227,243</u>	<u>265,979</u>	<u>236,176</u>
Accumulated depreciation					
At 1 January	15,720	3,009	214,986	233,715	199,867
Charge for the year	4,488	-	10,667	15,155	38,581
Related to disposals	-	(3,009)	-	(3,009)	(4,733)
At 31 December	<u>20,208</u>	<u>-</u>	<u>225,653</u>	<u>245,861</u>	<u>233,715</u>
Net book value					
At 31 December	<u>18,528</u>	<u>-</u>	<u>1,590</u>	<u>20,118</u>	<u>2,461</u>

The group depreciates its fixed assets using the following annual rates:

Machinery and equipment	20%
Vehicles	25%
Furniture, fixtures and office equipment	20% - 33.33%

13. BANK FACILITIES

Bank facilities in a form of overdraft facilities are granted by local banks to finance working capital and real estate activities of the group. They are repayable on different dates during the year 2004 (renewable), with annual rates of interest of 4.25% or 1% over the Central Bank of Kuwait discount rate.

14. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	<u>2003</u>	<u>2002</u>
	<u>KD</u>	<u>KD</u>
Retentions for executed works	1,093,262	567,555
Accrued leave and expenses	920,192	350,883
Uncollected dividends to shareholders	133,622	131,206
Other credit balances	939,582	504,901
	<u>3,086,658</u>	<u>1,554,545</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

15. TERM LOANS

	<u>2003</u> <u>KD</u>	<u>2002</u> <u>KD</u>
Denominated in Japanese Yen with annual interest rate of 1% over LIBOR (1% at 31 December 2002)	3,727,631	2,589,325
Denominated in U.S. Dollar with annual interest rate ranging between 1% to 1.125% over LIBOR (1% at 31 December 2002)	6,680,687	4,873,257
Denominated in Kuwaiti Dinars with annual interest rate ranging between 1% to 1.25% over KIBOR (ranging between 1% to 1.25% at 31 December 2002)	28,900,000	13,720,900
Denominated in Euro with annual interest rate of 1% over LIBOR	7,101,079	-
	<u>46,409,397</u>	<u>21,183,482</u>
The loans are due for repayment as follows:		
Within one year	6,118,187	3,720,900
After one year	40,291,210	17,462,582
	<u>46,409,397</u>	<u>21,183,482</u>

All of the bank loans are granted by local banks. The total amount of the instalments relating to the loans which are due to be repaid within twelve months from the balance sheet date are shown as a current liability.

Loans are granted against the mortgage of investment properties with a book of KD35,434,474 (KD35,735,770 at 31 December 2002) (Note 10) and mortgage of investments in shares with a fair value of KD61,858,355 (Note 8).

16. TREASURY SHARES

At the balance sheet date the group owned 150,000 of its own shares equivalent to 0.06% of the total shares issued (Nil at 31 December 2002). The market value of these shares at the balance sheet date was KD51,750.

17. RESERVES

In accordance with the Commercial Companies Law of Kuwait, 10% of the net profit of each year is transferred to the legal reserve until such time that the balance of the reserve account equals 50% of the balance of the paid up share capital.

Distribution of the legal reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are insufficient for the payment of a dividend of that amount.

Transfers to the voluntary reserve are made in accordance with the recommendation of the board of directors to the general assembly.

18. PROPOSED APPROPRIATIONS

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the board of directors propose to:

- distribute bonus shares of 7.5% (cash dividends of 8 Fils per share in 2002) to the parent company shareholders of record as of the date of the general assembly.
- distribute board of directors' remuneration of KD42,000.
- proposed appropriations for the year 2002 were approved by the shareholders general assembly held on 14 May 2002 and paid in the subsequent period.

