Salhia Real Estate Company K.S.C.

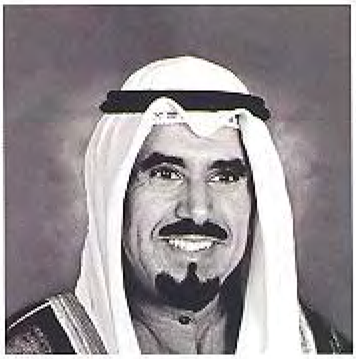
Annual Report 2001

Contents

Annual Report 2001

Salhia Real Estate Company K.S.C, P.O. Box 23413, Safat 13095, Kuwait Tel (+965) 242 1260 Fax (+965) 242 6606

Designed & Produced by Arnograph Design Kingdom of Bahrain

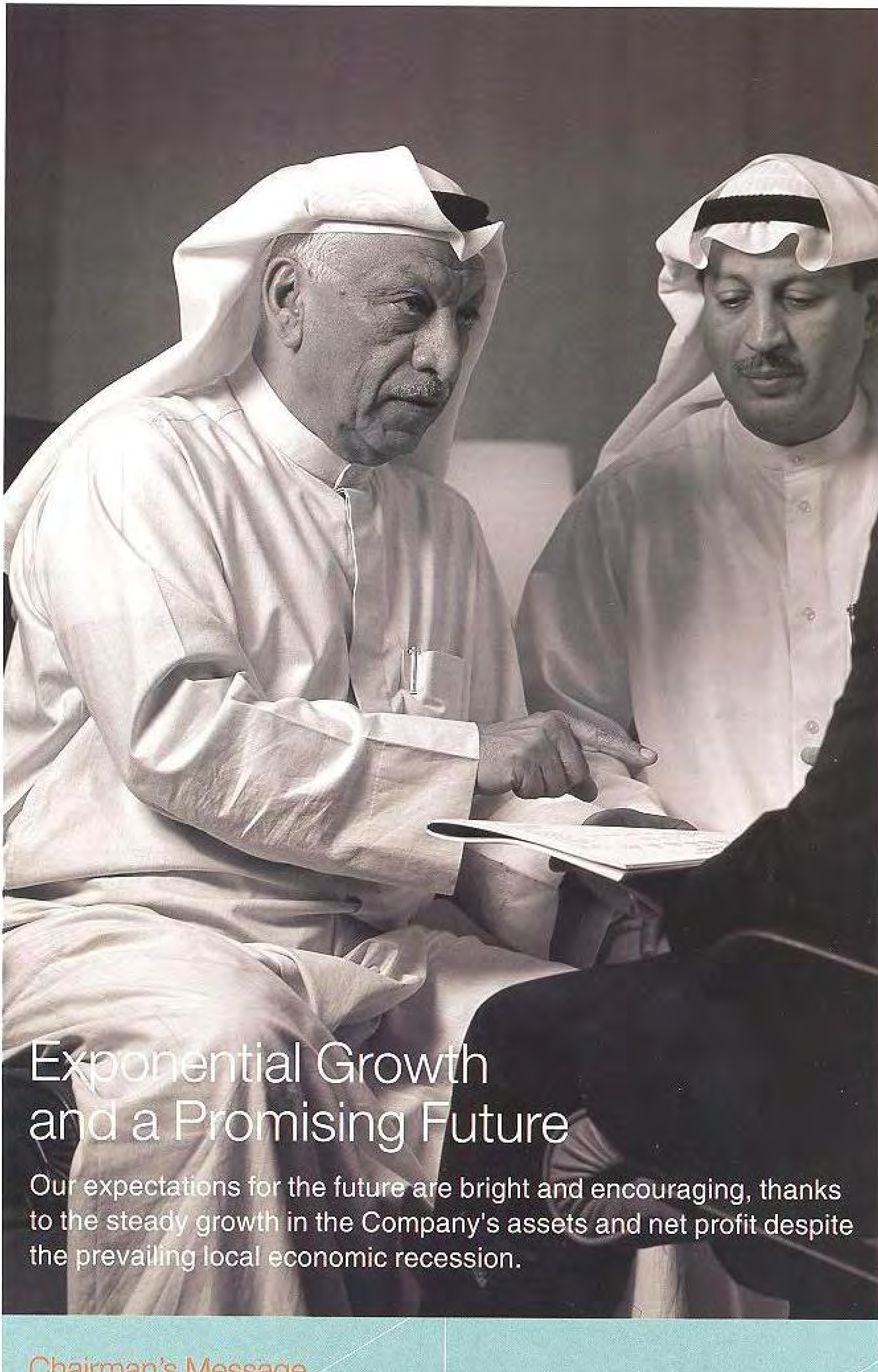
2 1

1. **His Highness Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah**
   Amir of the State of Kuwait

2. **His Highness Sheikh Sa'ad Al-Abdullah Al-Salem Al-Sabah**
   Crown Prince and Prime Minister

Excellence in Distinction and Quality

A leader in the field of real estate development in Kuwait, Salhia Real Estate Company has developed exceptional properties that stand proudly across the Kuwait skyline, outstanding landmarks characterized by both the quality of their construction and the creativity of their design.



Exponential Growth and a Promising Future

Our expectations for the future are bright and encouraging, thanks to the steady growth in the Company's assets and net profit despite the prevailing local economic recession.

The instability of the economic and political environment in 2001 resulting from signs of global economic recession, declining oil prices and the September 11 terrorist attacks on the United States of America caused a slowdown in the economies of many nations across the world. Despite these difficult conditions, many Kuwaiti financial institutions witnessed steady growth in liquidity due to the receipt by the Kuwaiti government of approximately KD 740 million from the United Nations as compensation for the damage caused by the Iraqi invasion of Kuwait. This payment significantly boosted Kuwait's liquidity position, and the compensation received by the private sector helped in the settlement of bad debts and the partial amortization of the value of bad debts purchase bonds.

The interest rate cuts witnessed during the second half of the year and encouraging local developments throughout the year had a positive impact on the overall performance of Salhia Real Estate Company. Our Company continued to play a vital role in Kuwait's development boom while adhering to its mission of maintaining a leading position in the real estate sector by adopting modern scientific approaches in the construction business. During the course of the year, the Company systematically expanded its business activities and exerted every possible effort to upgrade its management structure through both the recruitment of highly qualified staff with outstanding performance records and the introduction of state-of-the-art management systems. This will allow us to keep pace with international developments while ensuring sustainable growth and stability for the Company. The Kuwaiti Society has been closely monitoring the latest developments taking place internationally and is determined to see international standards implemented across the board and especially within the construction and property development sector. With this in mind, Salhia Real Estate Company has made a professional commitment to maintain an outstanding approach with an emphasis on quality that meets the exacting standards of the Kuwaiti Society and to incorporate the trends that are bringing excellence to the construction and design industry.

A leader in the field of real estate development in Kuwait, Salhia Real Estate Company has developed exceptional properties that stand proudly across the Kuwait skyline, outstanding landmarks characterized by both the quality of their construction and the creativity of their design.

Introduction
Annual Report 2001

Dear Shareholders

It gives me great pleasure to congratulate you on the positive results achieved by your Company in the financial year ended 31 December 2001, and to report to you on the Company's activities in this year of many achievements. The Company recorded a net operational income of KD 6.3 million in 2001, an increase of 21.5% from KD 5.2 million in 2000. Total assets rose by 28.34% to KD 136.91 million in 2001 from KD 106.67 million in 2000. This increase is largely attributable to the consolidation of the Haddia Gmbh financial statements with those of your Company, in accordance with international accounting standards. Total shareholders' equity stood at KD 62.39 million at year-end, compared to 58.29 at the end of 2000, an increase of 7.03%. I would also like to mention that total loans have also risen as a result of the consolidation of the Haddia Gmbh accounts. However, these loans are not recoursable against Salhia Real Estate Company.

