

ANNUAL REPORT 2004

STANDING TALL



شركة الصالحيّة المقاربيّة 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

*A
Masterpiece
of
Innovation*

Arraya Centre Phase II



Introduction

The year 2004 was a year of exceptional impetus for the real estate sector worldwide, particularly in the Middle East region. But the momentum was more manifest in GCC countries, specifically in Kuwait. This shift in investment trends was driven by several positive political and economic factors in the region. Salient factors include the political stability, economic growth, higher oil prices, with the consequent huge financial surplus in the state budget, and the growing in-flow of investors to the financial market and real estate sector. Another factor that might have accelerated the change in trends, even though partially, is the paucity of high quality investment opportunities, and the erosion of returns in the traditional financial markets of USA and Europe.

A main partial driver of this new real estate investment interest has been the substantial revision to and relaxation of the hitherto somewhat restrictive land ownership laws prevailing in the region, introduced by the GCC Economic Agreement signed in December 2002.

Kuwait's real estate market, which remains one of the pillars of strength for the local economy, saw a steady increase of real estate companies and real estate investment funds entering the market during 2004, reflecting the investors increasing focus on this sector which is becoming more disciplined. We expect this sector to see more companies coming into the market, and more real estate investment funds launched during 2005. This should materialise in response to investors increasing demand and to steady population growth rate in Kuwait. We also expect the dependence on local self-finance to become a clearer trend in 2005 than in 2004.

Under these bullish market conditions, Salhia Real Estate Company posted another year of good performance. The Company's local and international real estate portfolios generated rewarding profit. These good results were driven by the Company's flexible investment policy of leveraging investment opportunities that promise long-term capital appreciation and regular cash flows, which can be re-deployed to finance current and future projects and to pay attractive cash dividends to shareholders.

While the real estate sector in Kuwait has shown stellar performance in the past three years, we believe that this market still holds potential for strong growth and momentum during the coming years. This is because the record levels of liquidity in the economy should continue to keep funds flowing into this market which is deemed as a safe haven. Additionally, factors pushing the market forward remain intact and strong. Interest rates remain at a level that should not threaten the market, guaranteeing that no abrupt decline in real estate activity will be seen.

Salhia Real Estate Company looks ahead with confidence and optimism, driven by its belief in the strength of the Kuwaiti economy and the inherent safety and growth factors across its sectors. In coping with the future developments, Salhia will be capitalising on its ability to maintain its competitive position and maximize value for shareholders, guided by its ambitious yet prudent investment policy, and aided by its solid funding resources base and its highly professional management team. These strong foundations provide the company with the platform for future success and sustainable growth, and support its strong track record as a long-established pioneer that significantly influenced the activity of the Kuwaiti real estate sector over the years.



Chairman's Message



Dear Shareholders,

It gives me a great pleasure to present to you, on behalf of the Board of Directors, the annual report and the closing accounts of Salhia Real Estate Company for the year ended December 31, 2004.

The year in review saw a remarkably strong performance of the Kuwaiti economy, with a rising level of activity in all of its sectors driven by the huge financial surplus in the State budget.

Under this economic boom which may prove to be sustainable, even though in varying degrees, the real estate sector in Kuwait gained strong momentum in 2004.

With its strong inherent fundamentals that guarantee consistent growth, its solid capital base that supports future expansion, and its highly professional management, Salhia Real Estate Company posted strong financial results for the year ended December 31, 2004.

The Company achieved net operating profits of KD 10.2 million at the end of 2004, up by 7.4% from KD 9.5 million for 2003. Earnings per share was 34.4 fils at year end 2004. Total assets grew to KD 221.0

million from KD 191.9 million for 2003, up by 15%, with return on assets (ROA) standing at 4.6%. Shareholders equity also grew by 27.9% to KD107 million, compared to KD 78.7 million in the previous year, and return on shareholders equity stood at 10%.

During the year, the Company managed to operate the first phase of Arraya Centre with full capacity, posting an occupancy rate of 100% for all the existing components of this project. Furthermore, necessary licenses have been obtained for the second phase of Arraya project – the Office Tower, and construction works are expected to begin during the first quarter of 2005.

Other major achievements during the year included the completion of the comprehensive renovation, modernisation and maintenance works for Salhia Commercial Complex, to upgrade its operational efficiency and maintain its competitive position. Together, Al Sahab Tower and Salhia Commercial Complex maintained their 100% occupancy rate.

New Salhia Complex Car Park was completed and operated during the third quarter of 2004, significantly contributing to resolving the traffic congestion in the Salhia District, and provided sufficient parking spaces to visitors of both Salhia Commercial Complex and Al Sahab Tower.

During the year, the comprehensive upgrading and renovation works for JW Marriott Kuwait were completed, maintaining the Hotel's competitive position among the 5-star hotels in Kuwait.

Recognising the need of the local market for a 4-star hotel, the Company officially opened the Courtyard Marriott Hotel to satisfy this need and enhance its presence in the hospitality sector.

Located in unique office floors fully equipped with the latest technology, Arraya Offices posted an occupancy rate of 100% during the year, while Arraya Conference Centre, with its advanced audio – visuals and communications technology, continued to provide top-class guest services, enhancing its presence as one of the largest conference centres in Kuwait.

Keen to serve the visitors of the various facilities of Arraya Centre - Phase I, as well as Arraya New office Tower – Phase II, the Company completed Arraya Multi – Storey Car Park which was put in service during the year.

Concurrently with the significant developments in the Company's local real estate investments portfolio, Salhia's international investments portfolio saw significant accomplishments during 2004.

On our UK real estate investments front, Key Properties Investment Ltd. (KPI) continued to expand its real estate assets base, leveraging promising investment opportunities and developing its existing holdings.

KPI also aspires to actively participate in the major redevelopment project of Elephant and Castle District. To this end, KPI is seeking a joint venture with one of the specialized international contracting companies, and endeavoring to acquire more properties in that area in order to increase the chances of participating in this redevelopment project.

In this context, the Company seeks to develop its three properties in Rugby City. The summary development plan has been prepared as a base for the detailed master plan aimed to transform the area into a modern urbanised district.

Other initiatives undertaken during the year included the licences obtained for some of the Company's properties in the Business Park - Acrington, and the applications submitted for obtaining the necessary building licences for residential and commercial units in Edge Lean – Manchester.

Drawbridge Securities Ltd. successfully continued its activity of growing the market value of its newly acquired properties. This is done through reorganising and changing the use of such properties and obtaining building licences for them.

On another front, Haddia GmbH in Germany continues to post strong activity in developing, acquiring and managing nursing homes and residences for senior citizens. The Company has developed up to the end of the year six nursing homes with a capacity of 476 beds, while total beds owned and managed by Haddia as of December 31, 2004 stood at 1663 beds.

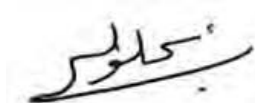
By the end of 2004, Haddia finished its recent project by which the Company completed its 5-year plan aimed at increasing the number of beds owned, whether through acquisition or development. Plon Building was opened in July 2004, and is currently managed by our subsidiary Dana Company.

Neustadt Buildings Project was also completed during the year, and will be opened for business in late January, 2005. Haddia also opened the nursing homes building in early November 2004, and completed the luxurious residential apartments buildings for senior citizens.

In line with its commitment to support national manpower, Salhia Real Estate Company continues to attract and recruit talented Kuwaitis, training and qualifying them for the most senior positions in the company.

We take great pride in announcing that the Kuwaitisation ratio is consistently increasing across various administrative and technical levels in the Company. We view this endeavor as part of our corporate citizenship responsibility that all private sector institutions should honor.

