

Salhia Real Estate Company K.S.C.

Foundations for the Future

Annual Report 2003



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



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H.H. Sheikh Sa'ad Al-Abdullah
Al-Salem Al-Sabah
Crown Prince of the State of Kuwait



H.H. Sheikh Jaber Al-Ahmad
Al-Jaber Al-Sabah
Amir of the State of Kuwait



H.E. Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah
Prime Minister of the State of Kuwait



The positive economic outlook and optimism that characterized Kuwait's real estate sector in 2002 was substantially reinforced during 2003 with a continued Government agenda for economic reform, combined with a sustained low interest rate regime worldwide, and, not least of all, the confidence engendered by the liberation of Iraq and the prospects for reactivation of the economies of the North Arabian Gulf.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Introduction

Salhia Real Estate Company has been the grateful beneficiary of a number of key factors that have, with the grace of God, coincided in time to create one of the most favourable business environments that Kuwait has experienced for many years.

The positive economic outlook and optimism that characterized Kuwait's real estate sector in 2002 was substantially reinforced during 2003 with a continued Government agenda for economic reform, combined with a sustained low interest rate regime worldwide, and, not least of all, the confidence engendered by the liberation of Iraq and the prospects for reactivation of the economies of the north Arabian Gulf. The flow of international contractors and other personnel into Iraq through Kuwait, and business done from Kuwait, has sustained what is now a buoyant economy.

Underlying these factors has been continued strong hydrocarbon prices, allowing the Government to reinvest in the country's infrastructure whilst planning for budget deficits on the basis of conservative price forecasts, yet running fiscal surpluses. Together with payments received from the United Nations Compensation Commission for damages suffered as a result of the 1990/91 invasion and occupation of Kuwait and the repatriation of private Kuwaiti investment funds abroad in the wake of the September 2001 attacks on the U.S. and reduced opportunities internationally, liquidity in Kuwait has remained at its highest levels for many years. This is manifest in the performance of the Kuwait Stock Exchange - among the best of any in the world in 2003 - and the visible activity in all forms of construction nationwide.

In a small economy that has yet to diversify to its full potential, there are limited outlets for investment funds. The real estate sector is one of these.

One of the most important of the favourable conditions prevailing this year has been low interest rates, both in Kuwait and abroad. This enabled the Group to reduce the cost of financing projects, particularly during the construction phase before revenues start to flow. It also allows significantly greater leverage on our shareholders' funds at a reduced risk. Foreign currency risk has been managed effectively by matching loans to the currency of the underlying assets and cash flow.

The Group is now well advanced in a capital expenditure programme, particularly in Kuwait and with its interests in Germany. The German developments should be substantially complete by the end of 2004 but new investments that formed the early part of this programme are already delivering cash flow. Kuwaiti developments will not be complete until 2006, when the Group will own one of the tallest occupied buildings in the country, the 42-storey tower that forms the last major phase of the Arraya Project. However, a new hotel property, new shopping centre, new conference centre and other investments, some as part of the Arraya Project and others elsewhere in Kuwait, are already in operation and generating profits. Future years are likely to see greater investment in the U.K. with above-market growth in asset values and profits.

Salhia Real Estate Company is well-placed to continue providing superior returns to its shareholders. With a strategic vision that has been vindicated time and again, a firm and abiding commitment to investing in Kuwait, a diversified portfolio of quality properties, and a dedication to developing its management and staff to their greatest potential, Salhia Real Estate Company looks forward to a prosperous future.

Consolidated net profits for the year increased by 44% to KD9.5 million (2002: KD6.6 million). The Group's profit from operations for the year was KD10.1 million (2002: KD6.2 million), an increase of 62%. Shareholders' equity has increased by 19% to a total of KD78.7 million (2002: KD65.9 million).



Chairman's Message

Dear Shareholders,

The year 2003 has been without doubt the most successful in the proud 30-year history of our Company. It therefore gives me great pleasure to present the Report of the Board of Directors for the Salhia Real Estate Group for the year ended 31 December 2003.

Consolidated net profits for the year increased by 44% to KD9.5 million (2002: KD6.6 million) on substantially improved operating revenues of KD25.8 million (2002: KD20.5 million). The Group's profit from operations for the year was KD10.1 million (2002: KD6.2 million), an increase of 62%.

Total consolidated Group assets now stand at KD191.9 million (2002: KD152.7 million), an increase of 26%; total shareholders' equity grew by 19% to KD78.7 million (2002: KD65.9 million). With the rate of asset, revenue and profit growth outpacing that of equity, the Group is clearly providing an ever-increasing return on investment for its shareholders. Salhia Real Estate's long-standing strategy of conservative investment in quality properties in Kuwait and abroad, balanced diversification, tight cost control, and careful management of risk continues to generate dividends in the form of real, tangible strategic asset growth and superior short-term profitability.

The highlight of the year has been the opening of the Arraya Centre in eastern Kuwait City. This innovative architectural development, combining a luxury shopping mall, four-star hotel, convention centre, exclusive corporate offices and car park, is truly a landmark achievement. Once complete in 2006, the project will include a 42-storey tower, one of the tallest occupied buildings in Kuwait.

Elsewhere in Kuwait, the Group marked the opening of the new Salhia Complex Car Park, a 15-storey residential building, and the new entrance and western façade of its flagship Salhia Complex, all in central Kuwait City. The transition of these projects from development stage to revenue-earning status has contributed significantly to the Group's cash flow. Throughout Kuwait City, all of the Group's properties enjoy substantially 100% occupancy.

Internationally, the Group's investments, concentrated in the U.K. and Germany, continue to expand in a careful and considered manner. In the U.K., the blue-chip Alstom portfolio, acquired in late 2002, has proved to be a most encouraging investment. Favourable development opportunities, actively supported by local authorities, also exist in other properties held by the joint venture, particularly in the prosperous south-east, near London.

The highlight of the year has been the opening of the Arraya Centre in eastern Kuwait City. This innovative architectural development, combines a luxury shopping mall, four-star hotel, convention centre, exclusive corporate offices and car park.




Chairman's Message (continued)

In Germany, the Group's operating subsidiary, Haddia GmbH, is in the midst of a four year strategic plan to build and acquire further nursing homes for senior citizens, and to upgrade its existing properties. This business is focused in the economic heartland of Northern Germany and provides excellent cash flow and sustained profitability.

Today, the Group enjoys the most favourable economic environment that has prevailed for several years, both in Kuwait and abroad. The low interest rates prevailing globally and the new era of confidence and optimism in Kuwait following regional political developments in early 2003 have had a most positive effect. The Group is well placed for sustained growth.

One of the most vital duties of any Kuwaiti company in this new century continues to be the development of the Kuwaiti workforce. The Group is justifiably proud of its achievements in this area, not only through the increased number of positions for young Kuwaitis made possible by its operations and its contribution of National Labour Support Tax, but also for the fact that Kuwaiti managers and staff of both genders are assuming ever greater positions of responsibility within the Group.

In closing, I should like to express the Board's continuing deep appreciation to His Highness Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah, Amir of Kuwait, to his faithful heir apparent, Sheikh Sa'ad Al-Abdullah Al-Salem Al-Sabah, Crown Prince of Kuwait, and to Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, Prime Minister of Kuwait, for their wise leadership and guidance of our beloved country. As ever, the Board is grateful for the continued support of its shareholders. Finally, I pay tribute to each and everyone of my Board colleagues, the Group's loyal employees, management and staff, both in Kuwait and internationally, for their service and dedication throughout the year. Without them, this year's excellent results would not have been possible.



Ghazi Fahad Alnafisi
Chairman and Managing Director

Report of the Board of Directors



Ghazi Fahad Alnafisi
Chairman and Managing Director



Salah Fahad Al-Marzouk
Vice Chairman



Abdulaziz Saud Al-Babtain
Board Member



Abdul Latif Abdul Karim
Al-Munayyeh
Board Member



Anwar Abdulaziz Al-Usaimi
Board Member



Faisal Abdul Mohsen
Al-Khatrash
Board Member



Sheikh Mohammed Jarrah
Al-Sabah
Board Member



Hassan Abdullah Al-Mousa
Board Member



Youssef Easa Al-Othman
Board Member



Ahmad Faisal Al-Zabin
Board Member



Marzouk Fajhan Al-Mutairi
Board Member

It gives the Board of Directors of Salhia Real Estate Company great pleasure to present the Group's annual report for the year ending 31 December 2003.