The consecutive cuts in interest rates on the Kuwaiti Dinar as well as other currencies including the US Dollar, European currencies and the Japanese Yen triggered by the global economic slowdown had a positive effect on borrowing. The Company was able to benefit from this situation to reschedule its loans, most of them long-term in nature, and to link them to its own asset structure, thereby reducing short-term loans by converting them into long-term ones. This was an important development for the Company, particularly since it is currently executing a number of local real estate development projects including Arraya project, Salhia car park and the development of the Company's head office.

Overall, 2001 was a year of great achievements during which the Company continued to execute Arraya project, got involved in the plans for the refurbishment and renovation of the Le Meridien Kuwait Hotel and commenced work on the Salhia car park project. We anticipate that we will complete the commercial section of Arraya by the beginning of the fourth quarter of 2002, ahead of schedule. These outstanding achievements could not have been achieved without the help of God Almighty, the dedication of our loyal staff and the support of various government authorities.

With regard to claims for compensation against losses incurred as a result of the brutal Iraqi occupation of Kuwait, the Company has filed all relevant documents with the Public Authority for Assessment of Compensation, and we expect to receive payment in the near future.

Our expectations for the future are promising and encouraging, thanks to the steady growth in the Company's assets and net profit despite the prevailing local economic recession. We look forward to 2002 with great optimism, confident that it will be year of even greater achievements, including our relocation to our new premises, completion of the Salhia Complex new entrance and execution of the Salhia car park project.

Finally, I would like to express our sincere gratitude to His Highness Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah, the Amir of Kuwait, who has returned home safely and may God grant him continued good health, and to His Highness the Crown Prince and Prime Minister Sheikh Sa'ad Al-Abdullah Al-Salem Al-Sabah for their kind support to the national establishments. On behalf of the Board of Directors, I would also like to express my thanks to all our shareholders for their unfailing support and trust that they have rendered to the Company enabling it to achieve its strategic objectives, and to the Company's loyal and dedicated staff whose sincere efforts made it possible for us to achieve 2001's financial results.

Ghazi Fahad Alnafisi
Chairman & Managing Director

Chairman's Message
Annual Report 2001

Chairman and Board of Directors

Annual Report 2001

A Year of Achievements and Accomplishments

1. **Ghazi Fahad Alnafisi**
   Chairman and Managing Director
2. **Salah Fahad Al-Marzouk**
   Vice Chairman
3. **Abdulaziz Saud Al-Babtain**
   Board Member
4. **Abdul Latif Abdul Karim Al-Munayyes**
   Board Member
5. **Anwar Abdulaziz Al-Usaimi**
   Board Member
6. **Faisal Abdul Mohsin Al-Khatrash**
   Board Member
7. **Sheikh Mohammed Jarrah Al-Sabah**
   Board Member
8. **Hassan Abdullah Al-Mousa**
   Board Member
9. **Youssef Easa Al-Othman**
   Board Member
10. **Ahmad F. Al-Zabin**
    Board Member
11. **Marzook F. Al-Mutairi**
    Board Member

The Board of Directors of Salhia Real Estate Company is pleased to present to its shareholders the annual report for 2001, which covers the Company's financial and operating position for the period ended December 31, 2001, as follows:

Balance Sheet

The Company's total assets stood at KD 136.9 million in 2001 compared to KD 106.6 in 2000, an increase of 28.3%. At the same time, fixed assets grew to KD 110 million from KD 105 million in 2000.

Statement of Income

Despite the deterioration in the global political and economic environment, the Company posted a net operating profit of KD 6.3 million in 2001, an increase of 21.5% over KD 5.2 million in 2000. In view of these encouraging results, the Board of Directors is recommending the payment of a cash dividend of 18% per share.

The Company's total assets stood at KD 136.9 million in 2001 compared to KD 106.6 in 2000, an increase of 28.3%.

Report of the Board of Directors

Annual Report 2001

The Board of Directors is pleased to submit the statement of its operating position of the Company's assets for the year 2001 on local and foreign levels.

LOCAL BUSINESS ACTIVITY

Salhia Complex

Since its inception, Salhia Complex has maintained its niche position among upscale shopping centres and commercial complexes in the State of Kuwait. In 2001, the Complex maintained the high occupancy rate registered in the previous year, indicating that it is in high demand vis-à-vis its competitors.

By the end of 2001, Salhia Real Estate Company had made great strides in implementing the renovation and refurbishment of the Complex, with newly-developed space leased out following the development and upgrading of the natural and electric lighting systems throughout the Complex. At the same time, the renovation and refurbishment program saw the addition of new escalators, a development that has further facilitated the movement of visitors to the Complex and encouraged many global brands to use the first and second mezzanine floors as a location for their showrooms. The enhanced commercial value of the businesses located on these floors is reflected in a direct increase in the Complex's revenues. A further development was the establishment of a customer service centre on the ground floor.

The renovation and refurbishment program resulted in a growth in annual revenues to KD 3.55 million, an increase of 9.8% over 2000. This increase is attributed to the management's policy of upgrading facilities and introducing new services to enhance the customer experience.

Also in 2001, work was begun on renovating and remodeling the Complex front to bring it in line with the constructional developments taking place. This included the addition of two floors on the Complex's western façade that will be utilized as the Company's head office. Furthermore, a luxurious showroom was added on the side of the entrance and is now occupied by a world-renowned company.

Salhia car park project

Salhia car park is one of the Company's most important projects and is due to be completed in February 2003 at which stage it will provide shoppers with over 450 parking spaces. The project incorporates a two-story building comprising a lower basement and an upper basement. The ground floor will be landscaped in keeping with the nationwide trend of planting more trees.

By the end of 2001, Salhia Real Estate Company had made large strides in implementing the renovation and refurbishment of the Salhia Complex.

Report of the Board of Directors

Annual Report 2001

Sahab Tower
Sahab Tower is a deluxe development incorporating modern specifications and unique features corresponding to the Company's futuristic plans. The Tower has maintained a 95% occupancy rate, with gross annual income of KD 774,030 in 2001.

Fahad Al Salem Street and Al Soor Property
Occupancy rates at these properties, which include nine buildings in Fahad Al Salem Street in the capital, rose to 97% in 2001, with total income rising to KD 865,446. The properties comprise commercial spaces and residential flats. The Company is currently exploring avenues to utilize these properties in new ways and further develop them in the future.

Al-Asima Project
This huge project in the centre of the capital is still at the drawing board stage, with the Company awaiting official approval from government authorities and the municipal council to commence work on the project. The development will include up market commercial space, entertainment centres and car park.

Le Meridien Kuwait Hotel
The Company has maintained the leadership position of the Le Meridien Kuwait Hotel among 5-star hotels in Kuwait. The Hotel continues to offer the highest standards of excellence and service, due in large part to the continuous investment on the part of the Company in remodeling and upgrading the hotel facilities. The Hotel was given a new and improved look last year as part of a refurbishment and remodeling program that included the following:

- The refurbishment and renovation of the 16th floor to include Al Thuraya Function and Conference Ballroom, a luxurious space with panoramic views over Kuwait City, as well as three additional neighboring ballrooms.
- The opening of new business floors, Royal Club, consisting of 47 rooms incorporating the latest entertainment and luxury features designed to meet the needs of businessmen.
- The opening of Café Royal in the ground floor of Salhia Complex with its European-style décor, cooking facilities and Lebanese bakery.
- The inauguration of the Health Club and in-house swimming pool on the 15th floor, equipped with the latest exercise equipment and recreational facilities.
- The opening of a modern telecommunications and internet services centre.