In conclusion, I wish to express my deepest thanks and appreciation to His Highness the Amir, Sheikh Jaber Al Ahmed Al Jaber Al Sabah, to His Highness the Crown Prince, Sheikh Saad Al Abdullah Al Salem Al Sabah, and to His Highness the Prime Minister, Sheikh Sabah Al Ahmad Al Jaber Al Sabah, and the members of his Cabinet for their wise leadership and guidance of our beloved country. As ever, the Board is grateful for the continued support of our shareholders. Finally, I pay tribute to each and everyone of my Board colleagues, the Group's loyal management and staff, both in Kuwait and internationally, for their service and dedication throughout the year. Without them, this year's good results would not have been possible.



Ghazi Fahad Alnafisi

Chairman and Managing Director



*Board of
Directors*



REPORT OF THE BOARD OF DIRECTORS

Board Members,

Seated (from right to left):

Hassan Abdullah Al-Mousa

Board Member

Abdul Latif Abdul Karim Al-Munayyes

Board Member

Ghazi Fahad Alnafisi

Chairman and Managing Director

Abdulaziz Saud Al-Babtain

Board Member

Standing (from right to left):

Youssef Easa Al-Othman

Board Member

Marzouk Fajhan Al-Mutairi

Board Member

Ahmad Faisal Al-Zabin

Board Member

Faisal Abdul Mohsen Al-Khatrash

Board Member

Anwar Abdulaziz Al-Usaimi

Board Member

Bottom Individual Pictures (from right to left):

Sheikh Mohammed Jarrah Al-Sabah

Board Member

Salah Fahad Al-Marzouk

Vice Chairman

The Board of Directors of Salhia Real Estate Company is pleased to present the operations review report for the year ended December 31, 2004, including a summary of the financial performance of the Company during the year:

Balance Sheet

Total assets grew by 15% to KD 221 million from KD 191.9 for the previous year, while total real estate investments increased to KD 167.9 million from KD 148.5 million for 2003, up by 13%.

Statement of Income and Cash Flows

Consolidated net profit for the year stood at KD 10.2 million, up by 7.3 % from the KD 9.5 million for 2003.

Gross operating revenue jumped to an unprecedented level of KD 34.1 million from KD 25.8 million for the previous year, before consolidating the Company's 50% share of KPI's profit for the year, which in turn increased from KD 1.61 million for 2003 to KD 1.62 million as at December 31, 2004.

In view of these strong financial results, the Board of Directors has recommended to the shareholders general meeting the distribution of cash dividends of 25 fils per share.



*Salhia Complex
Kuwait's
first
luxury shopping
experience*



REPORT OF THE BOARD OF DIRECTORS

Local Investments, Kuwait

Salhia Commercial Complex

Salhia Real Estate Company takes great pride in Salhia Commercial Complex, which has maintained its position as one of Kuwait's most elegant shopping and office complexes for the past 25 years. Established in 1978, the complex is an outstanding example of impressive architecture designed and built with a modern vision.

Strategically located at the heart of the commercial and financial centre of Kuwait City, Salhia Commercial Complex is divided into two sections containing distinctly different activities. The commercial section hosts a variety of prestigious international brands' retail shops; while the office section accommodates leading local and international private companies, together with a number of government institutions. These diverse components are harmoniously grouped into an integrated real estate environment that ensures the consistent prominence of Salhia Complex among the most luxurious malls in Kuwait.

The year in review saw the completion of renovation and maintenance works, as well as the modernizing of the security and operation systems, to upgrade the efficiency of the building and maintain its optimal operational condition.

The constant renovation and upgrading, coupled with the Complex's excellent reputation, and confidence of both investors and tenants in the professionalism of its management, helped maintain a 100 per cent occupancy rate during 2004. This reflected favourably on revenues, which grew by the year-end to KD 4.5 million, up by KD 3.9 million from 2003.

In a further initiative to maintain the competitive position of the Commercial Complex among the other malls of Kuwait, 2004 saw the beginning of work to finalize designs and concepts for an upgrade of the main appearance of the Complex, including ceilings, walls, elevators, floors and external doors. These works are expected to commence in early 2005.

Salhia Commercial Complex Car Park

Traffic congestion and lack of sufficient car parking are major problems in Kuwait City's commercial and financial centre. Recognising these problems, and the need to participate in resolving them in a true spirit of corporate citizenship, the Company undertook an aggressive project of constructing a car park to ensure smooth traffic flow in the Salhia area.

Officially opened in the third quarter of 2003, Salhia Car Park has spaces for 450 cars and serves visitors to both the Salhia Commercial Complex and Al Sahab Tower, as well as the surrounding Salhia area, which also has a severe need for car parking.

The Car Park has been provided with the latest security and safety systems. Escalators and elevators link the ground floor with basements to facilitate circulation. Soft landscaping of the Plaza including greenery, fountains and surface granite slabs has added an aesthetic sense to the entire development. Automated pre-payment which meet international specifications have been installed to facilitate fast, efficient entry and exit.

During 2004, the Company also obtained a licence to build cafes, restaurants and recreational facilities on top of the Car Park. This location is currently being prepared for these developments, which will create a family and recreational environment and significantly contribute to reviving this part of Kuwait City, particularly the Salhia Area.



Al-Sahab Tower
Kuwait's premier business
skyscraper



REPORT OF THE BOARD OF DIRECTORS

Local Investments, Kuwait (continued)

Al Sahab Tower

Constructed in the mid-1990s, Al Sahab Tower continues to be one of the most prominent developments in Kuwait City, accommodating a number of major multi-national corporations and leading Kuwaiti companies attracted by its strategic central location. Al Sahab Tower is adjacent to Salhia Commercial Complex, and the two developments join the Salhia Car Park to form a harmoniously integrated environment that adds an atmosphere of modern sophistication to the entire area.

The distinguished levels of service and professional management provided by Salhia Real Estate Company, together with the quality and elegance of the Tower, were instrumental in maintaining a 100 per cent occupancy rate for the third year in a row. Rental revenues of Al Sahab Tower as at the end of 2004 stood at KD 967,000 up by KD 917,000 from 2003.

JW Marriott Kuwait Hotel

The year 2004 saw completion of upgrading and renovation works to the main lobby including the Tea Hall, and fourth and fifth floors, and remaining rooms of the five-star JW Marriott Kuwait. The entrance connecting the hotel to the Salhia Commercial Complex was also replaced. A new Business Centre was established on the fourth floor and the Executive Lounge was refurbished.

These works were carried out as part of the Hotel's constant renovation strategy, aiming at maintaining its renowned position and competitive edge. With a highly professional management and top-class services, catering for the demands of its guests, the JW Marriott Kuwait maintained a high occupancy rate during the year.

The JW Marriott Kuwait comprises of two multi-purpose Ballrooms for celebrations and conferences, the Al Thuraya Ballroom, and Al Jahra Ballroom, four Royal suites, two Princes' Suites, 73 Luxury Suites, and 236 rooms. The property's Terrace Grill Restaurant, Kei Japanese Restaurant and La Brasserie Restaurant maintain the JW Marriott Kuwait's position as the hotel of choice for prominent businessmen and guests.



Arraya Centre
An ode to
sophisticated and integrated design



REPORT OF THE BOARD OF DIRECTORS

Local Investments, Kuwait (continued)

Arraya Centre

Arraya Centre represents the first step in developing Al Shuhada Street, and is a massive and vital investment project for the Company in the eastern part of Kuwait City.

The project comprises an integrated functional real estate environment that adds aesthetic features to the surroundings, which are conducive to stimulating and accelerating the pace of urban development in this part of the city.