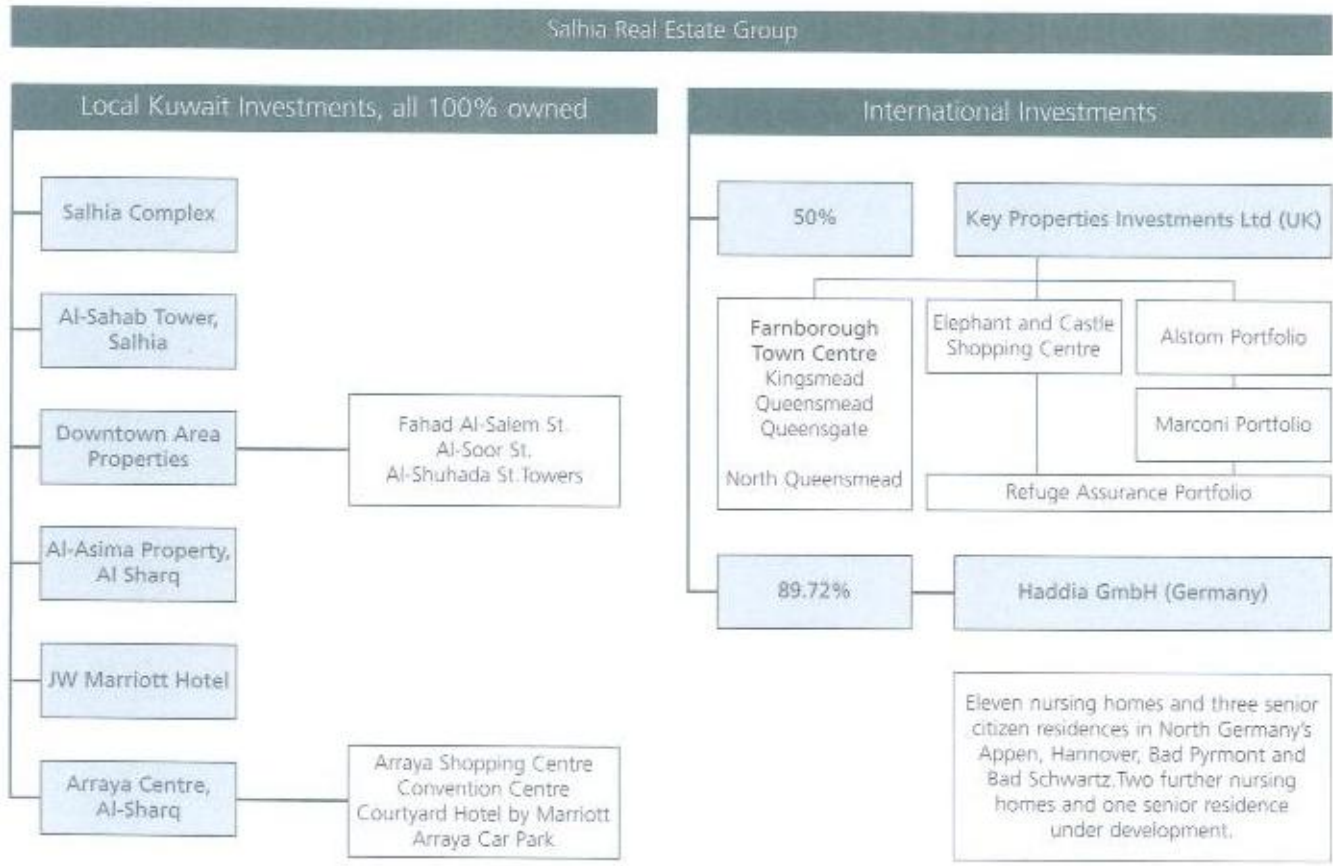
Balance Sheet

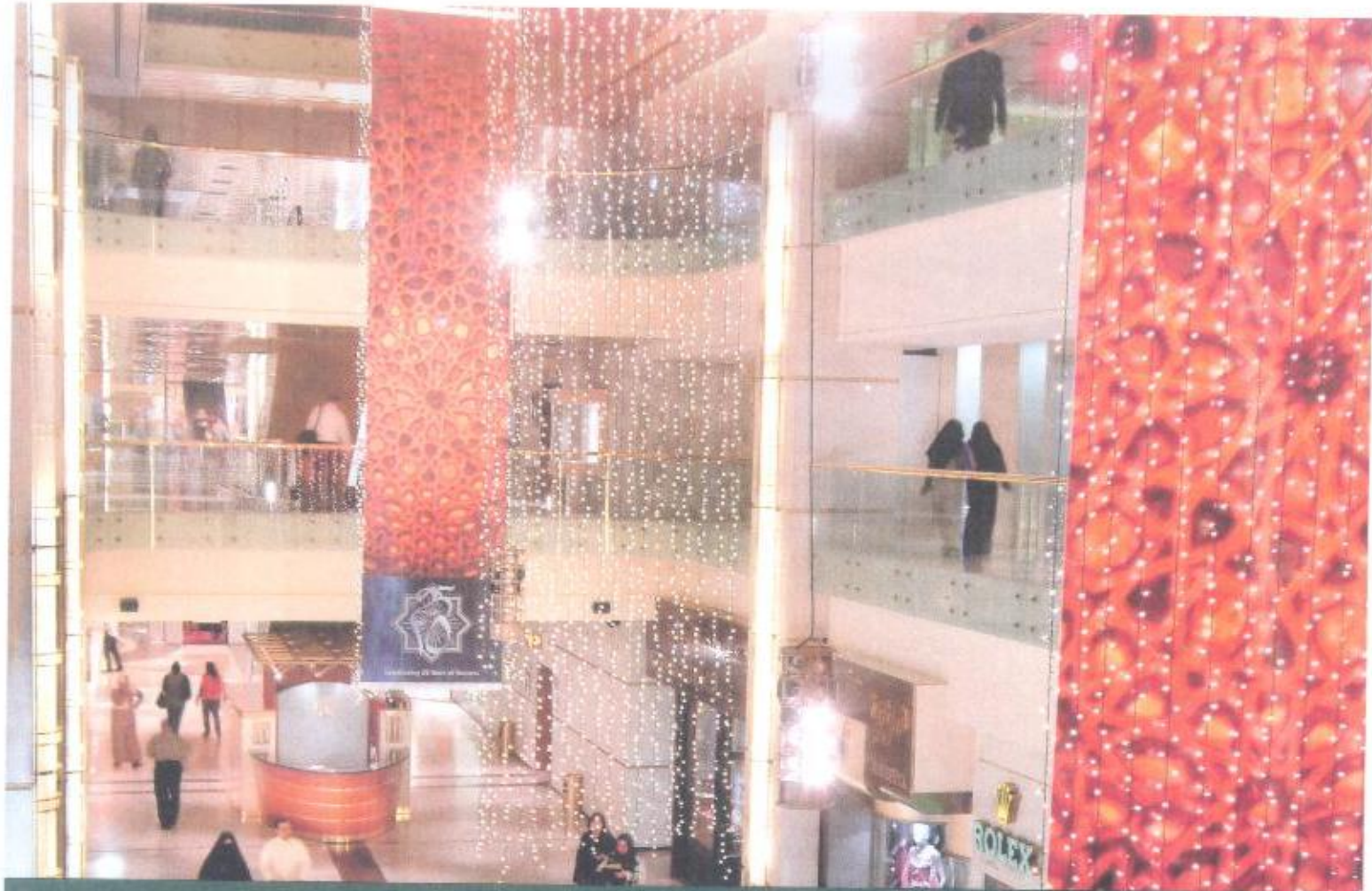
The Group's total assets increased by 26% from KD152.7 million to KD191.9 million during the year, with total real estate investments and fixed assets, its core business, increasing 25% from KD118.8 million to KD148.5. The Group is now truly a half-billion dollar enterprise.

Statements of Income and Cash Flows

The Group achieved a consolidated net profit of KD9.5 million during the year, an increase of 44% over the KD6.6 million posted in 2002. This was inclusive of a KD2.5 million extraordinary item comprising compensation received from the United Nations Compensation Commission for losses suffered as a result of the 1990 Iraqi invasion and occupation of Kuwait.

Revenue increased from KD20.5 million to an unprecedented KD25.8 million, prior to consolidation of the Group's 50% share in its U.K. joint venture, which itself increased by 80% from KD3.7 million to KD6.7 million. Accordingly, the Board recommends a share dividend of 10% per share.





