



a bright  
future  
a promising  
tomorrow



شركة الصالحيّة العقارية ش.م.ك.  
Salhia Real Estate Company K.S.C.

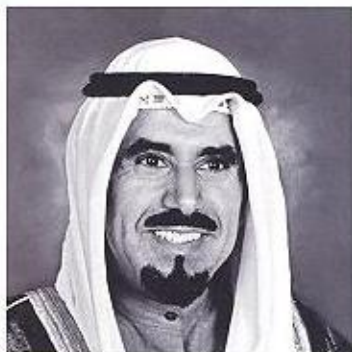
Annual Report 2002

# Contents

## Annual Report 2002

- 03 Introduction
- 05 Chairman's Message
- 09 Board of Directors - Report of the Board of Directors
- 11 Report of the Board of Directors - Local Investments
- 21 Report of the Board of Directors - Foreign Investment
- 27 Executive Management
- 28 Financial Highlights
- 29 Financial Statements

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



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



# Introduction

During the year 2002, an optimistic atmosphere prevailed in Kuwait's real estate sector. This positive outlook was encouraged by several factors; most importantly the government's initiatives towards vitalising the private sector's role in the Kuwaiti economy and attracting the private sector's contribution to furthering national development. Such initiatives were mainly manifested in accelerating the privatisation of infrastructure projects and other BOT (Built-Operate-Transfer) projects tendered in the market.

Other factors that solidified the real estate sector's positive outlook included higher oil prices which enabled the government to increase expenditure on vital projects. Similarly, the flow of UN compensations created an additional liquidity that gave momentum to several local economic sectors, including the real estate sector that displayed an energetic performance accompanied by a rise in prices. These factors favourably reflected on the performance of the Kuwait Stock Exchange during the year, particularly in the last quarter, with the KSE Index soaring up to levels that placed it amongst the best financial markets of the world.

Another factor that contributed to the revival of the real estate sector was the frequent reduction of interest rates on lending. This environment encouraged real estate investors to borrow funds and expand their investments. Salhia Real Estate Company was no exception. Its borrowing activities peaked during 2002 in order to finance its strategic expansion in both local and foreign markets. Other objectives underlying this increased borrowing included the Company's desire to enhance its contribution to urban development in the country. These decisions enabled the Company to reaffirm its leading position in Kuwait's real estate sector as a pioneer, introducing the latest concepts of architectural design and maintaining the highest standards that meet the expectations of discerning clientele.

With the same focus in mind, Salhia Real Estate Company took the initiative of developing the Arraya project, which is viewed as a masterpiece of architectural art in Kuwait. Located in the heart of the commercial and financial district of down-town Kuwait, Arraya incorporates extraordinary design, flawless engineering, and the highest standards of safety, convenience and efficiency of performance. Arraya project does not only satisfy the present needs of discerning tenants and shoppers, but also responds to future changes in styles and trends. This integrated real estate solution combines multi-purpose units such as corporate offices and commercial complex. Arraya's image as an architectural landmark is enhanced by the Courtyard Hotel managed by Marriott International Inc., with its long experience in managing hotels worldwide. Arraya also includes a modern convention centre and a multi-story car park. This multi-function modern environment is complemented by a number of high-class recreational facilities that enhance visitors' perception of Arraya as a glittering jewel on Kuwait's architectural landscape. It also reinforces Salhia's leading position and stands out as another success story of the company serving the Kuwaiti society and enhancing Kuwaiti lifestyles.

Salhia Real Estate Company looks forward to the future with confidence in its success and the pioneering role it plays in adding aesthetic beauty to Kuwait and creating a very positive impression on visitors to the country.



Salhia Real Estate Company looks to the future with confidence and optimism. Confidence that is drawn from the company's human assets and financial resources that create a strong competitive edge and an optimistic outlook derived from the consistent growth of the company's portfolio and profitability. Both will ensure a maximisation of value for shareholders and a rewarding return on their investment in the company.

# Chairman's Message

## Dear Shareholders,

It is my pleasure to present the Board of Directors' report on the activities of the company during the financial year ended 31 December 2002 and to congratulate you on the good results achieved by the Company during this period.

2002 has been a year of significant achievements and accomplishments, both domestically and abroad. Salhia Real Estate Company posted highly acceptable operating results in terms of both profitability and growth. Total profits of the company stood at KD 20.5 million, compared to KD 18.0 million in 2001; an increase of 12.2%. Net operating profit reached KD 6.63 million, up by 11% from the previous year's net profit of KD 5.89 million. The company's total assets also increased to KD 152.72 million, up by 10.4% from KD 136.91 million for the previous year. Shareholders' equity rose by 5.4% from KD 62.39 million in 2001 to KD 65.96 million in 2002.

I am pleased to inform you that the occupancy ratio in all of the company's local properties reached 100% by the end of 2002, and that all our projects are smoothly progressing according to the scheduled phases. During the year, a set of favourable factors reflected positively on the costs of these projects. Not only did we secure competitive rates from the contractors, but were also able to source building materials at prices that were lower than those estimated in the projects' budgets or within their limits. Another positive factor was the reduction of interest rates on lending during 2002, which was the year in which our borrowing reached its peak, so as to finance expansion in the company's activities. This reduction in rates reduced the cost of funding to lower than expected levels.

As originally planned, work is steadily progressing on the Arraya project which is scheduled for opening in the second half of 2003. Arraya is viewed as a masterpiece of modern architecture that enhances the architectural style of Kuwait by adding a new dimension to civilised living and harmonises with the prosperity and advancement of the country. We are about to finalise the leasing of the commercial complex in this unique architectural landmark which has received extraordinary interest from prospective tenants.

The Salhia Car Park project is progressing as scheduled and will be ready for operation during the second half of 2003. It must be mentioned that this project is not merely a car park, but represents an architectural initiative that adds another aesthetic dimension to the Salhia area. The parking space available in the two basements will significantly contribute to easing the parking problem in the Salhia area and will facilitate the access of visitors and tenants to the Salhia Complex and Sahab Tower. This should in turn increase the number of shoppers.

The Salhia Complex Entrance project is expected to be completed soon and will integrate seamlessly with the luxurious appeal of the entire project.

Another prominent development during the year was the signing of an agreement with Marriott International Inc. to manage the company's hotel (formerly known as Le Meridien Hotel). With this agreement, JW Marriott Hotel will be the first of its kind in Kuwait and the second hotel opened in the region under this name. The company also agreed to award the management of the convention centre in Arraya to Marriott International Inc.. It is worth mentioning that the company signed last October 2001 a similar agreement with the same group to manage Courtyard Marriott Hotel in Arraya. It is hoped that these agreements will upgrade the management style of the company's hotels, given the high reputation the Marriott International Inc. enjoys and the extensive experience it has in managing hotels. These facts should reflect positively on Salhia Real Estate Company's income from the hotels sector.

In the international arena, the company's expansion was concentrated in UK and Germany. Our UK-based affiliate 'KPI' purchased the Alstom portfolio consisting of 19 properties with a total value of KD 53.5 million (£ 111 million). This portfolio, which was purchased following the increase of KPI's capital, is expected to yield an annual return of KD 5.3million (£ 11 million), or about 10% of the portfolio's value. The leasing of the components of this portfolio is guaranteed because it was acquired on a lease-back basis.

2002 has been a year of significant achievements and accomplishments, both domestically and abroad. Salhia Real Estate Company posted highly acceptable operating results in terms of both profitability and growth.