The project consists of six main components: a top-class Mall, the four-star Courtyard by Marriott Hotel that meets the needs of businessmen and other visitors of Kuwait, high-end Corporate Office Tower, a Conference Centre, recreational Plaza, and a multi-floor Car Park.

Arraya Shopping Centre

Constructed on a total area of 7,209 square metres, Arraya Shopping centre comprises of three floors of shops and a services basement. With convenient access for the public through nine entrances (four of which are linked to the adjacent car park through panoramic air-conditioned flyover bridges) the centre has become a coveted address for leading boutique retailers with a diverse range of quality brand name outlets selling everything from fashion to jewellery, cosmetics to domestic appliances, and a variety of other products. The shops and showrooms have been distributed according to a strategy that meets international standards, placing Arraya Centre at the forefront of luxury malls for the coming years.

The Mall, with its famous brand boutiques, cafes and restaurants, has come to be a primary destination for visitors seeking a sophisticated and special environment for shopping, recreation and luxury. As a result of these unique features, occupancy rate during 2004 reached 100 per cent

Arraya Offices

Arraya Offices are located on the top seven floors of the 31-storey Tower, with unmatched panoramic views across Kuwait City and the Arabian Gulf. The offices are fully-equipped with the latest technology for electronic communications through satellite channels, Internet network and IT systems.

Three fast elevators have been allocated to link the main entrance on the ground floor with the offices' upper seven floors. These unique office floors have attracted high demand from leading local and international corporations, resulting in an occupancy rate of 100 per cent.



Arraya Ballroom
one of the largest
conference centres
in Kuwait



REPORT OF THE BOARD OF DIRECTORS

Local Investments, Kuwait (continued)

Arraya Ballroom

Arraya Ballroom, managed by Marriott International Inc., is one of the largest conference centres in Kuwait, and is a fundamental component of Arraya Centre.

The main feature of the Conference Centre is a 1,800 square-metre Grand Ballroom that could be divided into six separate halls with independent entrances and fully-equipped with the latest audio-visual and communications technology. The Centre also comprises of a basement accommodating a central kitchen and all services, as well as multi-purpose rooms on the upper floor.

In constructing the Centre, Salhia Real Estate Company spared no expense to ensure that superior quality materials were used in construction and furnishing, paying special attention to install unique equipment and supplies to enable provision of top-class guest services, which is highly-renowned for its specialized professional services.

Courtyard Marriott Hotel

Salhia Real Estate Company constructed the Courtyard Marriott Hotel in recognition of the local market's need for a four-star hotel and in response to increasing demand for this level of hotel services, especially from businessmen and other visitors of Kuwait.

The hotel comprises of 318 rooms distributed on 23 floors, including 12 VIP Suites. The building has been designed with the latest modern architecture, and equipped with state-of-the-art technology to the most demanding international specifications, ensuring absolute convenience and top-class services for its visitors.

The hotel also has a premier Italian Restaurant, three Cafes, an integrated Health Club with a swimming pool and the latest sports equipment, a 24-hour Business Centre, and three Ballrooms for meetings and celebrations. Courtyard Marriott Hotel offers unique services in an approach drawn from the professional expertise of Marriott International Inc.

Arraya Outdoor Recreational Plaza

To complement the superior components of Arraya Centre, Salhia Real Estate Company allocated a spacious area for leisure and social activities in the form of an outdoor Plaza.

This Plaza is located at the centre of the project, providing an additional element of recreational and social activities for visitors of Arraya Centre and the district as a whole. During 2004, the Company obtained a licence to build three outdoor cafes for the service and convenience of visitors. Design works for the Plaza are already underway.

Arraya Multi-Storey Car Park

The Arraya Multi-Storey Car Park, a key component of the shopping, hotel and recreational environment of Arraya Centre, has a total area of 8,000 square meters distributed on six floors and a basement, with a total capacity of 1,400 cars.

The Car Park is linked to the Shopping Centre by air-conditioned panoramic bridges, which provide convenient access for visitors, as well as access to the Hotel, the Tower and the Ballroom, while enabling visitors to circulate between the various parts of Arraya Centre. The Car Park will also serve Arraya New Tower-Phase II.

Arraya Centre- Phase II

To complete the massive Arraya Centre project and capitalize on the success of Arraya Centre Phase I, a new office tower has been designed to take place on the western side of the Arraya Centre site.

The 56-storey tower will be built on a ground space of 1,058 square metres to the latest building and construction technologies for meeting standards of high quality office, IT and communications services. Design procedures are already finalised and the project is scheduled to begin in early 2005.



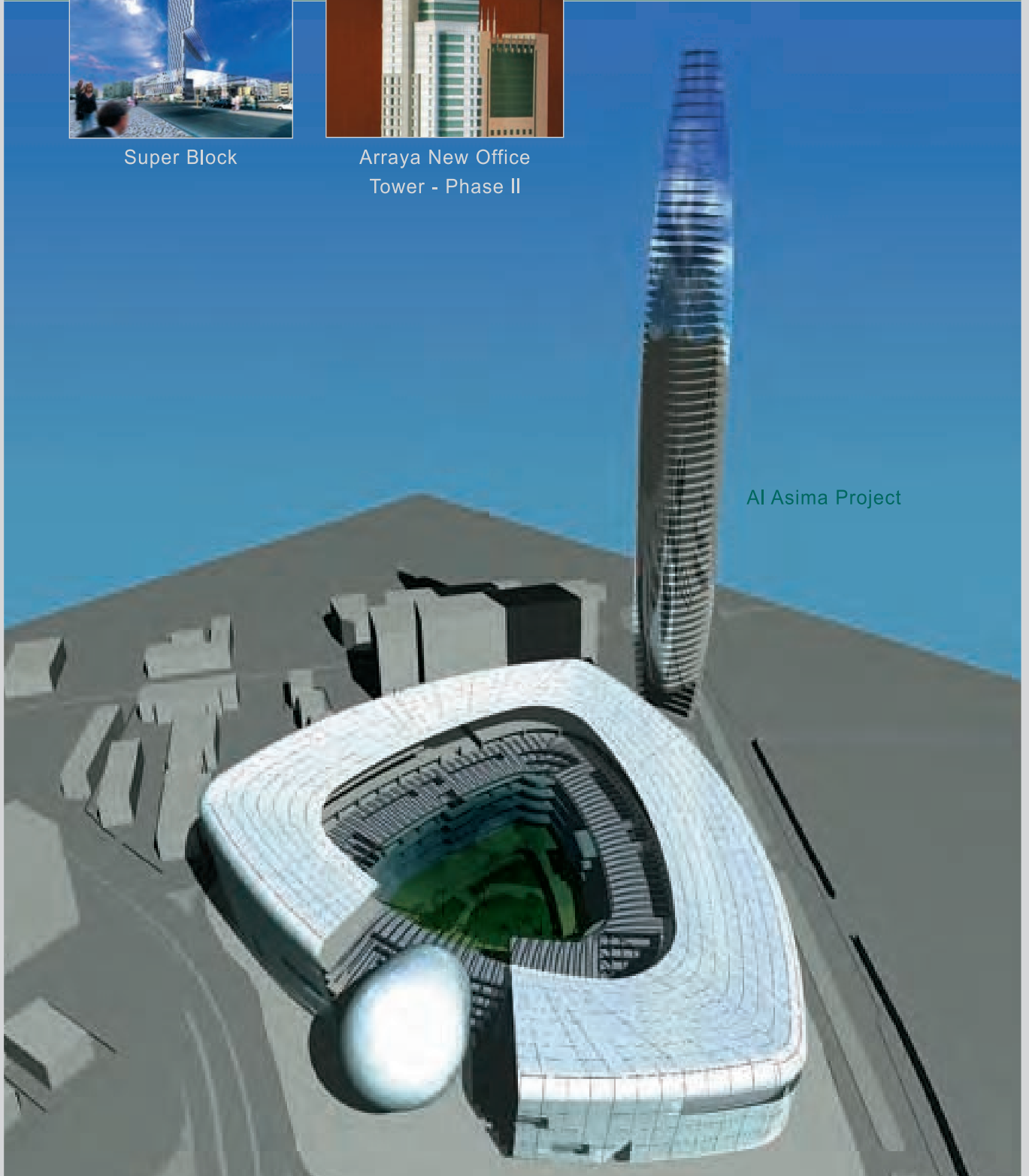


Super Block



Arraya New Office
Tower - Phase II

Al Asimā
Visionary leap
in architecture and design



Al Asima Project

REPORT OF THE BOARD OF DIRECTORS

Local Investments, Kuwait (continued)