With a rentable area of 12,811 square metres, the Salhia Commercial Complex enjoys an almost unmatched 100% occupancy, returning annual rental revenues of KD3.9 million for the year, an increase of 2% from 2002.



Report of the Board of Directors Local Investments, Kuwait (continued)

Salhia Complex

For a generation, the Group's flagship Salhia Complex has set the standard for commercial property in Kuwait and the region. Established in 1978 in the thriving commercial and financial centre of Kuwait City, the Complex now includes a multi-level shopping center hosting a wide selection of exclusive boutique outlets for the world's leading brands and Kuwaiti retailers, an integrated office complex, JW Marriott five-star luxury hotel, the Al-Sahab Tower with its world-class office space, and its own carpark.

Salhia Commercial Complex

With a rentable area of 12,811 square metres, the Salhia Commercial Complex enjoys an almost unmatched 100% occupancy, returning annual rental revenues of KD3.9 million for the year, an increase of 2% from 2002.

During the year, a number of renovation and electro-mechanical works were completed, maintaining the world-class standards that tenants of the complex and their customers are entitled to expect. This included upgrading all utilities and services, particularly the most essential firefighting and security systems; modernization of the complex's car park, including improved lighting, signage and safety equipment; and computerization of architectural, electrical and mechanicals plans.

The completion of the elegant Western façade of the complex this year has not only endowed the development with a stunning new portal worthy of its status but also provided substantial additional rentable space. The Complex is now instantly recognizable both internally and externally as one of Kuwait's most elegant shopping and office facilities. The project has provided an additional 312 square metres of deluxe showroom space at ground level and 1,400 square metres of office space – now utilized by the Group as part of its Head Office – and also integrated the architectural style of the Salhia Complex itself and the adjacent Al-Sahab Tower.

The tower's high level of services and quality, with its unmatched vistas over Kuwait Bay, has enabled the Group to maintain 100% occupancy for the past two years. Total annual revenue increased by 13% from KD808,527 to KD917,281.



Report of the Board of Directors Local Investments, Kuwait (continued)

Al-Sahab Tower

Adjoining the Salhia Complex, the Al-Sahab Tower was built in the early 1990's as one of the first major real estate developments post-Liberation. Opened in 1996, this premier 22-storey skyscraper property is testament to the Group's long-term commitment to investing in the Kuwaiti economy. Regarded as one of the most desirable office locations in the country, Al-Sahab Tower hosts the local headquarters of major multinational corporations as well as leading Kuwaiti firms and consultancies. The tower's high level of services and quality, with its unmatched vistas over Kuwait Bay, has enabled the Group to maintain 100% occupancy for the past two years. Total annual revenue increased by 13% from KD808,527 to KD917,281.

New Salhia Complex Car Park

Complementing the shopping and office complex is the new 450-space Salhia Car Park which was officially opened in October 2003. This 11,000 square-metre facility serves both tenants and visitors to the complex itself and other nearby Group properties, including the JW Marriott Kuwait Hotel and Al-Sahab Tower. Escalators and elevators linking the naturally-lit two basements of the car park directly to the complex and valet parking provide a unique level of service and convenience to central city parkers. Further work associated with the project will greatly improve traffic flow in the vicinity. When complete, the landscaping of the plaza associated with the car park will provide significant environmental and aesthetic benefits to the immediate area, with greenery and fountains.



With 68 luxury suites complementing its award-winning 323 rooms, and now one of the highest levels of in-room technology of any regional hotel – complete with broadband Internet connectivity in every room, a first for any hotel in Kuwait – the JW Marriott Kuwait continues to be the hotel of choice for discerning high-end guests.



Report of the Board of Directors Local Investments, Kuwait (continued)

JW Marriott Kuwait Hotel

During 2003, the Group marked the first full year of operation by the renowned Marriott International Inc. of the Group's central city 5-star hotel property. This premiere 16-storey establishment, formerly run by Le Meridien, is now recognized as one of the very best of JW Marriott's properties worldwide and a standard-setter for opulence and luxury throughout the Marriott system.

The hotel has enjoyed the highest occupancy rates for many years thanks largely to regional political events in the first half of the year, followed by a greatly renewed level of confidence in the economy of Kuwait and the region. The foresight and vision shown by the Group in investing more than KD6.1 million in the property in recent years has been vindicated many times over as leading businessmen, officials and media companies established themselves in the hotel during the crucial early months of 2003. The expectations of these most demanding international guests, particularly for safety, security and communications, were met with ease as a result of the careful attention to detail applied in this major capital expenditure programme and the professionalism of the hotel's management and staff under very challenging circumstances.

The lobby of the hotel continues to be one of the most acclaimed in the country, providing an alternate entrance into the Group's adjacent Salhia Complex shopping mall. New computer systems now empower staff to serve their guests ever more effectively and unobtrusively. The ballrooms, conference facilities, restaurants, health and beauty services and other attractions meet the diverse needs of both international guests and Kuwait's own business, official and diplomatic community with an unmatched level of professionalism and service.

During the year, all rooms on the hotel's second and third floors were completely upgraded and renewed. Similar work will be undertaken in 2004 for the fourth and fifth floors, completing a four-year project that will see all rooms completely refurbished, maintaining the competitive quality that the property demands. The Terrace Grill restaurant was also upgraded and the lobby is being further developed. With 68 luxury suites complementing its award-winning 323 rooms, and now one of the highest levels of in-room technology of any regional hotel – complete with broadband Internet connectivity in every room, a first for any hotel in Kuwait – the JW Marriott Kuwait continues to be the hotel of choice for discerning high-end guests.

The Group's Kuwait portfolio includes several important commercial and residential properties in the western and eastern parts of Kuwait's city centre.



Report of the Board of Directors Local Investments, Kuwait (continued)

Downtown Area Properties

The Group's Kuwait portfolio includes several important commercial and residential properties in the western and eastern parts of Kuwait's city centre.

Fahad Al-Salem Street Properties

The Group owns eight buildings with a total area of approximately 3,605 square metres in the prime location of western Kuwait City's main thoroughfare, Fahad Al-Salem Street. These properties include a diverse mix of commercial offices, retail showrooms and residential apartments. Occupancy was maintained at 100% during the year. Redevelopment options for these properties are being actively considered.

Al-Soor Street Property

The Kuwait portfolio includes a property overlooking historic Al-Soor Street, where Kuwait's old city wall once ran. This 1,222 square-metre building, with full occupancy, includes commercial offices, retail showrooms, stores and a residential complex.

Al-Shuhada Street Residential Towers

One of the Group's most recent acquisitions is a 2,900 square-metre property, purchased in 2002 on Al-Shuhada Street in eastern Kuwait City, near the Group's new Arraya Centre. Two 15-storey towers constructed on this site provide fully-furnished city center apartment living for up to 650 people. With 150 studio apartments and 90 other apartments, it is already housing the staff of the Group's Kuwait hotels, the JW Marriott Kuwait and the Marriott Courtyard, thus complementing the operational efficiency and return on investment from these two properties.

Al-Asima Property

The Group owns several investment and commercial properties in eastern Kuwait City's Al-Sharq area, collectively referred to as Al-Asima. Together, these comprise a total area of 21,414 square metres on a large and unique island site, bounded by the important thoroughfares of Al-Shuhada Street and Khalid Bin Al-Waleed Street.

During the year, the Group engaged leading international architectural and marketing consultants to advise on the best design and mixes of uses for the site, with the overarching objective of ensuring that the growing and unique needs of the local Kuwaiti market are met. The preferred vision for the development is to serve as a social and cultural arena. It may combine a plaza area, space for outdoor activities, a residential tower to meet increasing demand for convenient central city living, and a centre for cultural activities. This exciting development promises to breathe new life into a part of the city with substantial unrealised potential.

The Group's newest major development, the landmark Arraya Centre in Kuwait City's historic Al-Sharq precinct, comprises of a luxury 66-outlet shopping centre, high-end corporate office accommodation, four-star Marriott hotel, conference centre and recreational plaza.



Report of the Board of Directors Local Investments, Kuwait (continued)

The Arraya Centre

The Group's newest major development, the landmark Arraya Centre in Kuwait City's historic Al-Sharq precinct, comprises of a luxury 66-outlet shopping centre, high-end corporate office accommodation, four-star Marriott hotel, conference centre, multi-storey car park, and recreational plaza, all in a sophisticated and integrated design, each element complementing the other.