It should be noted that the Company has invested approximately KD 4.6 million in remodeling and refurbishing the Hotel's amenities in order to enhance its competitive edge among Kuwait's luxury hotels.

Sahab Tower is a deluxe development incorporating modern specifications and unique features corresponding to the Company's futuristic plans.

الراية

ARRAYA

Report of the Board of Directors

Annual Report 2001

Arraya Project
The scarcity of modern-style commercial complexes encouraged Salhia Real Estate Company to undertake the construction of high-class commercial complex project, representing one of the most significant landmarks in the State of Kuwait, and to bring through its layout the characteristics of quality, durability sturdiness. Arraya project is one of the Company's most important and strategic projects and is expected to yield high returns in the years to come. Work on the project began in April 2000, and the Complex is due to open during the last quarter of 2002. The total construction cost of the Arraya project is estimated at approximately KD 27 million. The project is expected to serve as a commercial magnet and turn the area into an up market commercial locality.

The Arraya project is a unique and fully integrated property project that will include the following facilities:

1. Luxury Commercial Complex
Arraya's commercial complex consists of three floors, a ground floor and two mezzanine floors, occupied by international-standard stores. The Complex will focus on the provision of superior services to tenants. The total net lettable area is approximately 12,000 square metres.

2. Marriott 3-Star Hotel
The Arraya structure includes a 34-storey tower that will be partly occupied by a hotel. The hotel has been designed to high international standards and specifications and will cater to the needs of businessmen and other visitors.

3. Downtown Commercial Offices
The seven floors on top of the hotel are designated as office space for major companies and establishments. They have been designed to meet the highest technical standards and combine excellence in design, practical utilization of space, privacy and state-of-the-art technology. Touted as the Company's best-ever project, Arraya's commercial offices will provide tenants with the most advanced technologies available today.

4. Car Park Building
A multi-story car park will accommodate up to 1,400 cars. The building will be connected to the commercial complex by means of multi-level pedestrian bridges.

5. Convention Centre
The project includes a well-appointed centre for meetings, conferences and public and private functions. It is currently being finished using the most luxurious decor and interior designs, while the most advanced technologies are being utilized in the Centre's audio-visual and telecommunications systems.
The Centre includes a major ballroom and a number of conference rooms with a total area of approximately 2,500 square metres. The Centre is a two-story facility with a basement that will be used for services.
To facilitate the movement of visitors to and from the rooms, spacious entrances lead directly to the car park, and there is also an entrance on the main road. The Centre's total built-up area is approximately 2,750 square metres.

The total construction cost of the Arraya project is estimated at approximately KD 27 million. The project is expected to serve as a commercial magnet and turn the area into an upmarket commercial locality.

Report of the Board of Directors

Annual Report 2001

Haddia has been remarkably successful in managing these residences and as a result has won great acclaim among companies involved in the care of the elderly.

OVERSEAS ACTIVITY

Haddia Gmbh

Haddia Gmbh is under the full control of Salhia Real Estate Company, with the latter holding an 89.72% equity stake in this German company. Haddia Gmbh is engaged in the ownership and management of residences used as nursing homes in the Federal Republic of Germany. Since 1994, Haddia has been remarkably successful in managing these residences and as a result has won great acclaim among companies involved in the care of the elderly. This, in turn, has prompted the Company's Board of Directors to approve a strategic policy of expanding its property holdings and its geographical presence in central and northern Germany by constructing or acquiring similar facilities.

This policy has seen the Company's property holdings rise from six in 1994 to thirteen in 2001, the latest acquisition being the 126-bed Klingenberg building in March 2001. The 143-bed Wiesen Grund building has also been completed to the highest modern specifications. The Company plans to replicate these experiences by constructing similar buildings in other locations and to the same specifications that have won the praise and commendation of health insurance organizations and local municipalities in North Germany.

The Company currently holds properties in six German cities, namely Hanover, BadPyrmont, Badschwartau, IzernHagen, KlineDenkteh and QuickBorne.

The total number of beds in the Company's properties is 900, and the number of flats is 176. The bed occupancy rate is currently 98%, while the flat occupancy rate is 92%. The Company's total turnover at the end of 2001 was KD 7.14 million (Euro 26.2 million), and this figure is expected to rise to KD 8.54 million (Euro 31.2 million) at the end of the current year, taking into account a full operational year for two buildings put into service during the course of 2001.

The management hopes to increase turnover gradually through a policy of upgrading existing buildings and acquiring new properties that meet the Company's standards. Haddia Gmbh's operational profit was KD 1.63 million (Euro 5.98 million) in 2001, with net profits standing at KD 250,000 (Euro 915,000).

Report of the Board of Directors

Annual Report 2001

Key Property Investments (KPI)

Key Property Investment (KPI) was incorporated in the United Kingdom on 16 May 1997 with an authorized capital of Sterling Pound 25 million. The prime objectives of the company include the identification of suitable property investments in Britain, primarily those that have the potential to result in higher rental revenues and market value once developed. KPI assets include the following:

1. Refuge Portfolio

KPI continued to divest the properties held in the Refuge Portfolio in accordance with a well-laid plan drawn up by the Board of Directors in 1997. In 2001, the Company divested eight properties to the tune of KD 4.15 million, posting a capital profit of KD 1.04 million.

2. Queens Mead and Kings Mead Shopping Centres, Farnborough, Hampshire

This property comprises two interconnected commercial centres with 129 shops, in addition to a commercial office building, 68 flats, a multi-story car park accommodating 750 cars and other facilities. The total built-up area of this property is 31,568 square metres. The Company has drawn up a plan to develop new shopping units of different sizes, in addition to a recreational centre that includes cinema complex and a number of restaurants.

3. New Investment Opportunities

The Company has continued to explore new investment opportunities in the United Kingdom capable of contributing towards increasing its asset base, income from rentals and profitability. In September 2001, KPI made an offer to acquire a property portfolio held by Marconi, and this deal was concluded in November 2001. KPI paid KD 14.67 million (Sterling Pound 32.83 million) for the portfolio, at an initial yield of 9.32%. The portfolio includes 11 properties in eight cities, all located within the geographical area covered by St. Modwen's regional office network.

KPI's Operational Results

At the end of 2001, KPI's total assets reached KD 22.66 million, with a net shareholders' equity of KD10.59 million. The Company's total turnover rose to KD 6.21 million from KD 3.71 million in 2000. Net pre-tax profits were KD 1.79 in 2001, compared to KD 1.29 million in 2000

Key Property Investments (KPI) paid up capital ownership is equally shared between both Salhia Real Estate Company and St. Modwen.

In September 2001, KPI made an offer to acquire a property portfolio held by Marconi, and this deal was concluded in November 2001.