## Chairman's Message (continued)

In Germany, Haddia GmbH adopted a plan for expansion in the acquisition and management of residences used as nursing homes for elderly citizens. The company is currently developing one of its buildings in Appen, which is expected to open in October 2003. Haddia GmbH also acquired three locations for developing five buildings and expects work on the project to commence in 2003. The company's expansion plan will be completed during 2004-2005.

Recognising the need to keep pace with global developments in information technology and communication systems, Salhia Real Estate Company undertook a project for upgrading its IT capabilities. The Oracle system with all of its support systems and applications for finance, real estate, human resources and marketing departments was introduced and implemented. The system provides on-line information on the current status of each of the company's domestic and foreign activities and links all such activities to an advanced database. It also provides a tool for upgrading the company's performance and services and for exercising necessary control on its various divisions.

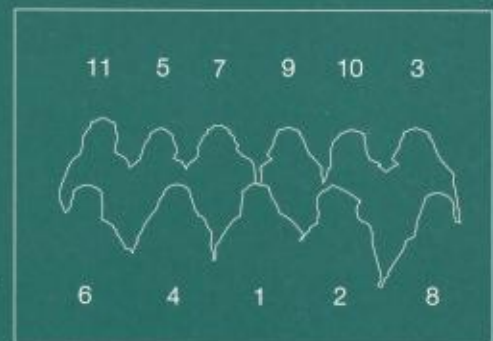
The Human Resources department also underwent a restructuring process that impacted different administrative systems, general policies, personnel procedures and administrative affairs policies. In order to ensure the success of the restructuring process, the company appointed an international firm of specialist for the development and implementation of these management systems.

Salhia Real Estate Company looks to the future with confidence and optimism. Confidence that is drawn from the company's human assets and financial resources that create a strong competitive edge and an optimistic outlook derived from the consistent growth of the company's portfolio and profitability. Both will ensure a maximisation of value for shareholders and a rewarding return on their investment in the company. During 2003, the company will maintain its focus on completing and managing the existing projects, while strategically considering a number of new projects in both the short and long terms.

Finally, I would like to express our deepest gratitude to His Highness Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah, the Amir of Kuwait, and our sincere congratulations on the 25th Anniversary of His Highness's accession to the throne of the State of Kuwait, and to His Highness Sheikh Sa'ad Al-Abdullah Al-Salem Al-Sabah, the Crown Prince and Prime Minister, for their continued support and patronage of national institutions. On behalf of the Board of Directors, I would also like to express our thanks to all our shareholders for their confidence in the Board and their consistent support to the company, enabling it to achieve its strategic objectives. Our thanks are also due to the members of the board and the company's loyal and dedicated staff, whose sincere efforts played a crucial role in achieving satisfactory results in the year 2002.



**Ghazi Fahad Alnafisi**  
Chairman & Managing Director



The company posted a net operating profit of KD 6.63 million in 2002, an increase of 11% over KD 5.89 million in 2001.

In view of these encouraging results, the Board of Directors is recommending the payment of a cash dividend of 20% per share for the shareholders.

# Report of the Board of Directors

## Board of Directors

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-Munayyeh**  
Board Member
5. **Anwar Abdulaziz Al-Usaimi**  
Board Member
6. **Faisal Abdul Mohsen 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 Faisal Al-Zabin**  
Board Member
11. **Marzouk Fajhan Al-Mutairi**  
Board Member

## Introduction

The Board of Directors of Salhia Real Estate Company is pleased to present to its shareholders the annual report for 2002, which covers the company's financial and operating position for the period ended 31 December, 2002, as follows:

## Balance Sheet

The Company's total assets stood at KD 152.72 million in 2002 compared to KD 136.91 million in 2001, an increase of 10.4%. At the same time, total real estate investment and fixed assets grew to KD 118.8 million compared to KD 106 million in 2001, an increase of 10.8%.

## Statement of Income

The company posted a net operating profit of KD 6.63 million in 2002, an increase of 11% over KD 5.89 million in 2001. In view of these encouraging results, the company's Board of Directors is recommending the payment of a cash dividend of 20% per share for the shareholders.



# Report of the Board of Directors (continued)

## Salhia Real Estate Company's Local Investments

### Salhia Complex

Standing in the heart of the lively commercial and financial district of Kuwait city centre and located adjacent to the luxurious JW Marriott Hotel, Salhia Complex was established back in 1978 and is considered one of the first shopping centres in Kuwait and the region.

Although quarter of a century has passed since its establishment, Salhia Complex still commands an unparalleled and distinguished image among other centers. In order to maintain this unique appeal, Salhia Real Estate Company has undertaken various plans for developing and renovating the complex and refurbishing all of its components. The company has invested over KD 660 thousand during the past few years and as a result Salhia Complex has maintained a 100% occupancy rate.

The on-going renovation and refurbishment have increased the complex's rentable area to 12,811 square metres. Consequently, annual rental revenues were up by 9%, increasing from KD 3,504,926 in 2001 to KD 3,852,068 in 2002.

By the end of 2002, substantial progress has been made in the execution of the renovation and refurbishing program such as:

- The addition of a new collection of internationally renowned names to the current list of tenants in Salhia Complex.
- Modernising the complex's car park in the first and second basements by repairing and renovating all utilities and services such as lighting, signage, as well as security and safety equipment.
- The appointment of an engineering firm to renew all architectural, electrical and mechanical plans of the complex, along with updating and providing computerised data in accordance with internationally accepted systems.
- The appointment of an international consultant for developing and designing the complex's internal and external signage system.

### Salhia Complex Western Façade

The development of the western façade of the complex is substantially complete, making this façade the main entrance to the complex. With the completion of the construction and remodelling phases, Salhia Complex will display a highly attractive entrance and an elegant façade of luxurious showrooms on the ground floor, of which an area of 351 square metres has already been leased to reputable international companies. The first and second floors of the new façade provide a total area of 1,320 square metres, which will be used as headquarters for Salhia Real State Company. This project is expected to be completed during the second half of 2003.

### Salhia Car Park Project

Salhia Car Park project is one of the most important projects executed by the company in the Salhia area. The car park aims to serve both tenants and visitors of Salhia Complex and Sahab Tower. Salhia Car Park has exclusive features such as escalators that link the first and second basements with the ground floor. The car park is also equipped with automatic machines for self-service and payment of fees. The Salhia Car Park project is expected to be completed during the second half of 2003 providing about 455 parking lots distributed on two basement levels. As for the ground floor of the project, final designs have been developed for the landscaping that comprise of a plaza, gardens, fountains, lighting and other integrated services.



مجمع الصالحية  
SALHIA COMPLEX



Opened in 1996, Sahab Tower still maintains an excellent reputation among local and international institutions due to its high quality and superb services. Occupancy ratio in Sahab Tower increased to 100% during 2002 with total annual revenues of KD 808,527 at year end.



# Report of the Board of Directors (continued)

## Real Estate Investments in Al-Asima Area

Salhia Real Estate Company owns several strategically located properties in Al-Asima Area. The list of properties includes:

### Sahab Tower

Opened in 1996, Sahab Tower still maintains an excellent reputation among local and international institutions due to its high quality and superb services. Occupancy ratio in Sahab Tower increased to 100% during 2002 with total annual revenues of KD 808,527 at year end.