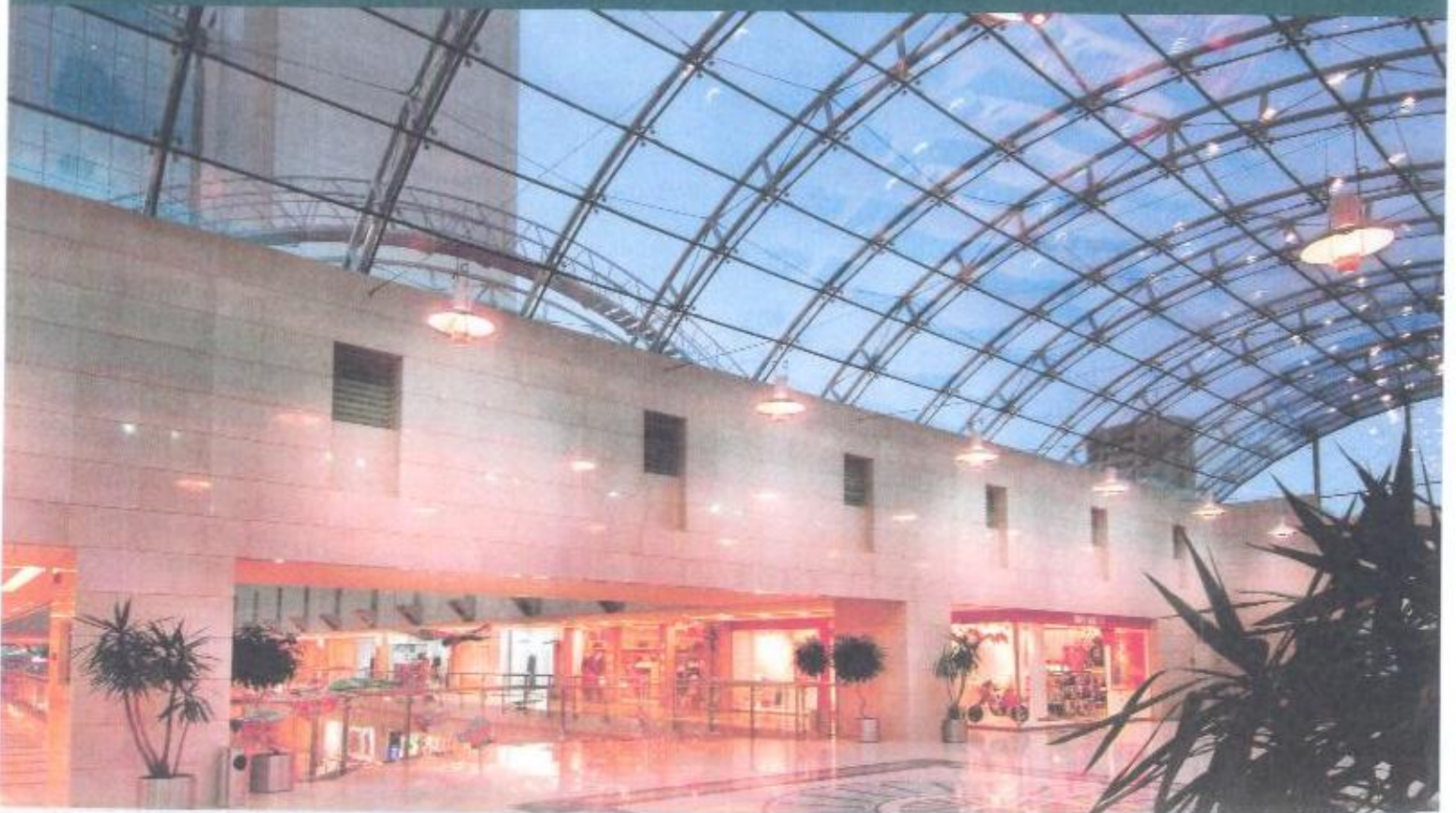
This project, which broke ground in April 2000, is in many ways the younger but equally ambitious sister of the Group's flagship Salhia Complex, at the opposite end of Kuwait City. Capitalising on the Group's 25 years of experience in the Kuwait real estate market, Arraya is one of the most important developments in the eastern central city in many years, providing significant new investment in this vital locale.

The first phase of the project, a 7,209 square-metre shopping centre covering three floors and a basement, opened in September 2003. With convenient access for the public through nine entrances – four of which are linked to the adjacent car park through panoramic airconditioned flyover bridges – the centre has become a coveted address for leading boutique retailers. By the year-end, it had already achieved almost 100% occupancy with a diverse range of quality brand name outlets selling everything from fashion to jewellery, cosmetics to domestic appliances. A bank, cafés and restaurants, specialist optician and telephone shop complete a convenient range of quality services.

A most important part of the project is the Courtyard Hotel by Marriott, the Group's second hotel, which opened during the year. With 318 rooms – including 12 VIP suites – this four-star development fills an important niche in the Kuwait hotel market. The Group had identified a need for high-quality service at moderate prices, focused mainly on business clientele who demand something different and slightly understated from their home-away-from-home.



An integral part of the project is a 8,000 square metre six-level car park with capacity for 1,400 vehicles. Direct climate-controlled pedestrian links to the shopping centre provide convenient access for all tenants, customers and visitors.



Report of the Board of Directors Local Investments, Kuwait (continued)

The latest in-room technology and systems have been installed according to the most demanding international specifications. The hotel's early success is proof that the need has been well met.

The hotel is housed in two towers, occupying all of one twelve-storey building and much of a second 31 storey tower alongside it, connected by a double-decked bridge at mezzanine level. Special meeting and function facilities are available, some of which may be equipped as board rooms or executive offices. With a striking eight-floor atrium, premier Italian restaurant, two cafés, a roof-top swimming pool, superbly equipped health club and 24-hour business centre, the hotel adds new life and elegance to this previously underdeveloped part of the city.

The top seven floors of the larger of the two hotel towers contain exclusive corporate offices, with each floor providing 850 square metres of space and unparalleled panoramic views of Kuwait City or the Arabian Gulf. The infrastructure includes three fast elevators, the latest information and communications technology, satellite channels, and 24-hour security.

The third phase of Arraya, a spacious state-of-the-art convention centre, managed by Marriott International Inc., provides more than 2,750 square metres of meeting space and offices on two floors. The main feature of this centre is a grand ballroom divisible into six separate halls or one single space with a floor area of 1,800 square metres and an eight metre clear ceiling height. This exquisitely furnished facility is fully equipped with the most modern audio-visual and communications technology and promises to become one of the region's leading convention centres.

An integral part of the project is a 8,000 square metre six-level car park with capacity for 1,400 vehicles. Direct climate-controlled pedestrian links to the shopping centre provide convenient access for all tenants, customers and visitors.

The development also includes a climate-controlled covered 3,000 square metre outdoor plaza area at its centre, using sophisticated environmental systems, tensile fabric shading and fountains to provide year-round comfort for its patrons. Paved with deluxe granite and using innovative lighting techniques, this area will provide a venue for restaurants, shopping and entertainment.

The major outstanding phase of the project is the 42-storey tower which, when completed in 2006, will provide as one of the tallest occupied buildings in Kuwait magnificent views north and east across Kuwait Bay and the Arabian Gulf, and south across Kuwait's suburbs. Development options for the 25,000 square metres of rentable space include a mix of office accommodation and furnished apartments. Leasing negotiations with quality commercial tenants are already well-progressed.



At the end of 2003, KPI held a total rentable area of 10.5 million square feet, generating gross rental income of KD10.8 million (2002: KD4.1 million) on a total asset base of KD121 million (2002: KD52.3 million).



Report of the Board of Directors International Investments: UK and Germany

Overview

The Group's international investments are focused in Western Europe, particularly the United Kingdom through Key Property Investments Ltd. UK (KPI), an equal joint venture with St. Mowden Properties of the UK, and an 89.72% interest in Haddia GmbH, Germany. KPI specialises in commercial, retail and residential developments in Great Britain. Haddia's primary area of activity is the development, ownership and management of nursing homes and residences for senior citizens in Germany. These investments have proven to be among the Group's most successful, providing strategic diversification in the Group's portfolio and excellent returns.