Management
Annual Report 2001

Commitment to Quality and Customer Satisfaction

Anwar A. Al-Usaimi
Deputy Managing Director

Ali M. Al-Hamdan
Foreign Investments Manager

Engr. Saud Al-Saqer
Real Estate and Development Manager

Hany A. Abdelnour
Financial Manager

Engr. Tareq A. Al-Kandari
Real Estate Development Manager

Engr. Ahmed Yousef
Property Manager

Engr. Mohammed E. Alam
Maintenance Manager

Naji Soweidan
Marketing Manager

Engr. Kifah Georges
Project Manager

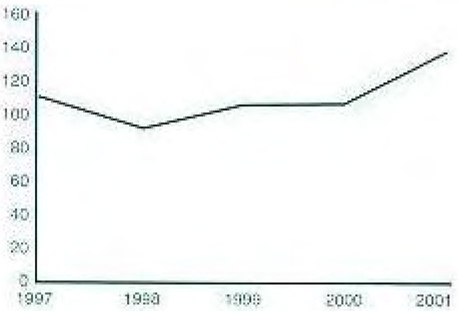
Khalid M. Al-Awadi
Personnel Manager

Salhia Real Estate Company has achieved a strong reputation for commitment to quality and to the utmost satisfaction of its elite and valued clientele.

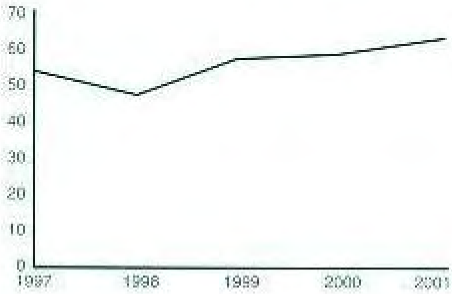
The present business methodology of Salhia Real Estate Company constitutes one of the basic foundations for future success. Being aware that human resources are our most valuable assets, the company has made substantial investments in updating the skills and competencies of our staff and considerable efforts in nurturing team spirit, so as to instill individual excellence and collective commitment to success. Such standards have become deeply rooted in the company's business culture.

Salhia Real Estate Company has achieved a strong reputation for commitment to quality and to the utmost satisfaction of its elite and valued clientele.

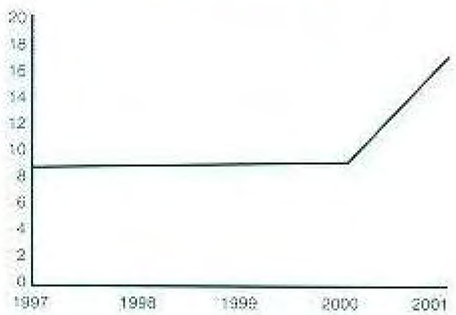
Fixed Assets (N.B.V.)*



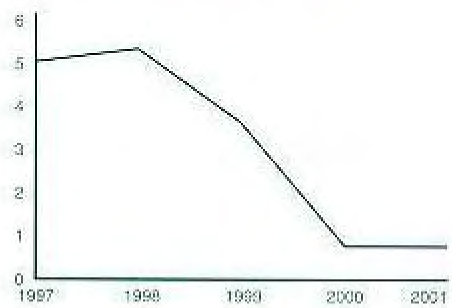
Shareholders' Equity*



Gross Revenue*



Government Debt*



* In millions of Kuwaiti Dinars

Financial Statements

Annual Report 2001

The Shareholders
Salhia Real Estate Company K.S.C. (Closed)
State of Kuwait

We have audited the accompanying consolidated balance sheet of Salhia Real Estate Company K.S.C. (Closed) and its subsidiaries (the group) as of December 31, 2001 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 parent company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 referred to above present fairly, in all material respects, the financial position of the group as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting 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 Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended December 31, 2001 that might have had a material effect on the business of the group or on its financial position.

Waleed A. Al Osaimi
License No. 68-A
Of Ernst & Young
(Al Aiban, Al Osaimi & Partners)

Dr. Shuaib A. Shuaib
License No. 33-A
Member of Andersen Worldwide
(Andersen Al-Bazie & Co.)

February 16, 2002

State of Kuwait

	Note	2001 KD	2000 KD
Assets			
Bank balances and cash		5,270,438	272,953
Investments	3	16,530,175	21,785,934
Inventories		226,148	191,388
Accounts receivable and prepayments	4	4,147,275	2,095,248
Investment in unconsolidated subsidiaries	5	-	3,409,023
Investment in joint venture	6	4,714,096	4,499,833
Investment properties	7	48,857,416	49,674,247
Fixed assets	8	57,169,759	24,748,103
Total assets		136,915,307	106,676,729
Liabilities, Minority Interest and Shareholders' Equity			
Due to banks		5,424,484	3,555,877
Accounts payable and accruals	9	4,495,105	2,505,763
Short-term loans	10	618,000	2,775,400
Long-term loans	11	63,323,308	39,009,000
Government loan	12	534,744	534,744
Total liabilities		74,395,641	48,380,784
Minority interest		125,671	-
Shareholders' equity:			
Share capital	13	23,841,246	23,841,246
Share premium		14,457,158	14,457,158
Treasury shares	14	(1,267,575)	(1,942,074)
Gain on sale of treasury shares		-	93,281
Statutory reserve	15	5,374,668	4,752,710
Voluntary reserve	15	5,374,668	4,752,710
General reserve		4,250,000	4,250,000
Foreign exchange translation adjustment		1,232	-
Cumulative changes in fair values		1,284,276	-
Retained earnings		9,078,322	8,090,914
Total shareholders' equity		62,393,995	58,295,945
Total liabilities, minority interest and shareholders' equity		136,915,307	106,676,729

Ghazi Fahad Alnafisi
Chairman and Managing Director

Salah Fahad Almarzouk
Vice Chairman

The accompanying notes are an integral part of the consolidated financial statements.

	Note	2001 KD	2000 KD
Revenue	24	17,977,617	9,572,699
Operating costs	24	(7,261,725)	(2,539,025)
Gross profit		10,715,892	7,033,674
Share in joint venture's results	6	677,263	473,378
Expenses and charges:			
Administrative expenses		(2,472,470)	(1,508,303)
Depreciation and Amortisation		(1,965,990)	(1,399,683)
Sales and marketing expenses		(712,141)	(505,346)
Profit from operations		6,242,554	4,093,720
Investment income	16	2,937,995	1,457,841
Provision for investments		-	(858,665)
Gain on foreign currency translation		636,003	582,225
Interest income		77,573	9,410
Other income		224,973	123,022
Financial charges		(3,785,395)	(3,125,569)
Profit from ordinary activities		6,333,703	2,281,984
Extraordinary items	12	-	2,927,120
Profit before minority interest and tax		6,333,703	5,209,104
Minority interest		(25,340)	-
Tax		(88,786)	-
Profit for the year		6,219,577	5,209,104
Contribution to Kuwait Foundation for the Advancement of Sciences		(111,952)	(93,764)
Directors' fees		(77,000)	(45,000)
National Labour support tax		(135,217)	-
Net profit for the year		5,895,408	5,070,340
		Fils	Fils
Earnings per share	17	25.2	21.8

The accompanying notes are an integral part of the consolidated financial statements.