### Fahad Al Salem Street Properties

Salhia Real Estate Company owns eight buildings in a prime location directly overlooking Fahed Al Salem Street, with a total area of approximately 3,605 square metres. The portfolio consists of showrooms, commercial offices, residential apartments and stores. Occupancy ratios in these buildings increased to 100% during 2002, thus total annual revenues increased to KD 652,223.

### Al Soor Street Property

The company also owns a property overlooking Al Soor Street which consists of a building accommodating showrooms, commercial offices, stores and residential apartments, with a total area of 1,222 square metres. The occupancy ratio in this building rose to 100% in 2002, bringing total annual revenues up to KD 232,077.

## Al Shuhada Street Property

Salhia Real Estate Company has finalised the purchase of property overlooking Al Shuhada Street with a total area of 2,900 square metres, and has already started to execute a residential project consisting of two 15-floor towers with residential apartments. This building will be used as accommodation for the staff of Salhia Real Estate Company and its hotels.

## Al-Asima Property

Salhia Real Estate Company owns a number of investment and commercial properties in Sharq with a total area of 21 thousand square metres occupying a large and unique island site rarely found in Al-Asima area. This island site, which is surrounded by important streets is also directly overlooking Al Shuhada Street and Khalid Bin Al Waleed Street.

The company has finalised several plans for the future development of these properties. The design concept includes constructing commercial centres comprising of luxurious showrooms, commercial offices, recreational utilities, car parks and integrated services that cope with the urban development in Al-Asima area and meet the future goals of the company.

The company has submitted these concepts and studies to the concerned authorities to obtain the necessary official licenses and approvals.



السحاب  
Al Sahab

During the past few years Salhia Real Estate Company has invested more than KD 4.6 million on a comprehensive renovation and refurbishment program for the hotel aiming to maintain its leading position in Kuwait and the region.





## Report of the Board of Directors (continued)

### **JW Marriott Kuwait Hotel (formerly Le Meridien Hotel)**

The year 2002 witnessed numerous developments and achievements; at the forefront of which was the agreement signed with Marriott International Inc. The agreement awards the management of the former Le Meridien Hotel to Marriott International Inc. thus creating the first JW Marriott Hotel in Kuwait.

Marriott International Inc., a leading worldwide hospitality company celebrating its 75th anniversary in 2002, has over 2,600 operating units in the United States and 65 other countries and territories and has approximately 145 thousand employees. In fiscal year 2001, Marriott International Inc. reported system sales of US\$ 20 billion.

During the past few years Salhia Real Estate Company has invested more than KD 4.6 million on a comprehensive renovation and facelift program for the hotel aiming to maintain its leading position in Kuwait and the region. During 2002, the company continued the renovation and refurbishment works, which included the complete renewal and upgrading of all rooms from the 6th to the 9th floor. Luxurious furniture and new technology were tastefully incorporated into each room. The renovation program also included the creation of four additional suites combining luxury with convenience and privacy in response to the demanding expectations of visiting VIP's and dignitaries which brought the total number of suites in the hotel to 75.

In order to present a more up class and stylish appeal, the hotel's main entrance was re-designed and expanded to create a majestic and lasting first impression for guests. The hotel management also upgraded its fleet with a number of luxury limousines. The health spa on the 15th floor was modernised with the latest equipment and a beauty centre was added to its facilities. Information and communication systems of the hotel also received an upgrade and were enhanced with the latest technology, such as the "Fidelio" system, which provides on-line information about guests thus enabling hotel staff to work more efficiently and to improve customer services.



فندق جي دبليو ماريوت الكويت

JW MARRIOTT HOTEL™  
KUWAIT



## Report of the Board of Directors (continued)

### Arraya Project

Arraya project is one of the most important and vital real estate investments in Kuwait city. It is an architectural icon that stands across the Kuwaiti skyline overlooking the rapidly developing Shuhadaa Street in the Sharq area. Arraya is a unique integrated real estate solution that adds aesthetic appeal to surrounding areas. Arraya also encourages further urban developments in this part of AL-Asima particularly since it lacks such architectural landmarks.

The project's soft-opening is scheduled for the second half of 2003, and by the end of 2002 the company has made significant progress in the construction and finishing phases. Costing about KD 29 million, Arraya will be a prominent architectural landmark, generating rewarding revenues that will enhance the company's financial position and adding another spectacular success to our long list of accomplishments.

Arraya consists of a luxury shopping centre, corporate offices, a business hotel, a convention centre, a multi-story car park and a recreational plaza.

### Arraya Shopping Centre

With its world-class appeal, Arraya Shopping Centre symbolises the modern and luxury concept of a retail atmosphere. It consists of three floors with a total rentable area of 10,450 square metres, in addition to a 2,000 square metre basement level allocated for stores and other high-quality services. By the end of 2002, the company completed the lease of most of these areas to prominent international companies specialising in fashion and jewellery and other high-profile names that fit in perfectly with the company's marketing strategy for the complex.

### Arraya Corporate Offices

Arraya's corporate office floors provide the most advanced technology available with a total rentable area of about 5,880 square metres extending on seven floors, starting from the 23rd floor to the 29th floor. Negotiations are already underway with numerous local and international companies and institutions for leasing these floors.



The project's soft-opening is scheduled for the second half of 2003, and by the end of 2002 the company has made significant progress in the construction and finishing phases. Costing about KD 29 million, Arraya will be a prominent architectural landmark, generating rewarding revenues that will enhance the company's financial position and adding another spectacular success to our long list of accomplishments.



# Report of the Board of Directors (continued)

## Courtyard Hotel by Marriott

Before the end of 2003, Kuwait will witness the opening of the Courtyard Hotel by Marriott following the signing of an agreement between Salhia Real Estate Company and Marriott International Inc. The hotel uniquely responds to the needs and requirements of businessmen and visitors seeking high-quality services at moderate prices. The hotel offers about 318 rooms and suites, in addition to a large lobby on the second floor, two cafés, a specialty restaurant, a roof-top swimming pool and a well-equipped health club. Open 24 hours daily, the business centre in the hotel includes a special meeting room equipped with satellite and internet facilities and its own praying area. The hotel also contains a special meeting and function hall located on the third floor offering about 900 square metres of space divided into five luxurious meeting rooms of various sizes and specifications.

## Arraya Convention Centre

The convention centre comprises of spacious and luxurious halls opulently furnished and equipped with the latest audio-visual and communications systems. During the year 2002, the company awarded the management of the convention centre to JW Marriott Hotel, a brand of Marriott International Inc.

Arraya Convention Centre will be one of the most spacious centres in the region, consisting of two floors and a basement for services. Built on a land with a total space of 2,750 square metres, Arraya Convention Centre offers a grand ballroom and numerous function rooms with a total meeting space area of 2,500 square metres. The centre will be located directly on a newly constructed street within Arraya project, and will provide large, stylish entrances for VIP guests. The centre will be directly connected to the car park building through wide passageways to facilitate visitor access to the centre.

## Arraya Car Park

Arraya Car Park is more than a mere car park; it forms the primary component of the project since it connects all the components of the project with each other. The car park building is constructed on approximately 14,000 square metres, with a total cost of around KD 4 million. The seven-floor building can accommodate more than 1,400 cars, and is directly connected to Arraya Shopping Centre with pedestrian bridges and also connected to the convention centre with wide passageways.