Key Property Investments Ltd. UK

At the end of 2003, KPI held a total rentable area of 10.5 million square feet, generating gross rental income of KD10.8 million (2002: KD4.1 million) on a total asset base of KD121 million (2002: KD52.3 million). With a net pre-tax profit equivalent to KD5.04 million (2002: KD1.3 million) and an after tax profit of KD3.74 million (2002: KD925,000), the joint venture produced a net cash yield of 8.33%. Following a doubling of KPI's share capital to KD26.4 million, and an extension of the original eight year period of the joint venture, the Group is well placed to take advantage of emerging investment opportunities.

KPI's four main areas of investment are in Farnborough Town Shopping Centre, south-west of London; the Elephant and Castle Shopping Centre, on the main arterial road into London's West End; a portfolio of commercial properties leased to major British corporate, Marconi; and a similar portfolio leased to Alstom. The joint venture also holds several properties as part of the Refuge Assurance Portfolio. Four properties from this portfolio and one each from the Marconi and Alstom portfolios were sold during the year for a profit of about KD263,500, or £500,000.

Farnborough Town Shopping Centre

KPI's properties in Farnborough, home of the world-renowned international air show, are centred on the Kingsmead covered shopping centre, interconnected with the Queensmead pedestrian precinct. These two properties together comprise 31,538 square metres of built-up space, providing 27,900 square metres of shopping facilities, office and residential units, leisure facilities, and a multi-storey car park.

In addition to these two lead properties, the joint venture in 2003 completed some developments in The Mead, which links Queensmead and a contiguous separately-owned shopping area. This increased rentable space from 7,000 square feet to 21,000 square feet in a three-storey retail development with seven ground floor units.

Further development work was completed on the Queensgate area in 2003 to create four retail units and 24 one-bedroom apartments, most of which had been sold by year end.



The KPI joint venture has completed its first full year of ownership of the Elephant and Castle Shopping Centre.



Report of the Board of Directors International Investments: UK and Germany (continued)

Elephant and Castle Shopping Centre

The KPI joint venture has completed its first full year of ownership of the Elephant and Castle Shopping Centre. Purchased in 2002 for KD15.42 million, or £29.25 million, this 1960's vintage development occupies most of a desirable island site formed by Walworth Road – the main road into London's West End – Old Kent Road and Elephant Place. It comprises 33,850 square metres of retail, leisure and office space, and a 142-bay car park. The scheme benefits from strong public transport links with the Elephant and Castle underground and mainline train stations serving the area.

Significantly, this investment lies in an area slated for sustainable regeneration through a major 23 hectare development plan by the local authority, Southwark Council. The Group's shopping centre and associated properties will be the centerpiece of a master plan which will transform the area into a thriving new town centre with 650,000 square metres of new development incorporating a transport hub – including an underground railway station – with pedestrian routes and public spaces.

Through a combination of private investment and local authority participation, the socio-economic profile of the area will be further enhanced, providing employment opportunities and increased business, recreational and leisure facilities, and high quality transport links. This will in turn lead to increases in the rentable and asset values of the Group's investment. The master plan is expected to be approved in early 2004, increasing the residential area to 95,615 square metres, the retail element to 26,545 square metres, and public and cultural spaces to 23,850 square metres. In all, the total development area for the Group's shopping centre will be about 146,000 square metres.

Marconi Portfolio

This portfolio comprises of eleven properties in the British towns and cities of Accrington, Hemel Hemstead, Liverpool, Poole, Rugby, Stafford and Trafford Park. With a total area of 2.2 million square feet and consisting of industrial estates, warehouses, open storage spaces, office accommodation and playing fields, these properties are all leased to Marconi, one of the UK's leading technology companies.

Significantly, most properties in this portfolio hold redevelopment potential which will serve in time to enhance their value and revenue stream.

Alstom Portfolio

Acquired in late 2002, this portfolio has contributed to the joint venture's revenue for the first time this year. With a total floor space area of 800,000 square metres on 500 acres of land in ten cities across the UK, it is a significant addition to the joint venture's assets. It originally comprised nineteen properties; one in Aberdeen, Scotland, was disposed of during the year as part of a rationalization process. Most of the remaining eighteen properties are leased to Alstom, with a guaranteed return to the joint venture of about 10%.



Haddia GmbH's revenues for the year were KD14.17 million (2002: KD8.4 million), a substantial improvement on last year. Assets grew strongly to KD50 million, up from KD29 million at the end of 2002.



Report of the Board of Directors International Investments: UK and Germany (continued)

Haddia GmbH, Germany

Engaged in the development, ownership and management of nursing homes and residences for senior citizens in central and northern Germany, the Group's Haddia GmbH subsidiary is one of the most successful private companies of its type in Germany, and regarded as a standard setter in quality compassionate care for the aged. With fourteen properties, comprising of eleven new and established nursing homes and three senior citizens' residences in Appen, Hannover, Bad Pyrmont and Bad Schwartz, the company provides 1,188 units of all types. With the completion of further developments in 2004, the total number of units is expected to increase further by almost a third.

Haddia GmbH's revenues for the year were KD14.17 million (2002: KD8.4 million), a substantial improvement on last year. Assets grew strongly to KD50 million, up from KD29 million at the end of 2002.

This year saw the completion and opening of a 4,970 square metre 119-bed nursing home in the town of Appen, near Hamburg. This property marks the eleventh nursing home now operated by the Group. With a basement, ground floor and two upper floors, it provides a well-balanced mix of single and double accommodation for its tenants, together with ease of access. Ample parking is provided onsite for family and other visitors. A bistro and coffee shop, open to the public, helps to integrate the facility into the general community.

Elsewhere, development is continuing on a twelfth nursing home, with a 150-bed capacity, on a 7,360 square metre site in the town of Plon. Construction commenced in May this year and the property is expected to be operational in mid-2004. In Neustadt, near the shores of the Baltic Sea in the state of Holstein, work is proceeding on property of 75 flats specialized for senior citizens and two nursing homes with a total of 150 beds, all to be built on a 45,000 square metre site. This substantial project also broke ground in May 2003 and is expected to require about 18 months to completion.

Renovation and upgrading work continues at several of Haddia's established properties, ensuring that they meet the highest standards the Group sets, and which its clients are entitled to expect. New technology and initiatives in care of the aged are implemented almost daily, and buildings and facilities are being constantly upgraded with an ongoing commitment to improving quality of life.

In addition to its nursing home and residence properties, Haddia acquired an office building in the city of Hannover for use as its headquarters. The property is expected to be operational in early 2004. Total purchase and renovation cost will be about KD1 million.

Following the completion of this major capital expansion programme in late 2004 with the commissioning of the Neustadt properties, results and cash flow are expected to improve significantly. Haddia is well-capitalised and has excellent prospects. The new headquarters building will also contribute to reduced overhead costs, and allow the Group to benefit from the appreciation in value of the property itself.

The Group's investment in this strategic demographic sector is consistent with its vision of participating in projects with long-term, sustainable returns, and potential for solid asset growth. With an ageing population, the developed economies of Western Europe are increasingly in need of facilities such as those provided by Haddia, and the skills developed in caring for this important market.

Following the implementation in 2002 of a state-of-the-art ORACLE Enterprise Resource Planning suite of software, the Group has invested heavily in staff training and in associated organizational restructuring.