	Note	2001 KD	2000 KD
Cash flows from operating activities:			
Profit for the year before extraordinary items, minority interest, tax, contribution to KFAS, directors' fees and National Labour Support Tax		6,333,703	2,281,984
Adjustments for:			
Investment income		(2,937,995)	(1,457,841)
Share in joint venture's results		(677,263)	(473,378)
Interest income		(77,573)	(9,410)
Gain on foreign currency translation		(636,003)	(582,225)
Financial charges		3,785,395	3,125,569
Provision for and write-off of receivables		-	23,326
Provision for investments		-	858,665
Depreciation and Amortisation		1,965,990	1,399,683
Net gain on disposal of fixed assets		(114,481)	(3,715)
Provision for employees' terminal benefits		85,821	171,273
Operating profit before changes in operating assets and liabilities		7,727,594	5,333,931
(Increase) decrease in inventories		(6,910)	42,514
(Increase) decrease in accounts receivable and prepayments		(1,478,569)	3,804
Increase in accounts payable and accruals		323,157	682,292
Employees' terminal benefits paid		(6,381)	(63,165)
Cash from operations		6,558,891	5,999,376
Interest received		80,272	158,935
Financial charges paid		(3,900,274)	(3,127,141)
Directors' fees paid		(45,000)	(45,000)
Payment to KFAS		(93,764)	(101,147)
Net cash provided from operating activities		2,600,125	2,885,023
Cash flows from investing activities:			
Purchase of investments		(1,642,350)	(4,318,846)
Proceeds from sale of investments		10,340,856	4,819,851
Dividends received		1,160,900	2,043,681
Proceeds on disposal of investment properties and fixed assets		935,491	464
Purchase of investment properties and fixed assets		(11,145,676)	(5,362,529)
Net cash of consolidating subsidiaries		446,063	-
Decrease in investment in unconsolidated subsidiaries		-	91,963
Net cash from (used in) investing activities		95,284	(2,725,416)
Cash flows from financing activities:			
Proceeds from short-term loans acquired		-	616,000
Short-term loans paid		(2,596,221)	(4,900,000)
Proceeds from long-term loans acquired		5,945,000	14,585,000
Government loan paid		-	(2,172,406)
Purchase of treasury shares		-	(201,591)
Proceeds from sale of treasury shares		569,413	12,531
Dividends paid		(3,484,723)	(3,504,299)
Net cash provided from financing activities		433,469	4,435,235
Increase in cash and cash equivalents		3,128,878	4,594,842
Cash and cash equivalents at beginning of the year		(3,282,924)	(7,877,766)
Cash and cash equivalents at end of the year	18	(154,046)	(3,282,924)

The accompanying notes are an integral part of the consolidated financial statements.

	Share capital KD	Share premium KD	Treasury shares KD	Gain on sale of treasury shares KD	Statutory reserve KD	Voluntary reserve KD	General reserve KD	Foreign currency translation adjustment KD	Cumulative changes In fair value KD	Retained earnings KD	Total KD
At December 31, 1999	23,841,246	14,457,158	(1,753,987)	94,254	4,231,800	4,231,800	4,250,000	-	-	7,554,831	56,907,102
Cash dividends for 1999 - 15%	-	-	-	-	-	-	-	-	-	(3,492,437)	(3,492,437)
Purchase of treasury shares	-	-	(201,591)	-	-	-	-	-	-	-	(201,591)
Proceeds from sale of treasury shares			13,504	(973)	-	-	-	-	-	-	12,531
Transfer to reserves	-	-	-	-	520,910	520,910	-	-	-	(1,041,820)	-
Net profit for the year	-	-	-	-	-	-	-	-	-	5,070,340	5,070,340
At December 31, 2000	23,841,246	14,457,158	(1,942,074)	93,281	4,752,710	4,250,000	4,752,710	-	-	8,090,914	58,295,945
Restatement in accordance with IAS 39	-	-	-	-	-	-	-	-	-	307,009	307,009
Fair value adjustment on investments sold	-	-	-	-	-	-	-	-	-	(119,084)	(119,084)
Cash dividends for 2000 distributed	-	-	-	-	-	-	-	-	-	(3,489,808)	(3,489,808)
Foreign currency translation adjustment on consolidation (See Note 5)	-	-	-	-	-	-	-	-	-	(567,381)	(567,381)
Subsidiaries accumulated retained earnings (See Note 5)	-	-	-	-	-	-	-	-	-	216,985	216,985
Net profit for the year	-	-	-	-	-	-	-	-	-	5,895,408	5,895,408
Foreign currency translation adjustment	-	-	-	-	-	-	-	1,232	-	-	1,232
Transfer to reserves	-	-	-	-	621,958	621,958	-	-	-	(1,243,916)	-
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	-	1,284,276	-	1,284,276
Sale of treasury shares	-	-	674,499	(93,281)	-	-	-	-	-	(11,805)	569,413
At December 31, 2001	**23,841,246**	**14,457,158**	**(1,267,575)**	**-**	**5,374,668**	**5,374,668**	**4,250,000**	**1,232**	**1,284,276**	**9,078,322**	**62,393,995**

The accompanying notes are an integral part of the consolidated financial statements.

1. Activities

Salhia Real Estate Company - K.S.C. (Closed) (the parent company) is a Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. Its registered address is P. O. Box 23413 Safat 13095 Kuwait. The group's main activities comprise dealing in various real estate activities, in particular the owning and renting out of commercial property, including hotel accommodation in Kuwait and the operation of care homes in Germany. Surplus funds are invested in real estate and securities portfolios managed by others. Details of the subsidiary company are set out in Note 5.

At December 31, 2001, the group had 1,057 employees (2000: 923 employees).

The consolidated financial statements were authorized for issue by the parent company's Board of Directors on February 16, 2002. The Shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB, and applicable requirements of Ministerial Order No. 18 of 1990. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available for sale investments and have been presented in Kuwaiti Dinars.

The consolidated financial statements incorporate the financial statements of the parent company and its subsidiary Haddia Holding Gmbh for the year ended December 31, 2001.

In 2001, the group adopted IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Properties". Further information is disclosed in the accounting policies.

The financial effects of adopting IAS 39 are reported in the statement of changes in shareholders' equity. IAS 39 has been applied prospectively in accordance with the requirements of the standard and therefore comparative financial information has not been restated.

The company has adopted the cost model for valuation of investment properties as provided by IAS 40 whereby investment properties are stated at cost less accumulated depreciation and impairment losses, if any, and the fair value of such properties is disclosed based on appraisals done at year end. This implementation did not have any impact on the financial statements.

b) Basis of consolidation

A subsidiary is a company in which the parent company owns directly or indirectly more than 50% of the voting capital and has control, or is a company where the parent company owns 50% or less of the voting capital but has a sufficient degree of controlling power over the companies including the power to govern and control the financial and operating policies so as to benefit from its activities.

A subsidiary is consolidated from the date when the parent company obtains control until such time as control ceases unless control is intended to be temporary and the subsidiary is exclusively held with a view to disposal, in which case it is carried at cost less impairment.

The parent company consolidates the subsidiary's assets, liabilities and results on a line-by-line basis and discloses the minority interest separately. All intra-group balances and transactions are eliminated from the consolidated financial statements.

2. Significant accounting policies (continued)

c) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances maturing within three months from the date of acquisition.

d) Investments

Previously, the group carried quoted investments at the lower of cost or market value on an aggregate basis and unquoted investments at cost, less provision for any decline in value which is other than temporary. Subsequent to the implementation of IAS 39, the group reclassified all investments as "available for sale" and remeasured them to fair value. The gain or loss on remeasuring to fair value on January 1, 2001 was taken to retained earnings. Unrealized fair value gains and losses on available for sale investments subsequent to January 1, 2001 are reported in the cumulative changes in fair values reserve within equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the changes in fair value as previously reported are removed from equity and are included in the consolidated statement of income within investment income.