# Report of the Board of Directors (continued)

## Salhia Real Estate Company's Foreign Investment

### Key Property Investments Ltd. (KPI)

Key Property Investments Ltd. (KPI) is owned equally between Salhia Real Estate Company and St. Modwen Properties, U.K. The prime objective of the company is 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.

Since its formation on 16 May, 1997 in Britain, KPI's financial results and performance has been consistently positive and promises a future of growth in assets and operational revenues. The strategic alliance has enabled the partnership to make profitable investment decisions and efficiently manage the company's projects. Based on the success of the company in achieving its goals, the Board of Directors at Salhia Real Estate Company and St. Modwen Properties resolved in 2002 to extend the life of the joint venture and to increase KPI's share capital from KD 12.1 million (£ 25 million) to KD 24.2 million (£ 50 million). This will allow the company to benefit from prevailing investment opportunities in the U.K. market.

At year end 2002, KPI's total rental income reached KD 4.1 million (£ 8.5 million) on a total asset base of KD 52.3 million (£ 108.5 million). The company's net pre-tax profit was KD 1.3 million (£ 2.7 million), while net profit after tax was KD 925 thousand (£ 1.92 million).

### KPI's activities for the year 2002

#### Farnborough Town Shopping Centre, Hampshire

Farnborough Town Shopping Centre is a mix of commercial offerings including retail shops, office buildings, residential flats, a multi-story car park, leisure facilities and other services. It also contains a covered shopping centre, Kingsmead, and an open air precinct for pedestrians, Queensmead. These two interconnected commercial centres comprise a total built up area of 31,568 square metres. The centre is undergoing a redevelopment and a facelift plan to create new multi-size commercial units, residential flats and additional parking space. At the end of 2002, the

centre posted a gross rental income of KD 1.4 million (£ 2.9 million) incorporating a rentable space of 334 thousand square feet. KPI's overall strategy, proposed in the past few years, calls to redevelop Farnborough Town Shopping Centre in order to fulfil the needs of the local community. The key elements of this strategy are:

- A new leisure complex with a family entertainment centre including restaurants, cafe bars and electronic bowling on the ground floor, and a multiplex cinema on the first floor.
- Improved anchorage in the town centre, including the construction of a new food store at the northern end of Queensmead and the creation of two sizable retail units.
- The creation of new larger retail units to suit the needs of modern retailers and attract more "High Street" names to Farnborough.

Various proposals put forward as a result of this strategy are moving ahead satisfactorily.

#### Queensgate

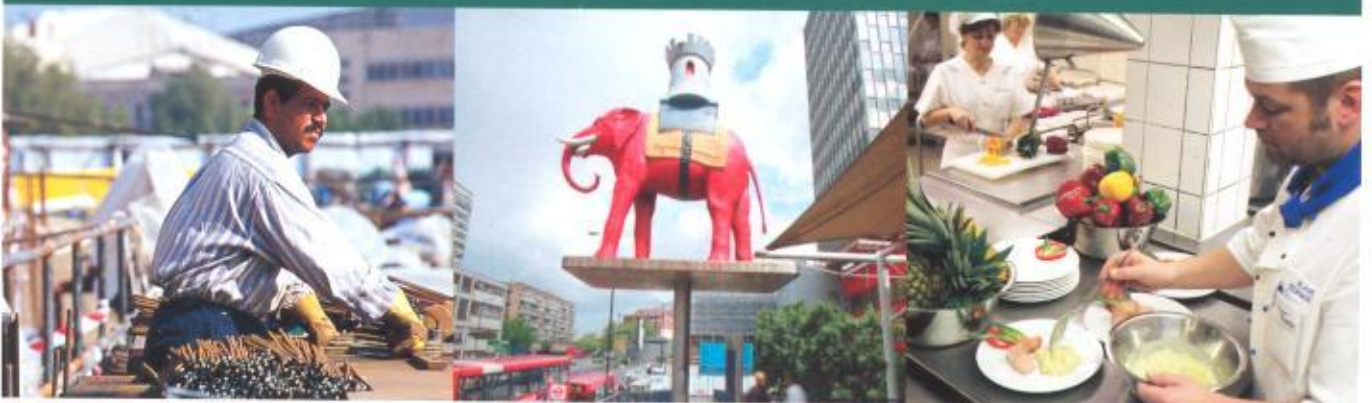
Work is progressing to create 4 additional units and 24 one-bedroom flats. The work is scheduled for completion during the first quarter of 2003.

#### The Mead

Work in The Mead, the link between Queensmead and Princes Mead, has commenced to create a 24 thousand square feet, three-story retail development as well as seven ground floor units. The construction is scheduled for completion during the second quarter of 2003.

The Management also obtained planning consent to develop 230 thousand square feet of retail space, 61 thousand square feet of offices, and 96 residential units at the north end of Queensmead.

The strategic alliance has enabled the partnership to make profitable investment decisions and efficiently manage the company's projects. Based on the success of the company in achieving its goals, the Board of Directors at Salhia Real Estate Company and St. Modwen Properties resolved, in 2002, to extend the life of the joint venture and to increase KPI's share capital from KD 12.1 million (£ 25 million) to KD 24.2 million (£ 50 million). This will allow the company to benefit from prevailing investment opportunities in the U.K. market.





# Report of the Board of Directors (continued)

## Elephant & Castle Shopping Centre

The centre is a substantial retail, leisure and office complex with total area of 33,850 square metres originally built in the 1960's and occupies the majority of an island site formed by the New Kent Road, Walworth Road and Elephant Place.

KPI completed the purchase transaction in July 2002 for a total price of KD 14.1 million (£ 29.25 million) with a gross rental income of over KD 1.446 million (£ 3 million). The net property yield at acquisition time was 7.8% per annum. The Management hopes to increase the yield to 10% per annum in the year 2003 by utilising vacant spaces and reducing service charge expenditure.

## Refuge Assurance Portfolio

KPI continues to hold six properties comprising of retail, office, residential and industrial units that were acquired as part of the Refuge Assurance Portfolio in 1997. These properties are distributed throughout predominantly secondary retail locations in established cities such as London, Banbury, Cheadle, Erdington, Orpington, and Sheffield. Total book value of the portfolio is estimated to be KD 1.928 million (£ 4 million), with total annual rent revenue of KD 385 thousand (£ 800,000) at the end of the year 2002.

## Marconi Portfolio

KPI also owns Marconi Portfolio, an investment comprising of eleven properties distributed in eight cities around the UK. These properties occupy a total floor space area of 1,876,000 square feet utilised as office buildings, industrial units, warehouses, play fields and open storage spaces. Purchased in November 2001, the book value of Marconi Portfolio is estimated to be KD15.8 million (£ 32.8 million) at the end of the year 2002.

## Alstom Portfolio

In December 2002, KPI completed the purchase of Alstom Portfolio, an investment comprising of nineteen properties. This portfolio, which occupies a total floor space area of 8 million square feet, has a total value of KD 53.5 million (£ 111 million). The leasing of the components of this transaction is guaranteed because it was acquired on a lease-back basis. Accordingly, the Alstom Portfolio is expected to yield an annual return of KD 5.3 million (£ 11 million), or about 10% of the portfolio's value.

## Haddia GmbH

Haddia GmbH is engaged in the development, ownership and management of residences and nursing homes for senior citizens in the Federal Republic of Germany. Salhia Real Estate Company owns 89.72% equity stake in Haddia GmbH. Since 1994, Haddia GmbH has been remarkably successful in managing its portfolio of residences and has won sincere appreciation from German companies involved in the care of the elderly.