Downtown Area / Other Properties

Al Shuhada Street Residential Properties

Inspired by its pioneering and innovative concepts in real estate development and investment, Salhia Real Estate Company has used Company-owned land, in Al Sharq area, to construct a staff residential building. Located just 150 metres from Arraya Centre, this property consists of two separate 15-floor towers on an area of 2,900 square metres.

The project comprises of 150 residential studios and 90 apartments, designed and fully furnished in accordance with the specifications of Marriott International to which the entire building has been leased to house its staff.

Comprising of gardens, outdoor play courts, a small events hall, Internet centre and a health club, the building provides comprehensive recreational services for 650 residents.

Fahad Al Salem Street Properties Development Project (The Super Block Project)

In an aggressive urbanization and development initiative, Salhia Real Estate Company has undertaken an initiative to develop Fahad Al-Salem Street and restore it to its former glory, by applying a modern concept which will match the evolution of the area.

This initiative will be implemented through redevelopment of the Company's eight properties, covering a total area of 3,605 square metres.

The project consists of two main parts: construction of a Commercial Complex containing a variety of shops, cafes, cinemas, and a high-rise Office Tower, with a multi-storey car park.

The project also encompasses comprehensive development, re-designing and soft landscaping of surrounding Plazas. The design contract has been signed with an international specialist company to meet specific development criteria, which takes into account the historical and commercial significance of Fahad Al-Salem Street.

Al Asima Project

In accordance with the Company's commitment to boost urban development in Kuwait, a plan has been envisaged to develop a number of commercial and residential owned properties in the Al Sharq area of Kuwait City. Collectively this project is referred to as Al Asima Properties.

Together, these properties comprise of a total area of 21,414 square metres on a large and unique island site, bounded by four streets including the two main thoroughfares of Al Shuhada Street, and Khalid Bin Al Waleed Street.

The Company has already engaged a leading international firm, specialized in real estate advisory services, to develop designs which will ensure optimal investment and mixed use of the project in response to the growing needs of the local Kuwaiti market.

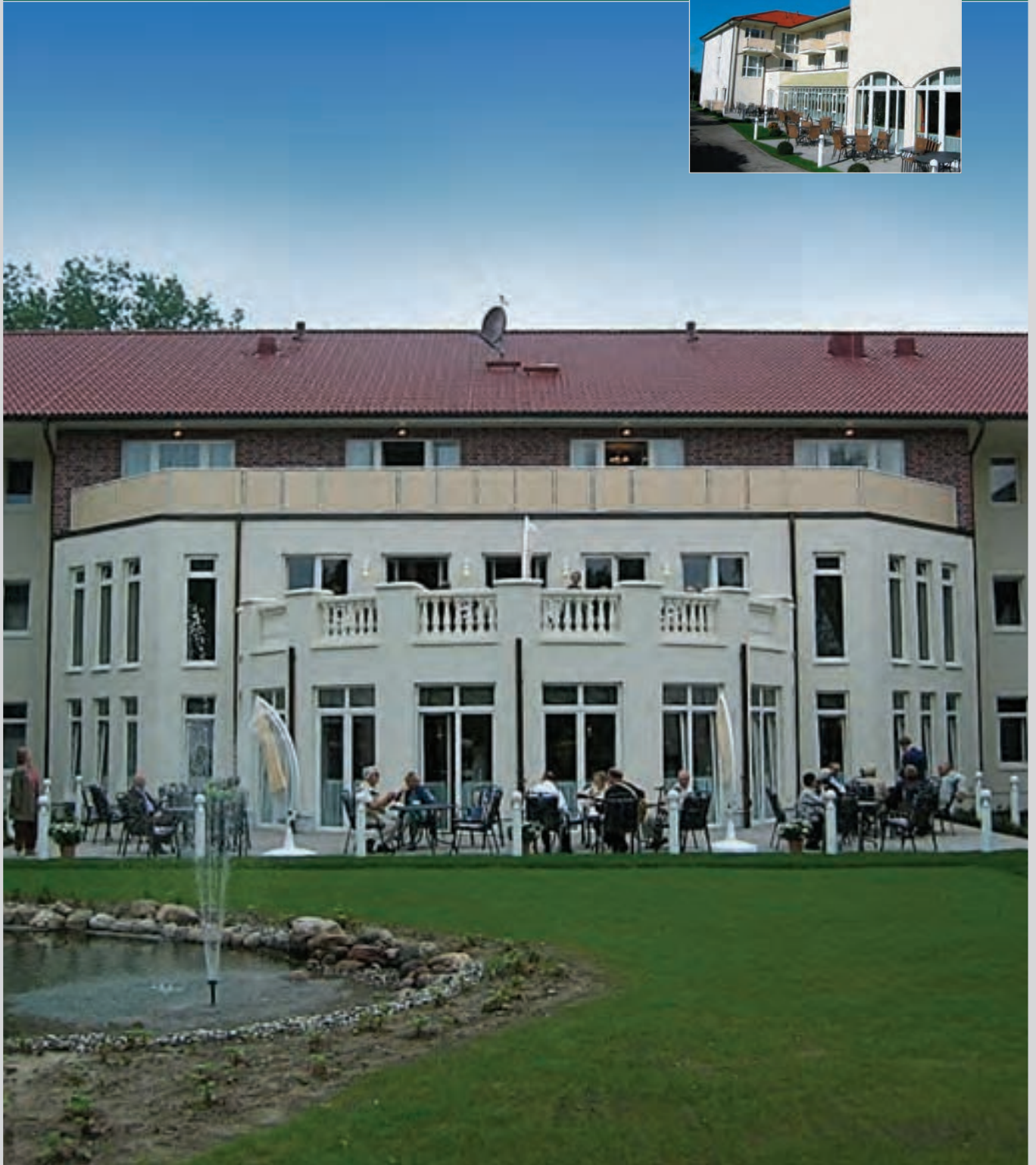
Preliminary organizational approvals has been granted to the Company, and final approvals and building licences are being obtained from respective government bodies.

The project consists of a huge mall, cinemas, outdoor recreational facilities, an office tower and a car park. State-owned properties surrounding the project site will also be developed through providing general services and soft landscaping.



*Foreign Investments
Strategic Diversification
to the Group's portfolio*

Nursing Home - Appen



REPORT OF THE BOARD OF DIRECTORS

International Investments: UK and Germany

Overview

Salhia Real Estate Company recognizes that geographical and sectoral diversification of assets is a priority for a successful investment strategy.

In recognition of this belief, the Company has expanded the geographical scope of its real estate investments beyond the limits of its local real estate investment portfolio.

As a result, the Company's investment network has been expanded to the promising real estate markets of western Europe, particularly the United Kingdom through Key Property Investment Ltd. UK (KPI) and Drawbridge Securities LTD, and Northwest Germany through Haddia GmbH.