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

For investments traded in organized financial markets, fair value is determined by reference to stock exchange 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, or 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 impairment.

e) Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future cash flows, discounted at original interest rates and any impairment loss is recognized in the statement of income.

f) Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognized when the group becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when the group loses control of the contractual rights that comprise the financial asset and a financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

All financial instruments are initially recognized at cost (which includes transaction costs).

g) Inventories

Inventories of food and beverages are valued at the lower of cost and net realisable value after making due allowance for any expired or slow-moving items. Cost is determined by the first-in, first-out method.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on sale.

Inventories of operating supplies are valued at cost less due allowance for any obsolete or slow-moving items. Cost is determined on a weighted average basis.

h) Accounts receivable

Accounts receivable are stated at original invoice amount less provision for impairment. The group's terms of sale require the amounts to be paid within 30 days of the date of sale or of the date of rendering of services.

i) Investment in joint venture

The investment in joint venture is accounted for under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognize the group's share of profits or losses and other changes in equity of the joint venture. Distributions received from joint venture reduce the carrying amount of the investment.

j) Fixed assets

Fixed assets are recorded at cost. Freehold land is not depreciated. Depreciation is provided on a straight line basis on fixed assets at rates calculated to write-off the cost of each asset over its expected useful life as follows:

Buildings and related immovable equipment	10 to 50 years
Furniture and equipment	10 years
Motor vehicles	5 years

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

k) Investment properties

Investment properties are recorded at cost. Freehold land is not depreciated. Buildings are depreciated using the straight-line method over their estimated useful lives which vary between 10 to 50 years.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, properties are written down to their recoverable amount.

l) Accounts payable

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether or not billed by the supplier. Accounts payable are normally settled within 30 days.

m) Taxation

Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the group operates.

2. Significant accounting policies (continued)

n) Provisions

A provision is recognized when, and only when the group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

o) Treasury shares

The parent company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (gain on sale of treasury shares) which is non distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

p) Income recognition

Rental income from investment properties and interest are recognized on an accrual basis. Hotel and care home income represent the invoiced value of services provided during the year. Dividend income is recognized when the group's right to receive payment is established.

q) Finance costs

Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other finance costs are recognized as an expense in the period in which they are incurred.

r) Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognized 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.

s) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency of the parent and subsidiary companies at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

On consolidation, the assets and liabilities of the subsidiaries are translated into Kuwaiti dinars at the year end rates of exchange and the results of the subsidiary are translated into Kuwaiti dinars at the average rates of exchange for the year. All exchange differences arising on consolidation are included within shareholders' equity as foreign currency translation adjustment.

t) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

3. Investments

	2001 KD	2000 KD
Quoted securities	10,780,916	16,142,587
Unquoted securities	5,749,259	5,582,035
Real estate	-	61,312
	16,530,175	21,785,934

On adoption of IAS 39 effective January 1, 2001, the group classified its investments as "available for sale" and re-measured them at fair value resulting in an Unrealized gain of KD 307,009 which was taken to opening retained earnings as of January 1, 2001.

Investments amounting to KD 2,474,866 are carried at cost since fair values cannot be reliably estimated because they comprise unquoted securities held within managed portfolios and the managers have been unable to indicate any estimates of the range within which fair values might lie.

An investment with a carrying value of KD 412,070 is mortgaged against bank loans (See Note 11).

4. Accounts receivable and prepayments

	2001 KD	2000 KD
Hotel guests and care home residents receivables	817,216	323,186
Rent and other receivables	173,005	371,179
Due from unconsolidated subsidiary	-	2,664
Due from related parties	1,026,682	377,757
Deposits and prepaid expenses	188,217	66,830
Advance payments to contractors	1,017,609	133,280
Receivables on sale of investments	179,642	793,847
Other receivables	744,904	26,505
	4,147,275	2,095,248

5. Investment in unconsolidated subsidiaries

During the year the parent company has consolidated its subsidiaries due to a change in its strategy. Previously the parent company intended to dispose the subsidiary in the near future. As a result of a reassessment of the market, the parent company now intends to retain control over the subsidiaries for the foreseeable future. Previously the subsidiaries were carried at cost. The accumulated retained earnings of the subsidiaries at January 1, 2001 and the foreign currency translation effect on consolidation have been adjusted against retained earnings.

Prior year comparatives have not been restated because the circumstances relating to change in events is a current year occurrence and restatement of comparatives would not reflect the correct position as at the previous year end.

5. Investment in unconsolidated subsidiaries (continued)

Details of subsidiary companies are set out below:

Name of the company	Percentage of ownership	Country of incorporation	Purpose
Haddia	89.72%	Germany	Holding company
SAREC	89.72%	Germany	Leasing of properties
Dana	89.72%	Germany	Care home operator
Dana ambulante	89.72%	Germany	Care home service provider

The summarized consolidated balance sheet and income statement of the subsidiaries are as follows:

	2001 KD	2000 KD
Property, plant and equipment	22,686,260	19,875,658
Other assets	1,897,985	3,271,326
	24,584,245	23,146,984
Accruals, other liabilities	(790,185)	(3,148,013)
Loans payable	(22,571,584)	(18,898,990)
Net assets	1,222,476	1,099,981

	12 months	12 months
Total revenues	7,096,155	6,306,935
Net profit	246,502	229,053

6. Investment in joint venture

The parent company has a 50% interest in a joint venture in the United Kingdom. As at December 31, 2001, the parent company's share of the assets, liabilities and results of operations of the joint venture was as follows:

	2001 KD	2000 KD
Current assets	6,821,375	3,554,464
Long-term assets	11,310,272	8,607,000
Current liabilities	1,032,745	827,857
Long-term liabilities	11,800,124	6,818,330
Revenues	1,398,685	1,262,806
Expenses	721,422	789,428

The investment in the joint venture comprises the following:

	2001 KD	2000 KD
Carrying value of the investment at beginning of the year	4,499,833	5,028,860
Dividend received	(453,000)	(952,750)
Establishment costs written off	(10,000)	(49,655)
Share in the joint venture's results	677,263	473,378
Carrying value of the investment at end of the year	4,714,096	4,499,833

7. Investment properties

	Freehold land KD	Buildings KD	Total KD
Balance at January 1, 2001	35,470,340	14,203,907	49,674,247
Disposals	(809,909)	-	(809,909)
Transfer from fixed assets (See Note 8)	-	562,262	562,262
Depreciation for the year	-	(569,184)	(569,184)
Balance at December 31, 2001	34,660,431	14,196,985	48,857,416
Cost	34,660,431	23,733,959	58,394,390
Accumulated depreciation	-	(9,536,974)	(9,536,974)
Balance at December 31, 2001	34,660,431	14,196,985	48,857,416

Freehold land and buildings with a carrying value of KD 19,622,379 (2000: KD 15,438,543) are mortgaged against certain bank loans (see Note 11). The fair value of the investment properties amounted to KD 82,596,005 at the balance sheet date. The fair values have been determined by independent valuation using acceptable methods of calculation such as sales comparison and income capitalization.