Apart from upcoming projects, Haddia GmbH holds thirteen properties consisting of ten nursing homes and three senior residences with a combined total of 1,074 beds, all designed to offer quality care and comfort to senior citizens. The properties are concentrated mainly in Hannover, Bad Pyrmont and Bad Schwartau. The company's motto is to provide its residents with quality services.

At the end of the year 2002, Haddia GmbH's revenues reached a total of KD 8.4 million (€ 29 million). The assets totalled KD 29.2 million (€ 92.6 million), while the total shareholders equity was KD 1.481 million (€ 4.7 million) compared to the invested capital of KD 800 thousand (€ 2.55 million).



# Report of the Board of Directors (continued)

At the end of the year 2002, Haddia GmbH achieved a net profit of KD 71,239 (€ 226,156) compared to KD 286,908 (€ 910,820) in the year 2001. The company's net profits were affected by major renovation work on two of its houses, as well as the pre-opening expenses of the house at Wiesengrund that was completed in September 2001.

## Activities of Haddia GmbH in 2002

### Appen

Appen is the second residence to be developed by Haddia GmbH with a land area of 4,200 square metres. The construction work began in June 2002 and the plan envisions a four-floor nursing home with 123 beds. The project will include a basement, a ground floor and two upper floors with a mix of single and double bedrooms, well equipped to meet the requirements of the elderly. The project will also feature a bistro/coffee shop that will be open to the public, as well as a spacious car park. The construction work is expected to be complete by August 2003.

### Waldstrasse, Hannover

This building was acquired in 1993 within the initial portfolio of 6 different buildings. The six-story building has 67 beds and complete renovation work was carried out on all the floors at a total cost of KD 173,250 (€ 550,000). The Management's efforts to enhance the property were well received by the tenants and the renovation is planned to be completed in February 2003.

### Klengenburg

Klengenburg is a nursing home with 126 beds and was acquired in March 2001. The building underwent renovation and re-development during 2002 to add a full lobby area, a new elevator, a restaurant, a new entrance and other services at a total cost of KD173,250 (€ 550,000). The project was completed in December 2002 and occupancy has returned to expected levels.

### Other Investments

Haddia GmbH continues to implement its expansion plans by targeting further development. It currently has three new sites to build offering a total of 300 nursing beds and 104 senior apartments. Construction work on two of these projects will commence in the summer of 2003.

Upon completion of construction work, the total number of beds available is estimated to be 1,601.



2002 was a year in which Salhia Real Estate Company devoted itself to the task of developing and directing its human resources to achieving its strategic objectives and to cope with the growth that the company is witnessing. Amongst the many objectives, Salhia Real Estate Company aims to provide customers with better quality services and share holders with superior returns.



# Executive Management

## **Anwar Abdulaziz Al-Usaimi**

Deputy Managing Director

## **Ali M. Al-Hamdan**

Investment Group Head

## **Engr. Saud Al-Saqer**

Real Estate Management & Development Group Head

## **Hany A. Abdelnour**

Finance & Accounting Group Head

## **Khalid M. Al-Awadi**

Personnel & Administration Manager

## **Tarek Darwish**

Design Manager

## **Engr. Kifah Georges**

Project Manager

## **Engr. Ahmed Yousef**

Property Manager

## **Naji Soweidan**

Marketing Manager

## **Engr. Mohammed E. Alam**

Maintenance & Operations Manager

## **Mohammed K. Al-Musaibeeh**

Chief Accountant

## **Human Resources**

2002 was a year in which Salhia Real Estate Company devoted itself to the task of developing and directing its human resources to achieving its strategic objectives and to cope with the growth that the company is witnessing. Amongst the many objectives, Salhia Real Estate Company aims to provide customers with better quality services and share holders with superior returns.

In this regard, the company sought the experiences of an internationally known consultant who was appointed in order to review the organisational structure, update all administrative systems and make appropriate recommendations.

The company also made substantial investments to develop the hardware and software systems throughout all the company's divisions to meet the rapid development in technology. The company purchased and implemented the Oracle applications, which links the various groups and departments in the company on-line with an Oracle based network. The company also invested in providing the relevant training for its staff at all levels and all departments in order to maximise their potential and prepare them to meet challenges of the future.

# Financial Highlights

Total profits of the company stood at KD 20.5 million, compared to KD 18.0 million in 2001 an increase of 12.2%. Net operating profit reached KD 6.63 million, up by 11% from the previous year's net profit of KD 5.89 million.

The company's total assets also increased to KD 152.72 million, up by 10.4% from KD 136.91 million for the previous year. Shareholders' equity rose by 5.4% from KD 62,39 million in 2001 to KD 65.96 million in 2002.

# 20%

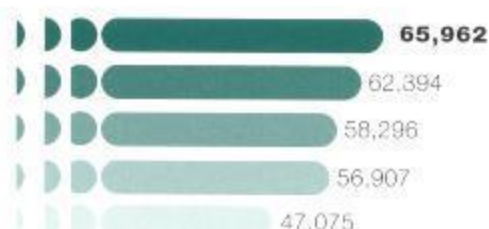
Cash Dividend per Share

# KD 153 m

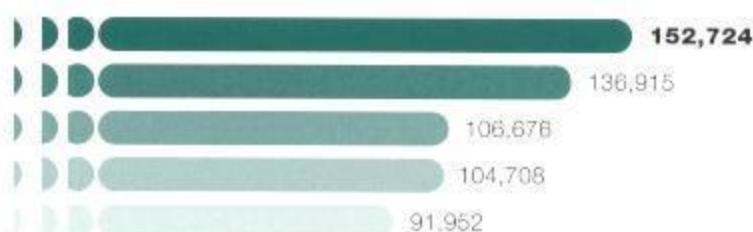
Total Assets



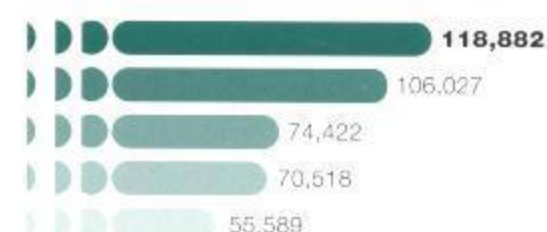
**Net Profit**  
(1998 - 2002) KD Thousands



**Shareholders Equity**  
(1998 - 2002) KD Thousands



**Total Assets**  
(1998 - 2002) KD Thousands



**Investment Properties & Fixed Assets**  
(1998 - 2002) KD Thousands

■ 2002 ■ 2001 ■ 2000 ■ 1999 ■ 1998

# Financial Statements



- 30 Auditors' Report
- 31 Consolidated Balance Sheet
- 32 Consolidated Statement of Income
- 33 Consolidated Statement of Cash Flow
- 34 Consolidated Statement of Changes in Shareholders' Equity
- 35 Notes to Consolidated Financial Statements

# Auditors' Report

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 Subsidiaries (the group) as of 31 December, 2002 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 31 December 2002, and the results of its operations 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 Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2002 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 Alban, Al Osaimi & Partners)