Key Property Investments Ltd. (KPI)

Key Property Investment Ltd. (KPI) was established and registered in the UK eight and a half years ago as an equal joint venture with St. Mowden Properties Ltd. As the UK investment arm of Salhia Real Estate Company, Key Investment Property Ltd. specializes in the acquisition, development and trading of various types of UK properties.

Key Property Investment Ltd. continues to expand its real estate assets base through leveraging promising opportunities identified by its management, while developing its new property holdings.

The Company is expected to obtain municipal approvals for a number of its properties, including Farnborough Town Shopping Centre which will undergo a comprehensive development plan over a number of years. The development works will be executed in phases, so that the operational status of the Centre will not be impacted. The Company management presented detailed development plans to the municipality of the city in February 2004. Negotiations are underway with major British corporations, which are the potential tenants of the Centre, to reach an agreement on their requirements, and on the specifications of the areas to be leased to them, as well as on the terms of lease.

KPI's Operating Financial Results for 2004

KPI's total rental income at the end of 2004 amounted to KD 11.7 million, while income from sale transactions stood at KD 2.1 million. At year-end, KPI's net profit reached KD 4.46 million compared to KD 3.7 million at the end of 2003. Total shareholders' equity grew to KD 46.7 million from KD 25.16 million in 2003. KPI's total assets rose to KD 137 million, up by 20 per cent compared to 2003, while rental spaces owned and managed by the Company increased to 1,055,000 square metres. Return on invested capital as at the end of 2004 reached 13 per cent compared to 10 per cent for 2003. Return on shareholders' equity also rose to 26 per cent at the end of 2004 compared to 18 per cent for 2003.



Foreign Investments
A testimony of
service
to the global community

Senior residence Brunnenkolonaden in Bad Pyrmont



REPORT OF THE BOARD OF DIRECTORS

International Investments: UK and Germany

Elephant and Castle Area Development Project

The area surrounding Elephant and Castle Shopping Centre, with a perimeter of 5.6 million square feet, will undergo a major redevelopment based on a Master Plan that will transform the entire area into a thriving new town centre.

With Elephant and Castle Shopping centre as the centerpiece of this massive reconstruction plan, the Centre will be redeveloped to include a modern Shopping Centre, a high-rise Residential Tower and a Car Park.

Through a combination of investment from the private sector and the local authority, Southwark Council seeks to modernize and enhance the socio-economic profile of the area. The government plan aims at providing new educational services and vocational training centres, as well as at creating a larger number of employment opportunities and increased business activities for the inhabitants of the area, side-by-side with appropriate social, sports, cultural and leisure activities, safe pedestrian road network, and high- quality transport links.

The Municipality study identified a total of 5,500 residential units of various types to be constructed, together with a total of 75,000 square metres of High Street retail space. The plan also encompasses 55,500 square metres of different activities, and 2,200 square metres of office space, along with social, educational and health centres, government offices, schools and public libraries. The plan also provides for redeveloping the road network, the surrounding Plazas and the transport services in the area.

KPI aspires to a major role in this general development plan, including the Elephant and Castle Shopping Centre. The Company's Board of Directors intends to buy additional properties in the area to increase the likelihood of winning the opportunity to participate in the redevelopment project.

To this end, the Company management has initiated communications with a number of international contracting companies to establish a joint venture between KPI and a company with long experience in city reconstruction works, as well as expertise in developing commercial complexes and residential and office towers.

This joint venture is aimed at enabling KPI to compete successfully and win the redevelopment works, meet the requirements of Southwark Municipality, and execute the components of the new Master Plan for the area.

Projects Approved for Development- Rugby City

Rugby properties are concentrated in three locations: Boughton Road; Leicester Road; and the Cattle Market. The concept of the Master Plan for developing Rugby Station Area was finalized in collaboration between KPI and the Area Municipality in December, 2003. The summary development plan was prepared to support production of the detailed Master Plan.

The development plan seeks to transform the area into a modern urbanized area, and to enhance its profile with mixed-use properties for the benefit of the tenants and to enhance the surrounding areas. Rugby Station Area is intended to be the main gateway to the city of Rugby.

The plan aims to build 710 residential units; an area of 52,000 square metres for an Employment Centre and government buildings; and open spaces and services area totalling 78,000 square meters. The Cattle Market site will accommodate 130 residential and retail space of 10,400 square metres, and 14,500 square metres of open and services space.

The Company has also obtained building licences for some of its properties such as the Business Park in Accrington, where two distribution centres and warehouses of 10,000 square metres each will be built. Applications have also been submitted for obtaining building licences for Edge Lane Property in Manchester, where the Company intends to build residential and commercial units. In addition KPI transformed Pool Property into furnished office units provided with the necessary services.

Sales Transactions During 2004

The Company concluded seven sale transactions in seven different locations during the year, generating profits of KD 715,000. Most of the properties sold belong to the Refuge Assurance Portfolio purchased in 1997, and the Marconi Portfolio purchased in 1998.



Foreign Investments
Firm steps towards
the redevelopment potential

Nursing Home - Plon



REPORT OF THE BOARD OF DIRECTORS

International Investments: UK and Germany

New Acquisition During 2004

In its continuing quest for promising real estate opportunities, the Company in November 2004 concluded the purchase of Basingstoke Malls, in participation with other parties. KPI owns 65 per cent of the Mall, purchased at a cost of KD 17.7 million. The initial rental revenues at the purchasing time stands at KD 1.2 million while the total rentable space stands at 29000 m².

KPI Board of Directors' policy consistently endeavours to maximize the rental revenues of the Company, and to enhance the market value of its properties.

Drawbridge Securities Ltd.

Drawbridge Securities Ltd. was established in 2002 with an authorized Capital of Sterling Pound 2 million. The primary activities and purposes of the Company is to reorganize lands owned by the Company and grow their market value through obtaining planning permission, following their reorganization and change of use.

The management of the Company is pursuing different locations identified in a number of British cities. One of the Company's projects was completed and sold in November 2004, generating a profit of KD 202,000. The management is also handling several other projects in the same manner.

Haddia GmbH

Haddia's primary area of activity is the development, ownership and management of nursing homes and residences for senior citizens in northern Germany. The Company was established 11 years ago (1993), and by the end of 2004, the beds owned and managed by Haddia stood at 1,663, while the homes developed by the Company amounted to six, accommodating 737 beds.

Haddia' Operating Results for 2004

Haddia's total revenues for the year 2004 stood at KD 11.61 million, compared to KD 10.14 million for the previous year, while total assets grew to KD 52.81 million from KD 41.65 million 2003.

The Board of Directors is aware that recent development activities will achieve the economic objectives of the Company and enhance its operating results, particularly after completing the recent development of four houses, which are considered the top of the market for what Haddia has developed and owned.

It is noteworthy that the average occupancy rate of the Company's buildings was impacted by the development works, as each building requires a period of one year to reach its desired occupancy rate.

Development Activities During 2004

By the end of 2004, Haddia GmbH completed its plan to increase the number of beds in its nursing homes through acquisitions, or development projects. The Haddia Board of Directors takes pride in the standard of buildings constructed by the Company, with costs within the estimated budget and completed to the time schedule.

The Company's buildings have been highly commended by various concerned authorities in Germany. This has been achieved by the constant focus of the Board of Directors on the high quality of the buildings owned by the Company and its subsidiaries, as well as on exact specifications that accurately respond to the different requirements of its clients.