Executive Management

Anwar Abdulaziz Al-Usaimi
Deputy Managing Director

Ali M. Al-Hamdan
Investment and Support Group Head

Engr. Saud Al-Sager
Real Estate Management and
Development Group Head

Hany A. Abdelnour (CPA-PHD)
Finance and Accounting Group Head

Khalid M. Al-Awadi
Personnel and Administration Manager

Mohammed K. Al-Musaibeeh
Chief Accountant

Engr. Tarek Darwish
Design Department Manager

Engr. Kifah Georges
Construction Department Manager

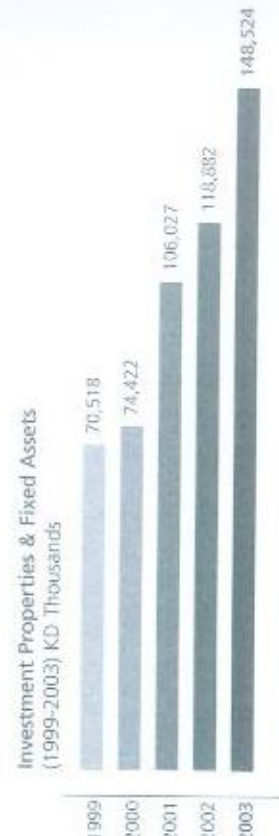
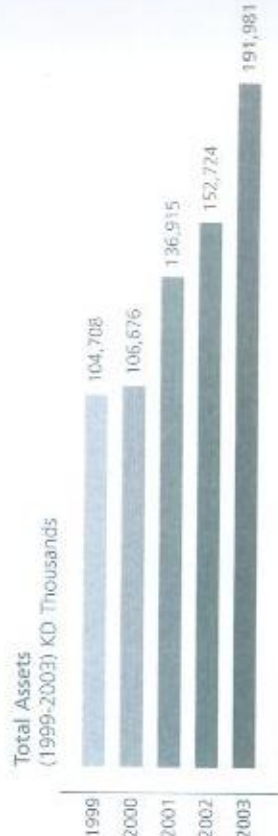
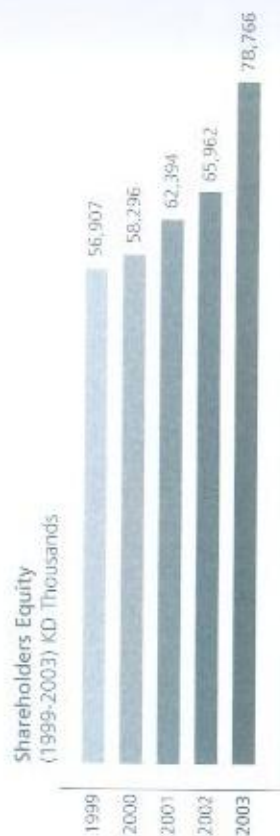
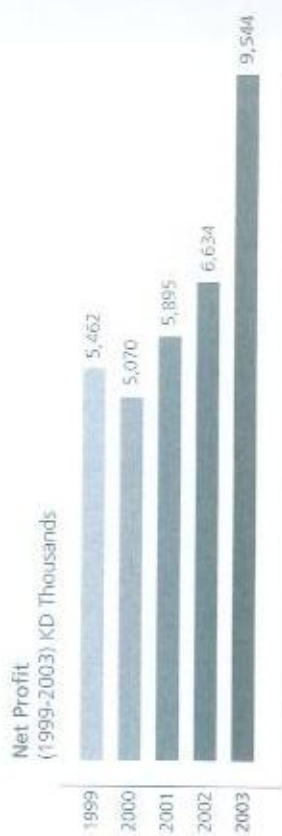
Engr. Ahmed Yousef
Property Manager

Feras A. Al-Rushaid
Assistant Chief Accountant

Human Resources

The Group is fully committed to developing its personnel, wherever they serve in the world. Although it is engaged in a capital intensive business, it cannot truly service its clientele effectively without a skilled, dedicated and motivated workforce, backed up by the latest systems. An in-depth understanding of the real estate market and the ability to arrive at informed investment decisions and to follow them through has been the hallmark of the Group's success over the years. This can only be maintained with professional, well-trained and well-managed staff.

To this end, following the implementation in 2002 of a state-of-the-art ORACLE Enterprise Resource Planning suite of software, the Group has invested heavily in staff training and in associated organizational restructuring. The ORACLE system represents a whole new generation of management and personnel empowerment, allowing staff to work much more effectively, in a more integrated manner, and without many of the barriers inherent in more traditional structures. Both management and staff are learning to provide further real added value to their functions, and are fully supported in this by the Group's new systems.



10%

Share Dividends

KD 192m

Total Assets

Financial Highlights

The Group achieved a consolidated net profit of KD9.5 million during the year, an increase of 44% over the KD6.6 million posted in 2002. This was inclusive of a KD2.5 million (2002: KD73,036) extraordinary item comprising compensation received from the United Nations Compensation Commission for losses suffered as a result of the 1990 Iraqi invasion and occupation of Kuwait.

Revenue increased from KD20.5 million to an unprecedented KD25.8 million, prior to consolidation of the Group's 50% share in its U.K. joint venture, which itself increased by 80% from KD3.7 million to KD6.7 million. Accordingly, the Board recommends a share dividend of 10% per share.

Contents

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37	Notes to the Consolidated Financial Statements

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED)

We have audited the accompanying consolidated balance sheet of Salhia Real Estate Company K.S.C. (Closed) and Subsidiaries as of 31 December 2003 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

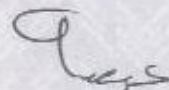
We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 2003, 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 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 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 2003 that might have had a material effect on the business of the company or on its financial position.



Waleed A. Al Osaimi
LICENCE NO. 68 A
OF ERNST & YOUNG



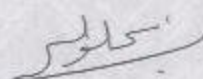
Ali A. Al Hasawi
LICENCE NO. 30 A
BURGAN BDO
INTERNATIONAL ACCOUNTANTS

2 March 2004
Kuwait

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2003

	Note	2003 KD	2002 KD
Assets			
Bank balances and cash		3,623,516	2,645,745
Investments	6	20,860,121	15,780,064
Inventories		130,839	144,211
Accounts receivable and prepayments	7	4,883,222	3,757,572
Investment in joint venture	9	13,960,176	11,514,000
Investment properties	10	44,142,011	44,086,392
Fixed assets	11	104,382,002	74,796,108
Total Assets		191,981,887	152,724,092
Liabilities, Minority Interest and Shareholders' Equity			
Liabilities			
Due to banks	12	8,306,743	7,036,994
Accounts payable and accruals	13	11,947,792	6,886,290
Long-term loans	14	92,713,755	72,686,298
Total Liabilities		112,968,290	86,609,582
Minority Interest		247,205	152,569
Shareholders' Equity			
Share capital	15	23,841,246	23,841,246
Share premium		14,457,158	14,457,158
Statutory reserve	16	7,054,487	6,067,290
Voluntary reserve	16	7,054,487	6,067,290
General reserve		4,250,000	4,250,000
Foreign exchange translation reserve		2,873,565	438,903
Cumulative changes in fair value	17	6,520,231	927,128
Retained earnings		12,715,218	9,912,926
Total Shareholders' Equity		78,766,392	65,961,941
Total Liabilities, Minority Interest and Shareholders' Equity		191,981,887	152,724,092



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 2003

	Note	2003 KD	2002 KD
Revenue		25,840,622	20,540,757
Operating costs		(10,538,591)	(8,846,979)
Gross profit		15,302,031	11,693,778
Share in joint venture's results	9	2,329,305	622,270
Expenses and charges:			
General and administrative expenses		(3,535,503)	(2,862,215)
Depreciation		(2,309,804)	(2,223,517)
Sales and marketing expenses		(1,678,010)	(990,000)
Profit from operations		10,108,019	6,240,316
Investment income	3	2,577,187	3,430,639
Foreign exchange loss		(708,391)	(668,155)
Interest income		32,298	66,917
Gain on sale of investment properties and fixed assets		-	1,090,815
Other income		247,670	596,930
Finance costs		(3,647,403)	(3,275,578)
Provision for impairment of investments		(621,845)	(384,901)
Profit before minority interest and foreign tax		7,987,535	7,096,983
Minority interest		26,440	(6,710)
Tax		(691,470)	(237,089)
Profit from ordinary activities		7,322,505	6,853,184
Extraordinary item	4	2,549,462	73,036
Profit for the Year		9,871,967	6,926,220
Contribution to Kuwait Foundation for the Advancement of Sciences		(88,848)	(62,336)
National Labour Support Tax		(161,184)	(152,357)
Directors' fees		(77,000)	(77,000)
Net Profit for the Year		9,544,935	6,634,527
Earnings Per Share	5	40.0 fils	28.0 fils