**Dr. Shuaib A. Shuaib**  
License No. 33-A  
Al-Bazie & Co.

9 March, 2003  
State of Kuwait



# Consolidated Balance Sheet

At 31 December 2002

	Note	2002 KD	2001 KD
<b>Assets</b>			
Bank balances and cash		2,645,745	5,270,438
Investments	3	15,780,064	16,530,175
Inventories		144,211	226,148
Accounts receivable and prepayments	4	3,757,572	4,147,275
Investment in joint venture	6	11,514,000	4,714,096
Investment properties	7	44,086,392	48,857,416
Fixed assets	8	74,796,108	57,169,759
<b>Total assets</b>		<b>152,724,092</b>	<b>136,915,307</b>
<b>Liabilities, Minority Interest and Shareholders' Equity</b>			
Due to banks	9	7,036,994	5,424,484
Accounts payable and accruals	10	6,886,290	4,495,105
Short-term loans		-	618,000
Long-term loans	11	72,686,298	63,323,308
Government loan	12	-	534,744
<b>Total liabilities</b>		<b>86,609,582</b>	<b>74,395,641</b>
Minority interest		152,569	125,671
Shareholders' equity:			
Share capital	13	23,841,246	23,841,246
Share premium		14,457,158	14,457,158
Treasury shares		-	(1,267,575)
Statutory reserve	14	6,067,290	5,374,668
Voluntary reserve	14	6,067,290	5,374,668
General reserve		4,250,000	4,250,000
Foreign exchange translation adjustment		438,903	1,232
Cumulative changes in fair values		927,128	1,284,276
Retained earnings		9,912,926	9,078,322
<b>Total shareholders' equity</b>		<b>65,961,941</b>	<b>62,393,995</b>
<b>Total liabilities, minority interest and shareholders' equity</b>		<b>152,724,092</b>	<b>136,915,307</b>



**Ghazi Fahad Alnafisi**  
Chairman and Managing Director



**Salah Fahad Almarzouk**  
Vice Chairman

The attached notes 1 to 26 form part of these consolidated financial statements.

# Consolidated Statement of Income

Year ended 31 December 2002

	Note	2002 KD	2001 KD
Revenue		20,540,757	17,977,617
Operating costs		(8,846,979)	(7,261,725)
Gross profit		11,693,778	10,715,892
Share in joint venture's results	6	436,800	677,263
Expenses and charges:			
Administrative expenses		(2,862,215)	(2,472,470)
Depreciation and amortization		(2,223,517)	(1,965,990)
Sales and marketing expenses		(990,000)	(712,141)
Profit from operations		6,054,846	6,242,554
Investment income	15	3,430,639	2,937,995
(Loss) gain on foreign currency translation		(668,155)	636,003
Interest income		66,917	77,573
Other income	16	1,760,781	224,973
Finance costs		(3,275,578)	(3,785,395)
Provision for impairment of investments		(384,901)	-
Profit from ordinary activities		6,984,549	6,333,703
Minority interest		(6,710)	(25,340)
Tax		(51,619)	(88,786)
Profit for the year		6,926,220	6,219,577
Contribution to Kuwait Foundation for the Advancement of Sciences		(62,336)	(111,952)
National labour support tax		(152,357)	(135,217)
Directors' fees		(77,000)	(77,000)
<b>Net profit for the year</b>		<b>6,634,527</b>	<b>5,895,408</b>
Earnings per share (fils)	17	28	25

# Consolidated Statement of Cash Flow

Year ended 31 December 2002

	Note	2002 KD	2001 KD
<b>Cash flows from operating activities:</b>			
Profit from ordinary activities		6,984,549	6,333,703
Adjustments for:			
Investment income		(3,430,639)	(2,937,995)
Share in joint venture's results		(436,800)	(677,263)
Interest income		(66,917)	(77,573)
Loss (gain) on foreign currency translation		668,155	(636,003)
Finance costs		3,275,578	3,785,395
Provision for impairment of investments		384,901	-
Depreciation and amortization		2,223,517	1,965,990
Net gain on disposal of fixed asset and investment property		(1,090,815)	(114,481)
Provision for employees' terminal benefits		117,270	85,821
Operating profit before changes in operating assets and liabilities		8,628,799	7,727,594
(Increase) decrease in inventories		81,937	(6,910)
(Increase) decrease in accounts receivable and prepayments		(1,341,970)	(1,478,569)
Increase in accounts payable and accruals		2,273,857	323,157
Cash from operations		9,642,623	6,565,272
Directors' fees paid		(77,000)	(45,000)
Payment to KFAS		(111,952)	(93,764)
Payment of National Labour Support tax		(135,217)	-
Employees' terminal benefits paid		(41,782)	(6,381)
Net cash from operating activities		9,276,672	6,420,127
<b>Cash flows from investing activities:</b>			
Investment in joint venture		(6,538,932)	-
Purchase of investments		(5,033,645)	(1,642,350)
Proceeds from sale of investments		9,441,198	10,340,856
Dividends received		718,115	1,160,900
Purchase of investment properties and fixed assets		(16,657,292)	(11,145,676)
Proceeds on disposal of investment properties and fixed assets		6,251,395	935,491
Interest received		73,096	80,272
Net cash of consolidating subsidiaries		-	446,063
Net cash from (used in) investing activities		(11,746,065)	175,556
<b>Cash flows from financing activities:</b>			
Loans repaid		(17,205,457)	(2,596,221)
Loans received		21,675,089	5,945,000
Proceeds from sale of treasury shares		1,264,591	569,413
Finance costs paid		(3,278,263)	(3,900,274)
Dividends paid		(4,223,770)	(3,484,723)
Net cash from financing activities		(1,767,810)	(3,466,805)
(Decrease) increase in cash and cash equivalents		(4,237,203)	3,128,878
Cash and cash equivalents at beginning of the year		(154,046)	(3,282,924)
Cash and cash equivalents at end of the year	18	(4,391,249)	(154,046)

The attached notes 1 to 26 form part of these consolidated financial statements.

# Consolidated Statement of Changes in Shareholders' Equity

Year ended 31 December 2002

	Share capital KD	Share premium KD	Treasury shares KD	Gain on sale			Foreign currency translation adjustment			Retained earnings KD	Total KD
				Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	General reserve KD	Foreign currency translation adjustment KD	Cumulative changes in fair value KD		
At December 31, 2000	23,841,246	14,457,158	-	93,281	4,752,710	4,752,710	4,250,000	-	8,090,914	58,295,945	
IAS 39 transition adjustment	-	-	(1,942,074)	-	-	-	-	-	307,009	307,009	
Fair value adjustment on investments sold	-	-	-	-	-	-	-	-	-	-	
Cash dividends for 2000 distributed	-	-	-	-	-	-	-	-	(119,084)	(119,084)	
Foreign currency translation adjustment on consolidation	-	-	-	-	-	-	-	-	(3,489,808)	(3,489,808)	
Subsidiaries accumulated retained earnings	-	-	-	-	-	-	-	-	(567,381)	(567,381)	
Net profit for the year	-	-	-	-	-	-	-	-	216,985	216,985	
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	5,895,408	5,895,408	
Transfer to reserves	-	-	-	-	621,958	621,958	-	1,232	(1,243,916)	1,232	
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 31 December 2001	23,841,246	14,457,158	(1,267,575)	-	5,374,668	5,374,668	4,250,000	1,232	9,078,322	62,393,995	
Cash dividends for 2001	-	-	-	-	-	-	-	-	(4,223,770)	(4,223,770)	
Fair value adjustment on investments sold	-	-	-	-	-	-	-	-	-	-	
Net profit for the year	-	-	-	-	-	-	-	-	(187,925)	(187,925)	
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	6,634,527	6,634,527	
Adjustment	-	-	-	-	-	-	-	437,671	-	437,671	
Transfer to reserves	-	-	-	-	692,622	692,622	-	-	(1,385,244)	-	
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	-	(357,148)	(357,148)	
Sale of treasury shares	-	-	1,267,575	-	-	-	-	-	(2,984)	1,264,591	
At 31 December 2002	23,841,246	14,457,158	-	-	6,067,290	6,067,290	4,250,000	438,903	9,912,926	65,961,941	

The attached notes 1 to 26 form part of these consolidated financial statements.