19. REAL ESTATE DEPRECIATION AND EXPENSES

	<u>2003</u>	<u>2002</u>
	<u>KD</u>	<u>KD</u>
Staff cost	83,059	89,472
Real estate depreciation (Note 10)	301,296	530,662
Other real estate expenses	481,011	388,579
	<u>865,366</u>	<u>1,008,713</u>

20. NET INVESTMENT INCOME

	<u>2003</u>	<u>2002</u>
	<u>KD</u>	<u>KD</u>
Profit on sale of trading investment	-	64,254
Profit on sale of available for sale investments	3,547,532	281,827
Unrealised profit from trading investments	1,631,766	105,094
Dividend income	1,334,310	550,322
Interest income	28,275	7,689
	<u>6,541,883</u>	<u>1,009,186</u>

21. FOREIGN EXCHANGE LOSS

This item represents the foreign currency exchange gain and loss arising on the re-translation at the balance sheet date, of bank loans denominated in Japanese Yen, U.S. Dollar and Euro (see Note 15).

22. EARNINGS PER SHARE

	<u>2003</u>	<u>2002</u>
Net profit for the year (KD)	<u>4,727,379</u>	<u>2,066,499</u>
Weighted average number of shares (excluding treasury shares)	<u>249,721,209</u>	<u>251,278,420</u>
Earnings per share	<u>18.9 Fils</u>	<u>8.2 Fils</u>

23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise of following balance sheet balances:

	<u>2003</u> <u>KD</u>	<u>2002</u> <u>KD</u>
Cash and bank balances	451,785	253,613
Short-term deposits	883,501	31,023
	<u>1,335,286</u>	<u>284,636</u>

24. SEGMENTAL INFORMATION

The group's principal trading activities are all carried out within the State of Kuwait. With the exception of participation in capital of companies outside Kuwait (Note 8), all of the group's assets and liabilities are located in Kuwait.

A segmental analysis of total income and net profit, total assets, total liabilities and net assets employed by activity is as follows:

	<u>Real estate</u> <u>KD</u>	<u>Investment</u> <u>KD</u>	<u>Total</u> <u>KD</u>
At 31 December 2003			
Total income	4,285,710	5,927,474	10,213,184
Net profit for the year	1,121,881	3,605,498	4,727,379
Total assets	49,615,475	80,909,652	130,525,127
Total liabilities	(27,763,320)	(23,857,105)	(51,620,425)
Minority interest	-	(8,021,045)	(8,021,045)
Net assets employed	21,852,155	49,031,502	70,883,657
At 31 December 2002			
Total income	3,772,062	546,769	4,318,831
Net profit for the year	1,519,730	546,769	2,066,499
Total assets	50,664,746	17,586,077	68,250,823
Total liabilities	(26,854,354)	-	(26,854,354)
Minority interest	-	-	-
Net assets employed	23,810,392	17,586,077	41,396,469

25. RELATED PARTY TRANSACTIONS

Included in the transactions carried out by the subsidiary company, certain transactions with related parties involving shareholders who are represented in the board of directors in addition to other major shareholders. These transactions were incorporated in the consolidated financial statements as follows:

	<u>2003</u> <u>KD</u>
Consolidated balance sheet	
Term loans	<u>20,000,000</u>
Consolidated income statement	
Interest on term loans	<u>850,000</u>
Portfolio management fees for major shareholders	<u>19,975</u>
Contra accounts – off balance sheet items	
Net book value of major shareholders' portfolios	<u>17,551,333</u>

26. COMMITMENTS AND CONTINGENT LIABILITIES

At the balance sheet date the parent company had outstanding letters of guarantee of KD1,250,000 (KD1,250,000 in 2002), and commitments for investments for KD1,893,782 (KD2,158,878 in 2002) relating to the subsidiary company.

27. MANAGEMENT OF REAL ESTATE OWNED BY OTHERS

The parent company undertakes the management of properties owned by others in return for management fees calculated on the basis of a percentage of collected rents in accordance with agreements made with each landlord. A separate bank account is maintained by the parent company for the purpose of collection of rent, and memorandum accounts of rents are maintained out with the books of account amounted to KD68,330 at 31 December 2003 (KD114,793 at 31 December 2002).

28. CONTRA ACCOUNTS – OFF BALANCE SHEET ITEMS

The subsidiary company manages investment portfolios for third parties which had a net book value of KD18,874,740. These balance are not included in the consolidated balance sheet

29. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year's presentation of the financial statements.