8. Fixed assets

	Freehold land KD	Buildings KD	Furniture and Equipment KD	Motor vehicles KD	Capital work in progress KD	Total KD
Balance at January 1, 2001	8,606,462	10,243,104	951,895	27,756	4,918,886	24,748,103
Arising on consolidation	2,715,052	19,441,903	1,080,107	-	11,033	23,248,095
Additions	1,903,125	-	295,549	73,950	8,873,907	11,146,531
Disposals	-	-	-	(11,106)	-	(11,106)
Transfers from capital work in progress	-	-	99,380	-	(99,380)	-
Transfer to investment properties (See Note 7)	-	-	-	-	(562,262)	(562,262)
Depreciation for the year	-	(903,352)	(476,043)	(17,411)	-	(1,396,806)
Foreign currency retranslation	-	(1,995)	(801)	-	-	(2,796)
Balance at December 31, 2001	13,224,639	28,779,660	1,950,087	73,189	13,142,184	57,169,759
Cost	13,224,639	39,178,649	5,509,742	173,053	13,142,184	71,228,267
Accumulated depreciation	-	(10,396,994)	(3,558,854)	(99,864)	-	(14,055,712)
Foreign currency retranslation	-	(1,995)	(801)	-	-	(2,796)
Net carrying amount at December 31, 2001	13,224,639	28,779,660	1,950,087	73,189	13,142,184	57,169,759

Freehold land and buildings with a carrying value of KD 40,979,523 (2000: KD 15,438,543) are mortgaged against certain loans (See Note 11).

9. Accounts payable and accruals

	2001 KD	2000 KD
Rents received in advance	114,613	14,249
Trade accounts payable	523,097	602,562
Retentions payable	601,679	-
Accrued expenses	839,225	398,454
Employees' terminal benefits	777,142	697,702
Deposits from tenants, hotel and care home guests	487,791	324,978
Provisions	72,905	72,904
Kuwait Foundation for the Advancement of Sciences	111,952	93,764
National Labour Support Tax	135,217	-
Amounts due to related parties	307,365	92,049
Unpaid dividends	16,038	10,953
Other	508,081	198,148
	4,495,105	2,505,763

10. Short-term loans

Short-term loans are denominated in the following currencies:

	2001 KD	2000 KD
Swiss Francs	-	878,900
US Dollars	618,000	614,000
Japanese Yen	-	1,282,500
	618,000	2,775,400

The loans carry variable interest rates which vary between 1% and 1.5% over LIBOR.

11. Long-term loans

Long-term loans are denominated in the following currencies:

	2001 KD	2000 KD
Kuwaiti Dinars	36,485,000	32,535,000
German Marks	-	3,504,000
Euro	22,373,307	-
Japanese Yen	4,465,001	2,970,000
	63,323,308	39,009,000

The loans are due for repayment as follows:

	2001 KD	2000 KD
2002	1,978,233	2,734,000
2003	9,782,650	3,648,000
2004	10,233,141	10,314,600
2005	7,154,539	8,910,800
2006	5,154,189	7,216,600
After 2006	29,020,556	6,185,000
	63,323,308	39,009,000

11. Long-term loans (continued)

The loans are repayable in equal periodic installments over variable periods of time with maturities extending to December 31, 2009.

The Kuwaiti dinar loans carry variable interest rates, which vary between 1% and 2% over the Central Bank discount rate. Interest on these loans is repriced every 6 months. The foreign currency loans carry both variable interest rates which vary between 1% and 1.5% over LIBOR and are repriced every 3 to 6 months and fixed interest rates which range from 5% to 7%.

Bank loans of the group with a carrying value of KD 63,841,289 (2000: KD 22,057,000) are secured by investment properties with a carrying value of KD 19,622,379 (2000: 19,475,175) and fixed assets with a carrying value of KD 40,979,523 (2000: KD 15,438,543) and an investment with a carrying value of KD 412,070 owned by the group. Of these, bank loans amounting to KD 19,581,634 have been obtained by subsidiaries under terms of which lenders have no recourse to the parent company in the event of default.

12. Government loan

The government loan relates to a loan of KD 1,171,655 previously rejected as part of the pre-invasion debt settlement agreement in accordance with Law 41 of 1993 as amended. During the year ended December 31, 2000, the parent company obtained a final court ruling in its favour and, as a result, the parent company is only obliged to repay KD 534,744. The remaining balance of KD 636,911 and an amount of KD 1,450,568 of the provision previously taken against this lawsuit, which were included under accounts payable and accruals, in addition to the remaining balance of the accrued discount on settlement of the government loan of KD 839,641 were realized as extraordinary gains under the extraordinary items.

13. Share capital

At December 31, 2001, the parent company's authorized, issued and fully paid share capital consisted of 238,412,460 shares of 100 fils each (2000: 238,412,460 shares).

14. Treasury shares

	2001	2000
Number of shares	**3,758,572**	5,758,572
Percentage of share capital	**1.6 %**	2.4%
Market Value - KD	**1,014,814**	1,526,022

15. Statutory and voluntary reserves

As required by the Commercial Companies Law and the parent company's articles of association, 10% of profit for the year is transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of paid-up share capital. Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

As required by the parent company's articles of association, 10% of profit for the year is transferred to voluntary reserve. Such transfer may discontinue by a resolution at the General Assembly.

16. Investment income

	2001 KD	2000 KD
Gain on sale of investments	1,778,139	267,436
Dividends	1,160,900	1,090,931
Interest	8,956	149,129
Other investment loss	(10,000)	(49,655)
	2,937,995	1,457,841

17. Earnings per share

	2001 KD	2000 KD
Net profit for the year	5,895,408	5,070,340

	Shares	Shares
Number of shares outstanding:		
At beginning of the year	238,412,460	238,412,460
Weighted average number of treasury shares	(4,794,188)	(5,650,470)
Weighted average number of shares outstanding	233,618,272	232,761,990

	Fils	Fils
Earnings per share	25.2	21.8

18. Cash and cash equivalents

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

	2001 KD	2000 KD
Bank balances and cash	5,270,438	272,953
Due to banks	(5,424,484)	(3,555,877)
	(154,046)	(3,282,924)

19. Related parties

During the normal course of its business, the group conducts certain transactions with parties related to the group, prices of which are approved by management. The following is a summary of the significant related party balances:

	2001 KD	2000 KD
Balance sheet:		
Due from related parties	1,026,682	377,757
Staff receivables	56,517	26,505
Amounts due to related parties	307,365	92,049
Income statement:		
Investment income	8,956	149,129
Operating costs	590,671	450,593
Administrative expenses	-	48,275
Sales and marketing expenses	263,058	188,324

20. Employee information

At December 31, 2001, staff costs amounted to KD 5,263,002 (2000: KD 1,991,584).

21. Proposed dividend

The parent company's board of directors will propose a cash dividend of 18 fils per share for the year ended December 31, 2001 (2000: 15 fils) to the annual general assembly of the shareholders of the parent company. This proposal is subject to the approval of the annual general assembly of the shareholders of the parent company.

22. Fair value of financial instruments

The carrying values of variable rate short-term and long-term loans approximates their fair values because of the short- term repricing of interest rates. Fixed rate long term loans approximate their fair values because prevalent interest rates for similar loans are not significantly different from contractual rates. The fair value of the government loan represents the expected cash settlement under Law No. 41 of 1993 as amended. In the opinion of management, carrying values of all other financial instruments are not significantly different from fair values.

23. Risk management

In the ordinary course of business the group uses financial instruments. The use of financial instruments also brings with it associated inherent risks.

Details of the group's principal risk exposures and how they are managed are as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Financial assets which potentially subject the group to credit risk consists principally of bank balances and cash and receivables.

The group's cash is placed with high creditworthy financial institutions. The group's receivables are diversified across large number of customers thereby limiting credit risk exposure.

The group also controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties and assessing the creditworthiness of counterparties.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The group is exposed to market risk with respect to its investments.

The group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international equity and bond markets. In addition, the group actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

Interest rate risk

The group has significant financial liabilities that are subject to interest rate risk. Interest rate risk to the group is the risk of changes in market interest rates increasing the interest cost of its financial liabilities. The group limits interest rate risk by borrowing at variable interest rates with short repricing maturities and by monitoring changes in interest rates in the currencies in which its loans are denominated.