# Notes to Consolidated Financial Statements

At 31 December 2002

## 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 subsidiaries are set out in Note 5.

The consolidated financial statements were authorised for issue by the parent company's Board of Directors on 9 March 2003. 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:

### Basis of preparation

The consolidated financial statements have been prepared in accordance with Standards issued or adopted by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting 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 accounting policies are consistent with those used in the previous year.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company and its subsidiaries for the year ended 31 December 2002.

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 classified as an available for sale investment and carried at fair value.

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.

# Notes to Consolidated Financial Statements

At 31 December 2002

## 2. Significant accounting policies (continued)

### Recognition and derecognition of financial assets and liabilities

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

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

### Trade and settlement date accounting

All "regular way" purchases 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.

### Investments

The group classifies investments as available for sale. 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 remeasured at fair value, unless fair value cannot be reliably measured. Changes in fair value 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.

For investments traded in organised 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.

Investments with no reliable measures of fair value and for which no fair value information could be obtained are carried at cost less impairment in value.

### 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 recognised in the consolidated statement of income.

### Investment in joint venture

The investment in joint venture is accounted for under the equity method of accounting. Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognise 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.

### 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.

### 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.

### 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.

### 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.

### Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances and due to banks maturing within three months.

### Accounts payable

Liabilities are recognised 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.

### Taxation

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

# Notes to Consolidated Financial Statements

At 31 December 2002

## 2. Significant accounting policies (continued)

### Income recognition

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

### 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 capitalised as part of the cost of that asset. Other finance costs are recognised as an expense in the period in which they are incurred.

### 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 realised 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 realised 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.

### Provisions

A provision is recognised 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.

### Contingencies

Contingent liabilities are not recognised 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 recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

### 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 subsidiaries 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.



### 3. Investments

	2002 KD	2001 KD
Quoted securities	8,071,971	10,780,916
Unquoted securities	7,708,093	5,749,259
	<b>15,780,064</b>	<b>16,530,175</b>

Investments amounting to KD 2,908,811 (2001: 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.

### 4. Accounts receivable and prepayments

	2002 KD	2001 KD
Hotel guests and care home residents receivables	642,287	817,216
Rent and other receivables	273,843	173,005
Due from related parties	743,912	1,026,682
Deposits and prepaid expenses	200,965	188,217
Advance payments to contractors	973,840	1,017,609
Receivables on sale of investments	-	179,642
Other receivables	922,725	744,904
	<b>3,757,572</b>	<b>4,147,275</b>

### 5. Subsidiaries

Details of subsidiaries are set out below:

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

### 6. Investment in joint venture

The parent company has a 50% interest in a joint venture in the United Kingdom. As at 31 December 2002, the parent company's share of the assets, liabilities and results of operations of the joint venture was as follows:

	2002 KD	2001 KD
Current assets	9,038,681	6,821,375
Long-term assets	19,917,248	11,310,272
Current liabilities	2,800,886	1,032,745
Long-term liabilities	18,057,213	11,800,124
Revenues	3,731,384	1,398,685
Expenses	1,416,332	721,422

# Notes to Consolidated Financial Statements

At 31 December 2002

## 6. Investment in joint venture (continued)

The movement on the investment in the joint venture is as follows:

	2002 KD	2001 KD
Carrying value of the investment at beginning of the year	4,714,096	4,499,833
Dividend received	-	(453,000)
Establishment costs written off	(7,347)	(10,000)
Share in the joint venture's results	436,800	677,263
Additional investment	6,538,932	-
Foreign currency translation adjustment	(168,481)	-
Carrying value of the investment at end of the year	11,514,000	4,714,096

The joint venture uses an accounting policy other than that used by the parent company for the accounting of investment properties. Appropriate adjustments have not been made as it is impracticable to do so.

## 7. Investment properties

	Freehold land KD	Buildings KD	Total KD
Balance at 1 January 2002	34,660,431	14,196,985	48,857,416
Additions	-	5,269	5,269
Disposals	(4,233,060)	-	(4,233,060)
Depreciation for the year	-	(543,233)	(543,233)
<b>Balance at 31 December 2002</b>	<b>30,427,371</b>	<b>13,659,021</b>	<b>44,086,392</b>
Cost	30,427,371	14,202,254	44,629,625
Accumulated depreciation	-	(543,233)	(543,233)
<b>Balance at 31 December 2002</b>	<b>30,427,371</b>	<b>13,659,021</b>	<b>44,086,392</b>

Freehold land and buildings with a carrying value of KD 8,396,573 (2001: KD 19,622,379) 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 1 January 2002	13,224,639	28,779,660	1,950,087	73,189	13,142,184	57,169,759
Additions	-	223,749	418,147	32,685	15,982,716	16,657,297
Disposals	(609,000)	(180,999)	(99,332)	(38,729)	-	(928,060)
Transfers from capital work in progress	-	5,181,641	146,150	-	(5,327,791)	-
Depreciation for the year	-	(1,142,796)	(516,978)	(20,510)	-	(1,680,284)
Foreign currency translation adjustment	423,820	3,007,784	145,792	-	-	3,577,396
<b>Balance at 31 December 2002</b>	<b>13,039,459</b>	<b>35,869,039</b>	<b>2,043,866</b>	<b>46,635</b>	<b>23,797,109</b>	<b>74,796,108</b>
Cost	13,039,459	48,348,545	5,633,369	130,091	23,797,109	90,948,573
Accumulated depreciation	-	(12,479,506)	(3,589,503)	(83,456)	-	(16,152,465)
<b>Net carrying amount at 31 December 2002</b>	<b>13,039,459</b>	<b>35,869,039</b>	<b>2,043,866</b>	<b>46,635</b>	<b>23,797,109</b>	<b>74,796,108</b>

Freehold land and buildings with a carrying value of KD 40,904,496 (2001: KD 40,979,523) are mortgaged against certain loans (See Note 11).

Fixed assets include capitalized borrowing costs of KD 850,716 (2001: KD 393,218).

## 9. Due to banks

Due to banks are subject to effective interest rates which range from 4.25% to 4.75%.