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2003

	Note	2003 KD	2002 KD
Operating Activities			
Profit before minority interest and foreign tax		7,987,535	7,096,983
Adjustments for:			
Share in joint venture's results		(2,329,305)	(622,270)
Depreciation		2,309,804	2,223,517
Provision for employees' terminal benefits		460,753	117,270
Investment income		(2,577,187)	(3,430,639)
Foreign exchange loss		708,391	668,155
Interest income		(32,298)	(66,917)
Gain on sale of investment properties and fixed assets		-	(1,090,815)
Finance costs		3,647,403	3,275,578
Provision for impairment of investments		621,845	384,901
Operating profit before changes in operating assets and liabilities		10,796,941	8,555,763
<i>Changes in operating assets and liabilities</i>			
Decrease in inventories		13,372	81,937
Increase in accounts receivable and prepayments		(1,130,974)	(1,341,970)
Increase in accounts payable and accruals		4,606,787	2,273,857
Cash from operations		14,286,126	9,569,587
Employees' terminal benefits paid		(108,352)	(41,782)
Payment of contribution to KFAS		(62,336)	(111,952)
Payment of National Labour Support Tax		(152,357)	(135,217)
Directors' fees paid		(77,000)	(77,000)
Cash flow before extraordinary item		13,886,081	9,203,636
Extraordinary item		2,549,462	73,036
Net cash from operating activities		16,435,543	9,276,672
Investing Activities			
Investment in joint venture		-	(6,538,932)
Purchase of investments		(11,962,248)	(5,033,645)
Proceeds from sale of investments		14,176,508	9,441,198
Purchase of investment properties and fixed assets		(27,043,725)	(16,657,292)
Proceeds on sale of investment properties and fixed assets		-	6,251,395
Dividend income		757,655	718,115
Dividend income from joint venture		617,500	-
Interest income received		37,622	73,096
Net cash used in investing activities		(23,416,688)	(11,746,065)
Financing Activities			
Proceeds from sale of treasury shares		-	1,264,591
Loans received		21,259,974	21,675,089
Loans repaid		(6,222,130)	(17,205,457)
Finance costs paid		(3,626,862)	(3,278,263)
Dividends paid		(4,721,815)	(4,223,770)
Net cash from (used in) financing activities		6,689,167	(1,767,810)
Decrease In Cash and Cash Equivalents		(291,978)	(4,237,203)
Cash and cash equivalents at beginning of the year		(4,391,249)	(154,046)
Cash and Cash Equivalents at End of the Year	18	(4,683,227)	(4,391,249)

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEAR ENDED 31 DECEMBER 2003

	Share capital K.D.	Share premium K.D.	Treasury shares K.D.	Statutory reserve K.D.	Voluntary reserve K.D.	General reserve K.D.	Foreign currency translation reserve K.D.	Cumulative changes in fair value K.D.	Retained earnings K.D.	Total K.D.
At 31 December 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
Cash dividends for 2001	-	-	-	-	-	-	-	-	(4,223,770)	(4,223,770)
Fair value adjustment on investments sold	-	-	-	-	-	-	-	-	(187,925)	(187,925)
Net profit for the year	-	-	-	-	-	-	-	-	6,634,527	6,634,527
Foreign currency translation 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	927,128	9,912,926	65,961,941
Cash dividends for 2002	-	-	-	-	-	-	-	-	(4,768,249)	(4,768,249)
Net profit for the year	-	-	-	-	-	-	-	-	9,544,935	9,544,935
Foreign currency translation adjustment	-	-	-	-	-	-	2,434,662	-	-	2,434,662
Transfer to reserves	-	-	-	987,197	987,197	-	-	-	(1,974,394)	-
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	5,593,103	-	5,593,103
At 31 December 2003	23,841,246	14,457,158	-	7,054,487	7,054,487	4,250,000	2,873,565	6,520,231	12,715,218	78,766,392

The attached notes 1 to 25 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

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 Salhia Complex, Fahad Al Salem Street, 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 specialist investment managers. Details of the subsidiaries are set out in Note 8.

The consolidated financial statements were authorised for issue by the parent company's Board of Directors on 2 March 2004. 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, and interpretations issued by the International Financial Reporting Interpretations Committee 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 measurement at fair value 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 2003.

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 THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

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. 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. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Investments with no reliable measures of fair value and for which fair value information could not 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 stated at depreciated cost less impairment in value. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Income recognition

Rental income from investment properties are recognised on an accrual basis. Interest income is recognised on a time apportionment basis taking into account the outstanding balance and applicable interest rate. 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. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

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. The exchange differences arising on investment in joint venture are accounted for on the same basis as the subsidiaries.

3. INVESTMENT INCOME

	2003 KD	2002 KD
Gain on sale of investments	1,819,532	2,712,524
Dividends	757,655	718,115
	2,577,187	3,430,639

4. EXTRAORDINARY ITEM

The extraordinary item represents final compensation received from the United Nations Compensation Commission in respect of losses suffered by the parent company as a result of the Iraqi invasion and occupation of Kuwait in 1990. The contribution to Kuwait Foundation for the Advancement of Sciences attributable to this item amounted to KD 22,945.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

5. EARNINGS PER SHARE

	2003 KD	2002 KD
Net profit for the year	9,544,935	6,634,527
Weighted average number of shares outstanding	Shares 238,412,460	Shares 236,596,091
Earnings per share would be further analysed as follows:	40.0 fils	28.0 fils
Earnings per share:		
From ordinary activities	29.3 fils	27.7 fils
From extraordinary item	10.7 fils	0.3 fils
	40.0 fils	28.0 fils

6. INVESTMENTS

	2003 KD	2002 KD
Quoted securities	11,352,555	8,071,971
Unquoted securities	9,507,566	7,708,093
	20,860,121	15,780,064

Investments amounting to KD2,951,754 (2002: KD 2,908,811) are carried at cost less impairment 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.

7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2003 KD	2002 KD
Hotel guests and care home residents receivables	1,335,251	642,287
Rent receivable	119,761	273,843
Due from related parties	1,401,805	743,912
Deposits and prepaid expenses	167,323	200,965
Advance payments to contractors	298,722	973,840
Other receivables	1,560,360	922,725
	4,883,222	3,757,572

Due from related parties includes an amount of KD 433,053 advanced to key management personnel of a subsidiary company on 31 July 2003 to finance their participation in an employee share option scheme of the subsidiary. Under the terms of loan agreement, the borrower is liable for interest at 6% per annum payable at the end of the calendar year. The principal including any unpaid interest is repayable when the borrower exits the share option scheme. Since the loan does not have a fixed repayment date, the fair value of the loan is not determinable.

8. 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
Greco GMBH	89.72%	Germany	Care home catering service provider

9. INVESTMENT IN JOINT VENTURE

The parent company has a 50% interest in a joint venture in the United Kingdom. At 31 December 2003, the parent company's share of the assets, liabilities and results of operations of the joint venture was as follows:

	2003 KD	2002 KD
Current assets	7,285,387	9,038,681
Long-term assets	52,960,616	19,917,248
Current liabilities	7,080,605	2,800,886
Long-term liabilities	41,458,148	18,057,213
Revenues	6,720,989	3,731,384
Expenses	1,930,047	1,416,332
The movement during the year on the investment in the joint venture is as follows:		
Carrying value of the investment at beginning of the year	11,514,000	4,714,096
Establishment costs written off	-	(7,347)
Dividend received	(617,500)	-
Share in the joint venture's results net of tax of KD 718,439 (2002: KD 185,470)	1,610,866	436,800
Additional investment	-	6,538,932
Foreign currency translation adjustment	1,452,810	(168,481)
Carrying Value of the Investment at End of the Year	13,960,176	11,514,000

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

10. INVESTMENT PROPERTIES

	Freehold land KD	Buildings KD	Total KD
Balance at 1 January 2003	30,427,371	13,659,021	44,086,392
Additions	-	3,995	3,995
Transfer from capital work in progress	-	600,314	600,314
Depreciation for the year	-	(548,690)	(548,690)
Balance at 31 December 2003	30,427,371	13,714,640	44,142,011
Cost	30,427,371	24,343,537	54,770,908
Accumulated depreciation	-	(10,628,897)	(10,628,897)
Balance at 31 December 2003	30,427,371	13,714,640	44,142,011

Freehold land and buildings with a carrying value of KD 8,396,573 (2002: KD 8,396,573) are mortgaged against certain bank loans (See Note 14).

The fair value of the investment properties amounted to KD 112,159,500 at the balance sheet date (2002: KD 82,596,005). The fair values have been determined by independent valuation using acceptable methods of calculation such as sales comparison and income capitalisation.

11. 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 2003	13,039,459	35,869,039	2,043,866	46,635	23,797,109	74,796,108
Additions	1,381,846	367,841	650,914	87,014	24,552,115	27,039,730
Transfers from capital work in progress	-	2,294,947	561,670	-	(3,456,931)	(600,314)
Depreciation for the year	-	(1,190,815)	(499,385)	(28,862)	-	(1,719,062)
Foreign currency translation adjustment	570,101	3,975,515	167,970	-	151,954	4,865,540
Balance at 31 December 2003	14,991,406	41,316,527	2,925,035	104,787	45,044,247	104,382,002
Cost	14,991,406	54,986,848	7,013,923	217,105	45,044,247	122,253,529
Accumulated depreciation	-	(13,670,321)	(4,088,888)	(112,318)	-	(17,871,527)
Net Carrying Amount at 31 December 2003	14,991,406	41,316,527	2,925,035	104,787	45,044,247	104,382,002

Freehold land and buildings with a carrying value of KD 35,280,308 (2002: KD 40,904,496) are mortgaged against certain loans (See Note 14).