Neustadt Buildings

*Foreign Investments
Bring about rewarding outcome*



REPORT OF THE BOARD OF DIRECTORS

International Investments: UK and Germany

Plon Building

Plon Building is located in the town of Plon in north Germany, on an area of 7,360 square metres. Constructed on site of 6,750 square metres, the building accommodates 154 beds distributed in double bedrooms, to meet the market requirements.

The building also comprises a large reception lobby, light sports hall, 60 car parking spaces, restaurant, central laundry and a central kitchen to cater for the residents.

Plon building has also been equipped with three hospital-type elevators to carry patients' beds, in addition to an electronic nurse alert system and a new fire detection system.

The Board of Directors is continuously keen to provide the Company's buildings with gardens and roads that can be used for recreational walking by residents. The built-in café serves not only residents of the building, but also the area's local residents.

Construction of this Nursing Home was completed during 13 months, from June, 2003 till inauguration in July, 2004. The building is managed by the subsidiary Dana Company.

Neustadt Buildings:

Neustadt buildings are located in the suburbs of Neustadt City in northern Germany. Built on a site of 41,251 square metres, the project consists of three buildings, one for nursing senior citizens, and the other two luxury residential apartments for senior citizens.

The total cost of the development reached 27 million Euro (KD 10.8 million).

For the first time in Germany, the Company obtained a licence from official authorities to use Jordanian white stone in cladding the external facades and the columns of the apartments' balconies. The total weight of the stone used in this cladding, including the pillars of the balconies, amounted to 450 tons.

The project was completed in 13 months during the period from December, 2003 until December, 2004. The Neustadt buildings will be opened on January 27, 2005.

1- Nursing Home

This building consists of five floors for nursing of senior citizens, in addition to the Administration Offices. The basement of the building accommodates services for the building, including meals preparation area, laundry and storage areas, staff restaurant and staff rest rooms.

The building contains 156 beds, distributed in double bedrooms. It also includes a light sports hall, restaurant for residents and a public café for local residents, parking spaces for 36 cars, central laundry and central kitchen for residents.

The building has been equipped with a modern fire detection system, nurse alert system and two elevators for carrying patients and beds.

The project was executed during the period from August, 2003 until October 2004, and the building was opened at the beginning of November 2004.

2- Senior Citizens' Apartments Buildings

An important feature that differentiates these two buildings from the above mentioned building is the inclusion of luxurious residential apartments, fully equipped with care services, for senior citizens.

The total area of these two buildings is 10,855 square metres. The buildings comprise 83 apartments, ranging between 65-113 square metres each, all of which are constructed of reinforced concrete. Each apartment has a balcony of 26 square metres overlooking the Baltic sea, a kitchen, master bedroom and guest room.

Each building includes a light sports hall, restaurant, large reception lobby, central restaurant and laundry, parking spaces for 78 cars, and new nurse alert and fire detection systems, in addition to four elevators for patients and beds.

*Salhia Real Estate Company's
Success is Due to a dedicated
and motivated workforce.*



Information Technology Department

At the end of 2004 the Company completed execution and installation of all computer-related services in the Arraya Project, including the Arraya Commercial Complex, Courtyard Marriott Hotel and the Arraya Ballroom.

Arraya Commercial Complex has been linked to the offices of the Company through a modern fibre optic communications network. The IT Department is currently co-ordinating the takeover of the Automated Information Centre in Arraya Complex.

In doing so, the Department is verifying extension of the information network and related services to all retail shops and corporate tenants of the complex, including the Courtyard Marriott Hotel, and ensuring connection of all units to an advanced communication network. Management plans to equip all new properties with these advanced systems, to meet requirements of the Company's clients.

In this context, the Management Plan for 2005 includes provision for installing this advanced network in the JW Marriott Kuwait and Salhia Commercial Complex.

Human Resources Department

With the consistent growth of large-scale investment projects undertaken by Salhia Real Estate Company, the Department continues to expand the Human Resources base, supporting it with highly-qualified staff and specialists in the Company's lines of business.

The Company endeavours to provide the latest administrative and technical systems for its staff, so that they are equipped to provide top-class services to the Company and its clients.

To enable the IT Department to provide the best possible services, the Department team was supported by technical professionals specialized in various disciplines of Computer Science.

The Board of Directors is keen to enhance the efficiency of management teams in each business sector through provision of training courses and regional conferences, enabling them to learn and cope with developments in various related fields.

The Company is currently reviewing all administrative systems to ensure that appropriate employees' benefits are in place, in order to enhance loyalty and performance efficiency. Management has introduced the staff share option scheme, with the aim of ensuring that excellent performers are retained, and their loyalty reinforced.

Executive Management

Anwar Abdulaziz Al-Usaimi

Deputy Managing Director

Ali M. Al-Hamdan

Investment and Support Group Head

Engr. Saud Al-Saquer

Real Estate Management and
Development Group Head

Hany A. Abdelnour (CPA - PHD)

Finance and Accounting Group Head

Mohammed K. Al-Musaibeeh (ABA-CIDA-CST)

Manager of Accountancy Dept.

Engr. Tarek Darwish

Design Department Manager

Engr. Kifah Georges

Construction Department Manager

Engr. Yaqoub Al-Khabbaz

Property Manager

Abdul Nasser Al-Turkait

I.T. Manager

Khalid M. Al-Awadi

Personnel and Administration Manager

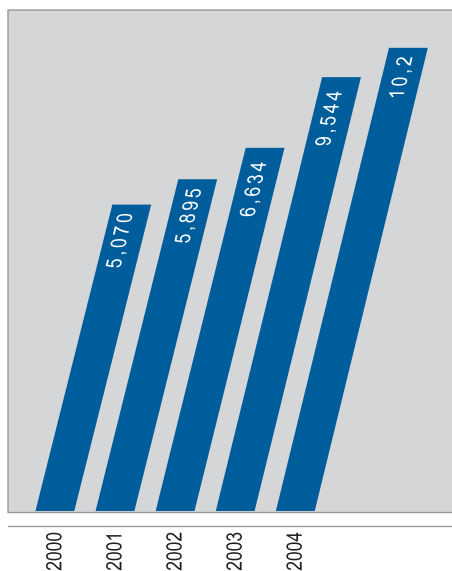
Feras A. Al-Rushaid (ABA-CIDA-CST)

Assistant Manager of Accountancy Dept.

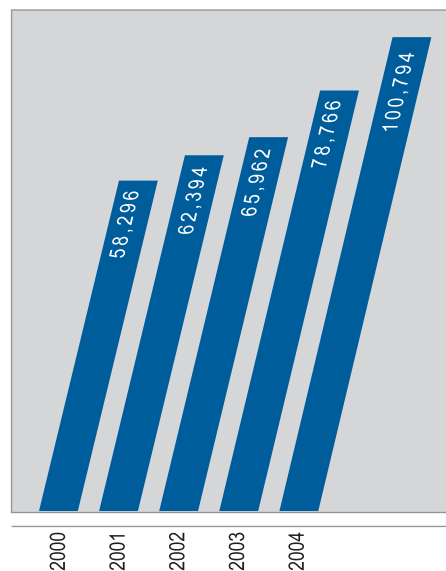


Financial Highlights

Net Profit
(2000-2004) KD Thousands



Shareholders Equity
(2000-2004) KD Thousands



Total assets grew by 15% to KD 221 million from KD 191.9 for the previous year, while total real estate investments increased to KD 167.9 million from KD 148.5 million for 2003, up by 13%.

Consolidated net profit for the year stood at KD 10.2 million, up by 7.3 % from the KD 9.5 million for 2003.