23. Risk management (Continued)

Currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk principally arises from the group's exposure to investments in overseas markets and borrowings in foreign currency. The group seeks to limit its exposure by investing in US dollar denominated markets and otherwise by borrowing in currencies that approximately match its investments in non-US dollar denominated markets.

The group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2001 KD Equivalent Long (short)	2000 KD Equivalent Long (short)
US Dollars	3,981,347	3,908,754
Japanese Yen	(4,368,994)	(3,975,842)
German Marks	-	(3,128,167)
Euro	1,291,863	-
Pound Sterling	1,263,555	378,490
Swiss Francs	-	878,900

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds, and borrowing lines are available to meet any commitments as they arise.

24. Segmental information

Primary segment information

The group is organized into functional divisions to manage its various lines of business. For the purposes of primary segment reporting, the parent Company's management has grouped the Company's products and services into the following business segments:

Real estate operations: Consist of development and leasing of property.

Hotel operations: Consist of the hotel hospitality activities provided through Le Méridien Hotel - Kuwait.

Care home operations: Consist of care home activities provided by the subsidiary company

24. Segmental information (Continued)

There were no inter-segmental transactions. The following is the detail of the above segments, which constitutes the primary segment information:

	December 31, 2001				December 31, 2000		
	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD	Real estate operations KD	Hotel operations KD	Total KD
Segment revenue	5,346,247	5,535,215	7,096,155	17,977,617	4,915,295	4,657,404	9,572,699
Segment operating costs	(458,150)	(2,489,826)	(4,313,749)	(7,261,725)	(442,587)	(2,096,438)	(2,539,025)
Segment results	4,888,097	3,045,389	2,782,406	10,715,892	4,472,708	2,560,966	7,033,674
Share of income from joint venture	677,263	-	-	677,263	473,378	-	473,378
Other operating expenses	(2,695,349)	(1,281,440)	(1,173,812)	(5,150,601)	(1,625,410)	(1,787,922)	(3,413,332)
Profit from operations	2,870,011	1,763,949	1,608,594	6,242,554	3,320,676	773,044	4,093,720
Interest income				77,573			9,410
Financial charges				(3,785,395)			(3,125,569)
Other non-operating income				3,798,971			2,163,088
Profit from ordinary activities				6,333,703			3,140,649
Minority interest				(25,340)			-
Tax				(88,786)			-
Profit for the year				6,219,577			3,140,649
Other non-operating expenses				(324,169)			(997,429)
Extraordinary item				-			2,927,120
Net profit for the year				5,895,408			5,070,340
Other information:							
Segment assets	105,256,187	2,360,779	24,584,245	132,201,211	62,076,113	14,967,139	77,043,252
Investment in joint venture	4,714,096	-	-	4,714,096	4,499,833		4,499,833
Unallocated assets	-	-	-		-		25,133,644
Total assets				136,915,307			106,676,729
Segment liabilities	48,305,912	2,727,960	23,361,769	74,395,641	46,231,898	2,010,122	48,242,020
Unallocated liability				-			138,764
Total liabilities				74,395,641			48,380,784
Capital expenditures	7,864,552	1,009,354	-	8,873,906	3,654,087	1,653,561	5,307,648
Depreciation	1,405,913	-	560,077	1,965,990	622,573	777,110	1,399,683
Other non-cash expenses					489,766	69,656	

24. Segmental information (Continued)

Secondary segment information

The group operates in two geographic markets, Kuwait and the rest of the world. The following table shows the distribution of the group's segment revenues, assets and capital expenditure.

	December 31, 2001			December 31, 2000		
	Kuwait KD	Rest of the World KD	Total KD	Kuwait KD	Rest of the World KD	Total KD
Revenue	10,881,462	7,096,155	17,977,617	9,572,699	-	9,572,699
Assets	102,883,912	34,031,395	136,915,307	94,148,206	12,528,523	106,676,729
Capital expenditure	11,145,676	-	11,145,676	5,307,652	-	5,307,652

25. Contingent liabilities and commitments

At the balance sheet date, the group had the following contingencies and capital commitments:

	2001 KD	2000 KD
Letters of guarantee on behalf of Le Méridien Hotel	50,000	50,000
Uncalled capital of investment in joint venture (GBP: 3,725,000)	1,687,000	1,687,000
Uncalled capital of an unquoted investment	1,500,000	1,500,000
Renovation project for Le Méridien Hotel	-	1,800,000
Construction project	18,500,000	16,500,000
	21,737,000	21,537,000

26. Compensation claim

The parent company has agreed with the Public Authority for the Assessment of Compensation a claim of KD 7 million (2000: KD 7 million) in respect of losses suffered as a result of the Iraqi invasion and occupation of Kuwait in 1990. The claim has been forwarded to the United Nations for settlement, as and when funds are made available. The consolidated financial statements do not include the amount of this claim.

	2001 KD	2000 KD
Assets		
Bank balances and cash	3,971,062	272,953
Investments	16,450,175	21,785,934
Inventories	198,298	191,388
Accounts receivable and prepayments	3,576,516	2,095,248
Investment in unconsolidated subsidiaries	4,262,336	3,409,023
Investment in joint venture	4,714,096	4,499,833
Investment properties and fixed assets	83,340,915	74,422,350
Total assets	116,513,398	106,676,739
Liabilities and shareholders' equity		
Liabilities		
Due to banks	5,424,484	3,555,877
Accounts payable and accruals	3,399,710	2,505,763
Short - term loans	618,000	2,775,000
Long - term loans	43,741,654	39,009,400
Government loans	534,744	534,744
Total Liabilities	53,718,592	48,380,784
Shareholders' equity		
Share capital	23,841,246	23,841,246
Share premium	14,457,158	14,457,158
Treasury shares	(1,267,575)	(1,942,074)
Gain on sale of treasury shares	-	93,281
Statutory reserve	5,380,048	4,752,710
Voluntary reserve	5,380,048	4,752,710
General reserve	4,250,000	4,250,000
Cumulative changes in fair values	1,220,153	-
Retained earnings	9,533,728	8,090,914
Total Shareholders' equity	62,794,806	58,295,945
Total Liabilities and Shareholders' Equity	116,513,398	106,676,729

	2001 KD	2000 KD
Rental income and income from hotel operations	10,881,462	9,572,699
Operating costs	(2,947,976)	(2,539,025)
Gross Profit	7,933,486	7,033,674
Share in joint venture's results	677,263	473,378
Administrative expenses	(1,931,301)	(1,508,303)
Depreciation and Amortization	(1,405,912)	(1,399,683)
Sales and marketing expenses	(639,574)	(505,346)
Profit from operations	4,633,962	4,093,720
Investment income	3,360,371	1,457,841
(Provision) no longer required for investments	-	(858,665)
Gain on foreign currency translation	636,003	582,225
Interest income	9,211	9,410
Other income	213,066	123,022
Financial charges	(2,579,235)	(3,125,569)
Profit for ordinary activities	6,273,378	2,281,984
Extraordinary items	-	2,927,120
Profit for the year	6,273,378	5,209,104
Contribution to Kuwait Foundation for the Advancement of Sciences	(112,921)	(93,764)
Director's fees	(77,000)	(45,000)
National Labour Support Tax	(136,403)	-
Net profit for the year	5,947,054	5,070,340
	Fils	Fils
Earnings per share	25.5	21.8