During the year, the parent company capitalised borrowing costs amounting to KD 674,128 (2002: KD 457,498). Cumulative capitalised borrowing costs amount to KD 1,524,844 (2002: KD 850,716).

12. DUE TO BANKS

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

13. ACCOUNTS PAYABLE AND ACCRUALS

	2003 KD	2002 KD
Accounts payable	2,337,967	1,281,222
Retentions payable	2,781,076	1,381,877
Accrued expenses	1,063,398	900,872
Deposits from tenants, hotel and care home guests	825,373	601,313
Rents received in advance	194,978	203,007
Employees' terminal benefits	1,205,031	852,630
Provisions	294,351	124,798
Kuwait Foundation for the Advancement of Sciences	88,848	62,336
National Labour Support Tax	161,184	152,357
Directors fees	77,000	227,000
Amounts due to related parties	891,059	355,276
Unpaid dividends	132,737	86,305
Other payables	1,894,790	657,297
	11,947,792	6,886,290

14. LONG-TERM LOANS

Long-term loans are denominated in the following currencies:

	2003 KD	2002 KD
Kuwaiti dinars	52,888,000	42,875,000
Euro	35,310,385	25,004,298
Japanese Yen	4,515,370	4,807,000
	92,713,755	72,686,298

The loans are due for repayment as follows:

	2003 KD	2002 KD
2004	7,775,006	8,292,224
2005	14,162,068	10,377,855
2006	9,569,744	9,496,046
2007	10,150,064	8,129,279
After 2007	51,056,873	36,390,894
	92,713,755	72,686,298

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

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14. LONG-TERM LOANS (continued)

The Kuwaiti Dinar loans carry variable interest rates, which range from 0.5% and 1.25% 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 and fixed interest rates which range from 1% and 1.5% over LIBOR. The variable interest rate loans are repriced every 3 to 6 months.

Bank loans of the group with a carrying value of KD 92,713,755 (2002: KD 72,686,298) are secured by investment properties with a carrying value of KD 8,396,573 (2002: KD 8,396,573) and fixed assets with a carrying value of KD 35,280,308 (2002: KD 40,904,496) owned by the group. Of these, bank loans amounting to KD 33,021,842 (2002: KD 23,071,652) have been obtained by subsidiaries under terms of which lenders have no recourse to the parent company in the event of default.

A loan of Euro 21,000,000 (KD equivalent: 7,801,500) was obtained by a subsidiary company during December 2003 based on an assurance provided by the parent company to the creditor bank that, for a period of three years commencing 3 December 2003, the subsidiary company will be sufficiently liquid to meet interest and principal repayments as well as any other charges thereon at each maturity date.

15. SHARE CAPITAL

At 31 December 2003, the parent company's authorised, issued and fully paid share capital consisted of 238,412,460 shares of 100 fils each (2002: 238,412,460 shares).

The parent company's Board of Directors will propose issue of additional 47,682,492 shares at 250 fils per share 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.

16. 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.

17. CUMULATIVE CHANGES IN FAIR VALUE

The movement in cumulative changes in fair value are analysed as follows:

	2003 KD	2002 KD
Balance at 1 January	927,128	1,284,276
Change in fair value during the year	5,713,647	1,099,496
Impairment loss recognised during the year	321,512	189,800
Gain realized on sale during the year	(442,056)	(1,646,444)
Balance at 31 December	6,520,231	927,128

18. CASH AND CASH EQUIVALENTS

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

	2003 KD	2002 KD
Bank balances and cash	3,623,516	2,645,745
Due to banks	(8,306,743)	(7,036,994)
	(4,683,227)	(4,391,249)

19. RELATED PARTIES

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

	2003 KD	2002 KD
Balance sheet:		
Due from related parties	1,401,805	743,912
Staff receivables	57,207	43,078
Amounts due to related parties	891,059	355,276
Income statement:		
Operating costs	419,421	545,647
Sales and marketing expenses	638,677	288,933

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20. EMPLOYEE INFORMATION

At 31 December 2003, the group had 1,284 employees (2002: 1,185 employees).

For the year ended 31 December 2003, staff costs amounted to KD 9,645,681 (2002: KD 7,244,354).

21. PROPOSED DIVIDEND

The parent company's Board of Directors will propose issue of bonus shares of 10% of paid up capital amounting to 2,384,125 for the year ended 31 December 2003 (2002: cash dividend of 20 fils per share amounting to KD 4,768,225) 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 JW Marriott Hotel – Kuwait.
- Care home operations: Consist of care home activities provided by the subsidiary company.

Primary segment information

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

	31 December 2003		31 December 2002		Total KD	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD
	Real estate operations KD	Hotel operations KD	Care home operations KD	Hotel operations KD					
Segment revenue	6,322,733	9,370,451	10,147,438	25,840,622	5,584,971	6,541,628	8,414,158	20,540,757	
Segment operating costs	(596,079)	(3,201,568)	(6,740,944)	(10,538,591)	(513,949)	(2,960,742)	(5,472,288)	(8,846,979)	
Segment results	5,726,654	6,168,883	3,406,494	15,302,031	5,071,022	3,680,886	2,941,870	11,693,778	
Share of income from joint venture's result	2,329,305	-	-	2,329,305	622,270	-	-	622,270	
Other operating expenses	(3,422,565)	(2,212,292)	(1,888,460)	(7,523,317)	(3,013,886)	(1,671,832)	(1,390,014)	(6,075,732)	
Profit from operations	4,633,394	3,956,591	1,518,034	10,108,019	2,679,406	2,009,054	1,551,856	6,240,316	
Interest income				32,298				66,917	
Finance costs				(3,647,403)				(3,275,578)	
Other non-operating income				1,494,621				4,065,328	
Profit before minority interest and tax				7,987,535				7,096,983	
Minority interest				26,440				(6,710)	
Tax				(691,470)				(237,069)	
Profit from ordinary activities				7,322,505				6,853,184	
Extraordinary items				2,549,462				73,086	
Other non-operating expenses				(327,032)				(291,693)	
Net profit for the Year				9,544,935				6,634,527	
Other information:									
Segment assets	133,875,857	2,487,427	41,658,427	178,021,711	109,869,310	2,224,411	29,116,371	141,210,092	
Investment in joint venture	13,960,176			13,960,176	11,514,000			11,514,000	
Total Assets				191,981,887				152,724,092	
Segment liabilities	75,510,233	2,659,663	34,798,394	112,968,290	60,058,181	2,019,877	24,531,524	86,609,582	
Total Liabilities				112,968,290				86,609,582	
Capital expenditure	19,244,887	-	7,794,843	27,039,730	13,294,864	1,667,214	1,700,488	16,662,566	
Depreciation	1,454,123	-	875,182	2,329,305	1,530,603	-	692,914	2,223,517	

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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 2003			31 December 2002		
	Kuwait KD	Europe KD	Total KD	Kuwait KD	Europe KD	Total KD
Revenue	15,693,184	10,147,438	25,840,622	12,126,599	8,414,158	20,540,757
Assets	148,875,749	43,106,138	191,981,887	123,607,721	29,116,371	152,724,092
Capital expenditure	19,244,887	7,794,843	27,039,730	14,962,078	1,700,488	16,662,566

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 expected as noted in Notes 6 and 7.

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 consist 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:

	2003 Equivalent long (short) KD	2002 Equivalent long (short) KD
US Dollars	5,263,530	3,648,250
Japanese Yen	(5,291,868)	(4,708,433)
German Marks	-	-
Euro	(3,767,271)	(6,059,225)
Pound Sterling	440,534	406,246

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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:

	2003 KD	2002 KD
Letters of guarantee	1,141,360	752,300
Uncalled capital of an unquoted investment	653,969	500,000
Construction project	7,000,000	19,500,000
Capital commitments of subsidiaries	-	927,445
	8,795,329	21,679,745

26. COMPARATIVE INFORMATION

The parent company's share of the joint venture's results is now presented gross of tax. As a result, comparative information is also presented gross of tax.