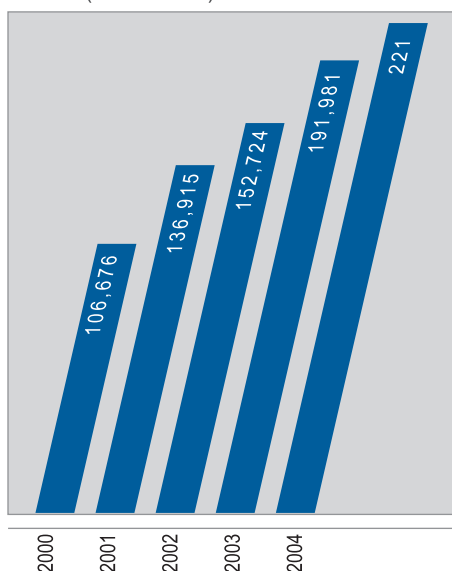
Gross operating revenue jumped to an unprecedented level of KD 34.1 million from KD 25.8 million for the previous year, before consolidating the Company's 50% share of KPI's profit for the year, which in turn increased from KD 1.61 million for 2003 to KD 1.62 million as at December 31, 2004.

In view of these strong financial results, the Board of Directors has recommended to the shareholders general meeting the distribution of cash dividends of 25 fils per share.

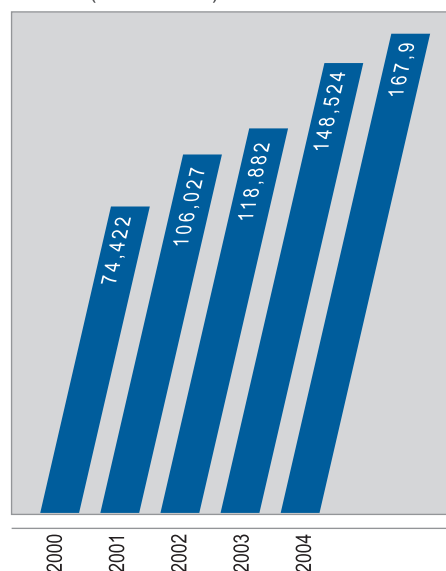
25%
Cash Dividend per Share

KD 221 m
Total Assets

Total Assets
(2000-2004) KD Thousands



Investment Properties & Fixed Assets
(2000-2004) KD Thousands



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Consolidated Statement of Cash Flow	33
Consolidated Statement of Change in Shareholders' Equity	34
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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) (the parent company) and Subsidiaries (the group) as of 31 December 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2004, 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 2004 that might have had a material effect on the business of the group or on its financial position.



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



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

6 March 2005
Kuwait

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	Note	2004 KD	2003 KD
ASSETS			
Bank balances and cash		4,258,882	3,623,516
Investments	6	23,065,957	20,860,121
Inventories		409,155	130,839
Accounts receivable and other assets	7	8,210,798	4,883,222
Investment in joint venture	9	17,188,349	13,960,176
Investment properties	10	68,707,187	44,142,011
Fixed assets	11	99,229,239	104,382,002
TOTAL ASSETS		221,069,567	191,981,887
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks	12	9,769,692	8,306,743
Accounts payable and other liabilities	13	10,768,843	11,947,792
Long-term loans	14	98,802,025	92,713,755
TOTAL LIABILITIES		119,340,560	112,968,290
MINORITY INTEREST		934,569	247,205
SHAREHOLDERS' EQUITY			
Share capital	15	31,492,370	23,841,246
Share premium		27,524,906	14,457,158
Treasury shares	16	(2,779,313)	-
Statutory reserve	17	8,120,520	7,054,487
Voluntary reserve	17	8,120,520	7,054,487
General reserve		4,250,000	4,250,000
Foreign exchange translation reserve		4,636,970	2,873,565
Cumulative changes in fair value	18	977,582	6,520,231
Retained earnings		18,450,883	12,715,218
TOTAL SHAREHOLDERS' EQUITY		100,794,438	78,766,392
TOTAL LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY		221,069,567	191,981,887



Ghazi Fahad Alnafisi
Chairman and Managing Director



Salah Fahad Almarzouk
Vice Chairman

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2004

	Note	2004 KD	2003 KD
Revenue		34,165,243	25,840,622
Operating costs		(13,822,367)	(10,538,591)
Gross profit		20,342,876	15,302,031
Share in joint venture's results	9	2,094,207	2,329,305
Expenses and charges:			
General and administrative expenses		(4,903,555)	(3,535,503)
Depreciation		(4,410,143)	(2,309,804)
Sales and marketing expenses		(2,438,917)	(1,678,010)
Profit from operations		10,684,468	10,108,019
Investment income	3	5,922,843	2,577,187
Foreign exchange loss		(117,930)	(708,391)
Interest income		28,109	32,298
Other income		87,951	247,670
Finance costs		(5,150,064)	(3,647,403)
Provision for impairment of investments		(253,679)	(621,845)
Profit before minority interest and foreign tax		11,201,698	7,987,535
Minority interest		62,634	26,440
Foreign tax		(603,999)	(691,470)
PROFIT FROM ORDINARY ACTIVITIES		10,660,333	7,322,505
Extraordinary item	4	-	2,549,462
PROFIT FOR THE YEAR		10,660,333	9,871,967
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(95,943)	(88,848)
Provision for National Labour Support Tax		(235,534)	(161,184)
Directors' fees		(77,000)	(77,000)
NET PROFIT FOR THE YEAR		10,251,856	9,544,935
Earnings per share	5	34.4 fils	36.4 fils

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2004

	Note	2004 KD	2003 KD
OPERATING ACTIVITIES			
Profit before minority interest and foreign tax		11,201,698	7,987,535
Adjustments for:			
Share in joint venture's results		(2,094,207)	(2,329,305)
Depreciation		4,410,143	2,309,804
Provision for employees' terminal benefits		245,519	460,753
Investment income		(5,922,843)	(2,577,187)
Foreign exchange loss		117,930	708,391
Interest income		(28,109)	(32,298)
Finance costs		5,150,064	3,647,403
Provision for impairment of investments		253,679	621,845
Operating profit before changes in operating assets and liabilities		13,333,874	10,796,941
Inventories		(278,316)	13,372
Accounts receivable and other assets		(3,327,576)	(1,130,974)
Accounts payable and other liabilities		(1,588,197)	4,606,787
Cash from operations		8,139,785	14,286,126
Employees' end of service benefits paid		(108,871)	(108,352)
KFAS paid		(88,848)	(62,336)
Provision for national labour support tax paid		(161,184)	(152,357)
Directors' fees paid		(77,000)	(77,000)
Cash flow before extraordinary item		7,703,882	13,886,081
UN compensation received		-	2,549,462
Net cash from operating activities		7,703,882	16,435,543
INVESTING ACTIVITIES			
Purchase of investments		(18,439,803)	(11,962,248)
Proceeds from sale of investments		13,437,917	14,176,508
Additions to investment properties and fixed assets		(20,768,934)	(27,043,725)
Proceeds from sale of investment properties and fixed assets		33,935	-
Dividend received		755,951	757,655
Dividend income from joint venture		-	617,500
Interest income received		28,109	37,622
Net cash used in investing activities		(24,952,825)	(23,416,688)
FINANCING ACTIVITIES			
Issue of shares		18,334,747	-
Purchase of treasury shares		(2,779,313)	-
Loans received		12,656,270	21,259,974
Loans repaid		(6,568,000)	(6,222,130)
Finance costs paid		(5,112,351)	(3,626,862)
Dividends paid		(109,993)	(4,721,815)
Net cash from financing activities		16,421,360	6,689,167
DECREASE IN CASH AND CASH EQUIVALENTS		(827,583)	(291,978)
Cash and cash equivalents at the beginning of the year		(4,683,227)	(4,391,249)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	19	(5,510,810)	(4,683,227)

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2004

	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	General reserve	Foreign currency translation reserve	Cumulative changes in fair value	Retained earnings	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
At 1 January 2003	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
Bonus shares issued- 10%	2,384,125	-	-	-	-	-	-	-	(2,384,125)	-
Issue of share	5,266,999	13,067,748	-	-	-	-	-	-	-	18,334,747
Net profit for the year	-	-	-	-	-	-	-	-	10,251,856	10,251,856
Foreign currency translation adjustment	-	-	-	-	-	-	1,763,405	-	-	1,763,405
Transfer to reserves	-	-	-	1,066,033	1,066,033	-	-	-	(2,132,066)	-
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	(5,542,649)	-	(5,542,649)
Purchase of treasury shares	-	-	(2,779,313)	-	-	-	-	-	-	(2,779,313)
At 31 December 2004	31,492,370	27,524,906	(2,779,313)	8,120,520	8,120,520	4,250,000	4,636,970	977,582	18,450,883	100,794,438

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

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. 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 subsidiaries are set out in Note 8.