## 10. Accounts payable and accruals

	2002 KD	2001 KD
Rents received in advance	203,007	114,613
Trade accounts payable	1,281,222	523,097
Retentions payable	1,381,877	601,679
Accrued expenses	900,872	839,225
Employees' terminal benefits	852,630	777,142
Deposits from tenants, hotel and care home guests	601,313	487,791
Provisions	124,798	72,905
Kuwait Foundation for the Advancement of Sciences	62,336	111,952
National Labour Support Tax	152,357	135,217
Directors fees	227,000	77,000
Amounts due to related parties	355,276	307,365
Unpaid dividends	86,305	16,038
Other payables	657,297	431,081
	<b>6,886,290</b>	<b>4,495,105</b>

# Notes to Consolidated Financial Statements

At 31 December 2002

## 11. Long-term loans

Long-term loans are denominated in the following currencies:

	2002 KD	2001 KD
Kuwaiti dinars	42,875,000	36,485,000
Euro	25,004,298	22,373,307
Japanese Yen	4,807,000	4,465,001
	72,686,298	63,323,308

The loans are due for repayment as follows:

	2002 KD	2001 KD
2002	-	1,978,233
2003	8,292,224	9,782,650
2004	10,377,855	10,233,141
2005	9,496,046	7,154,539
2006	8,129,279	5,154,189
After 2006	36,390,894	29,020,556
	72,686,298	63,323,308

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 when the Central Bank discount rate changes. 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 72,686,298 (2001: KD 63,841,289) are secured by investment properties with a carrying value of KD 8,396,573 (2001: KD 19,622,379) and fixed assets with a carrying value of KD 40,904,496 (2001: KD 40,979,523) owned by the group. Of these, bank loans amounting to KD 23,071,652 (2001: 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 was only obliged to repay KD 534,744. The loan was repaid during the year.

## 13. Share capital

At 31 December 2002, the parent company's authorised, issued and fully paid share capital consisted of 238,412,460 shares of 100 fils each (2001: 238,412,460 shares).

#### 14. 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 equals 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.

#### 15. Investment income

	2002 KD	2001 KD
Gain on sale of investments	2,712,524	1,778,139
Dividends	718,115	1,160,900
Interest	-	8,956
Other investment loss	-	(10,000)
	<b>3,430,639</b>	<b>2,937,995</b>

#### 16. Other income

Other income includes gain on sale of investment property of KD 449,815 (2001: Nil) and gain on sale of fixed assets of KD 641,000 (2001: KD 116,416).

#### 17. Earnings per share

	2002 KD	2001 KD
Net profit for the year	6,634,527	5,895,408
	<b>Shares</b>	<b>Shares</b>
Number of shares outstanding:		
At beginning of the year	238,412,460	238,412,460
Weighted average number of treasury shares	(1,816,369)	(4,794,188)
Weighted average number of shares outstanding	<b>236,596,091</b>	<b>233,618,272</b>
Earnings per share (fls)	<b>28</b>	<b>25</b>

# Notes to Consolidated Financial Statements

At 31 December 2002

## 18. Cash and cash equivalents

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

	2002 KD	2001 KD
Bank balances and cash	2,645,745	5,270,438
Due to banks	(7,036,994)	(5,424,484)
	(4,391,249)	(154,046)

## 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:

	2002 KD	2001 KD
<b>Balance sheet:</b>		
Due from related parties	743,912	1,026,682
Staff receivables	43,078	56,517
Amounts due to related parties	355,276	307,365
<b>Income statement:</b>		
Investment income	-	8,956
Operating costs	545,647	590,671
Sales and marketing expenses	288,933	263,058

## 20. Employee information

At 31 December 2002, the group had 1,185 employees (2001: 1,057 employees).

For the year ended 31 December 2002, staff costs amounted to KD 7,244,354 (2001: KD 5,263,002).

## 21. Proposed dividend

The parent company's board of directors will propose a cash dividend of 20 fils per share for the year ended 31 December 2002 (2001: 18 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. Segmental information

### Primary segment information

The group is organised 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 group'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.

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

	31 December 2002				31 December 2001			
	Real estate operations	Hotel operations	Care home operations	Total	Real estate operations	Hotel operations	Care home operations	Total
	KD	KD	KD	KD	KD	KD	KD	KD
Segment revenue	5,584,971	6,541,628	8,414,158	20,540,757	5,346,247	5,535,215	7,096,155	17,977,617
Segment operating costs	(513,949)	(2,860,742)	(5,472,288)	(8,846,979)	(458,150)	(2,489,826)	(4,313,749)	(7,261,725)
Segment results	5,071,022	3,680,886	2,941,870	11,693,778	4,888,097	3,045,389	2,782,406	10,715,892
Share of income from joint venture	436,800	-	-	436,800	677,263	-	-	677,263
Other operating expenses	(3,013,886)	(1,671,832)	(1,390,014)	(6,075,732)	(2,695,349)	(1,281,440)	(1,173,812)	(5,150,601)
Profit from operations	2,493,936	2,009,054	1,551,856	6,054,846	2,870,011	1,763,949	1,608,594	6,242,554
Interest income				66,917				77,573
Financial charges				(3,275,578)				(3,785,395)
Other non-operating income				4,138,364				3,798,971
Profit from ordinary activities				6,984,549				6,333,703
Minority interest				(6,710)				(25,340)
Tax				(51,619)				(88,786)
Profit for the year				6,926,220				6,219,577
Other non-operating expenses				(291,693)				(324,169)
Net profit for the year				6,634,527				5,895,408
<b>Other information:</b>								
Segment assets	109,869,310	2,224,411	29,116,371	141,210,092	105,256,187	2,360,779	24,584,245	132,201,211
Investment in joint venture	11,514,000			11,514,000	4,714,096	-	-	4,714,096
Total assets				152,724,092				136,915,307
Segment liabilities	60,058,181	2,019,877	24,531,524	86,609,582	48,305,912	2,727,960	23,361,769	74,395,641
Total liabilities				86,609,582				74,395,641
Capital expenditure	13,294,864	1,667,214	1,700,488	16,662,566	6,241,287	1,009,354	3,894,890	11,145,531
Depreciation	1,530,603		692,914	2,223,517	1,405,913	-	560,077	1,965,990

# Notes to Consolidated Financial Statements

At 31 December 2002

## 22. Segmental information (continued)

### Secondary segment information

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

	31 December 2002			31 December 2001		
	Kuwait KD	Europe KD	Total KD	Kuwait KD	Europe KD	Total KD
Revenue	12,126,599	8,414,158	20,540,757	10,881,462	7,096,155	17,977,617
Assets	123,607,721	29,116,371	152,724,092	102,883,912	34,031,395	136,915,307
Capital expenditure	14,962,078	1,700,488	16,662,566	7,250,641	3,894,890	11,145,531

## 23. Fair value of financial instruments

In the ordinary course of business the group uses non-derivative 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. In the opinion of management, carrying values of all other financial instruments are not significantly different from fair values.

## 24. Risk management

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 bank balances are 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.

### 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:

	2002 KD Equivalent Long (short)	2001 KD Equivalent Long (short)
US Dollars	3,648,250	3,981,347
Japanese Yen	(4,708,433)	(4,368,994)
German Marks	-	-
Euro	(6,059,225)	1,291,863
Pound Sterling	406,246	1,263,555

# Notes to Consolidated Financial Statements

At 31 December 2002

## 24. Risk management (continued)

### 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.

## 25. Contingent liabilities and commitments

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

	2002 KD	2001 KD
Letters of guarantee	752,300	50,000
Uncalled capital of investment in joint venture (GBP: 3,725,000)	-	1,687,000
Uncalled capital of an unquoted investment	500,000	1,500,000
Construction project	19,500,000	18,500,000
Capital commitments of subsidiaries	927,445	-
	<b>21,679,745</b>	<b>21,737,000</b>

## 26. Compensation claim

The parent company has agreed with the Public Authority for the Assessment of Compensation a claim of 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.