The parent company's registered address is Salhia Complex, Fahad Al Salem Street, P.O. Box 23413 Safat 13095 Kuwait.

The consolidated financial statements were authorised for issue by the parent company's Board of Directors on 6 March 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

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 2004.

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.

Income recognition

Rental income from investment properties is 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances and due to banks.

Recognition and de-recognition 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 and uncollectibility of financial assets

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 less impairment in value. 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.

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 THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (treasury shares reserve) 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 in 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 treasury shares reserve account. No cash dividends are distributed on these shares. The issuance 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 reserve until the subsidiary is sold. The exchange differences arising on investment in joint venture are accounted for on the same basis as the subsidiaries.

3. INVESTMENT INCOME

	2004	2003
	KD	KD
Gain on sale of investments	5,166,892	1,819,532
Dividends	755,951	757,655
	5,922,843	2,577,187

4. EXTRAORDINARY ITEM

In 2003, the extraordinary item represented 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 2004

5. EARNINGS PER SHARE

Earnings per share is computed by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

	2004 KD	2003 KD
Net profit for the year	10,251,856	9,544,935
	Shares	Shares
Weighted average number of ordinary shares (excluding treasury shares)	298,359,930	262,253,706
Earnings per share	34.4 fils	36.4 fils
Earnings per share:		
From ordinary activities	34.4 fils	26.7 fils
From extraordinary item	-	9.7 fils
	34.4 fils	36.4 fils

The earnings per share of the comparative period have been restated due to the issuance of bonus shares during the year.

6. INVESTMENTS

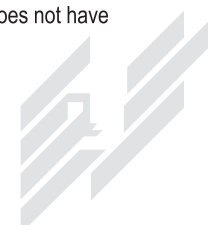
	2004 KD	2003 KD
Managed portfolios	13,001,454	11,352,555
Managed funds	2,296,335	2,389,859
Unquoted funds	3,077,567	3,111,592
Unquoted securities	4,690,601	4,006,115
	23,065,957	20,860,121

Unquoted funds and securities include investments amounted to KD 5,587,610 (2003: KD 2,951,754) carried at cost less impairment since fair values cannot be reliably estimated because the managers have been unable to indicate any estimates of the range within which fair values might lie.

7. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2004 KD	2003 KD
Hotel guests and care home residents receivables	1,352,378	1,335,251
Rent receivable	551,059	119,761
Due from related parties (Note 20)	1,817,939	1,401,805
Staff receivables (Note 20)	1,742,131	57,207
Deposits and prepaid expenses	86,502	167,323
Advance payments to contractors	51,730	298,722
Other receivables	2,609,059	1,503,153
	8,210,798	4,883,222

Due from related parties includes an amount of KD 465,561 (2003: 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 borrowers are liable for interest at 6% (2003: 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

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
Gredo GMBH	89.72%	Germany	Care home catering service provider
Drawbridge Securities limited	100.00%	United Kingdom	Property Development

9. INVESTMENT IN JOINT VENTURE

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

	2004 KD	2003 KD
Current assets	8,405,161	7,285,387
Long-term assets	63,720,208	52,960,616
Current liabilities	768,874	7,080,605
Long-term liabilities	54,168,146	41,458,148
Revenues	6,768,282	6,720,989
Expenses	5,430,986	1,930,047
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	13,960,176	11,514,000
Dividend received	-	(617,500)
Share in the joint venture's results net of tax of KD 756,911 (2003: KD 718,439)	1,337,296	1,610,866
Foreign currency translation adjustment	1,890,877	1,452,810
Carrying value of the investment at end of the year	17,188,349	13,960,176

The joint venture uses an accounting policy other than that used by the parent company for the accounting of investment properties. Appropriate adjustments have been made as of 31 December 2004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

10. INVESTMENT PROPERTIES

	Freehold land KD	Buildings KD	Total KD
Balance at 1 January 2004	30,427,371	13,714,640	44,142,011
Additions	-	1,199	1,199
Transfer from capital work in progress	-	25,934,782	25,934,782
Depreciation for the year	-	(1,370,805)	(1,370,805)
Balance at 31 December 2004	30,427,371	38,279,816	68,707,187
Cost	30,427,371	50,279,518	80,706,889
Accumulated depreciation	-	(11,999,702)	(11,999,702)
Balance at 31 December 2004	30,427,371	38,279,816	68,707,187

Freehold land and with a carrying value of KD 8,396,573 (2003: KD 8,396,573) are mortgaged against certain bank loans (See Note 14).

The fair value of the investment properties amounted to KD 192,014,361 at the balance sheet date (2003: KD 112,159,500). The fair values have been determined by reference to independent third party valuations provided by professionally qualified valuers using acceptable methods of calculation such as sales comparison and income capitalisation.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

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 2004	14,991,406	41,316,527	2,925,035	104,787	45,044,247	104,382,002
Additions	2,189,292	952,841	1,707,365	48,500	15,869,737	20,767,735
Disposals	-	-	(34,679)	-	(30,380)	(65,059)
Transfers from capital work in progress	-	24,889,982	1,637,783	-	(26,527,765)	-
Transfers to investment properties	-	-	-	-	(25,934,782)	(25,934,782)
Depreciation for the year	-	(2,188,396)	(814,459)	(36,483)	-	(3,039,338)
Depreciation relating to disposals	-	-	31,124	-	-	31,124
Foreign currency translation adjustment	414,254	2,234,915	93,867	-	344,521	3,087,557
Balance at 31 December 2004	17,594,952	67,205,869	5,546,036	116,804	8,765,578	99,229,239
Cost	17,594,952	83,064,586	10,418,259	265,605	8,765,578	120,108,980
Accumulated depreciation	-	(15,858,717)	(4,872,223)	(148,801)	-	(20,879,741)
Net carrying amount at 31 December 2004	17,594,952	67,205,869	5,546,036	116,804	8,765,578	99,229,239

Freehold land and buildings with a carrying value of KD 33,114,425 (2003: KD 29,392,450) are mortgaged against certain loans (See Note 14).

During the year, the parent company capitalised borrowing costs amounting to KD Nil (2003: KD 674,128). Cumulative capitalised borrowing costs amount to KD 1,524,844 (2003: KD 1,524,844).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

12. DUE TO BANKS

Due to banks are subject to effective interest rates which range from 5.25% to 7% (2003: 4.25% to 4.75%).

13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2004	2003
	KD	KD
Accounts payable	2,702,334	2,337,967
Retentions payable	1,673,107	2,781,076
Accrued expenses	811,665	1,063,398
Deposits from tenants, hotel and care home guests	963,344	825,373
Rents received in advance	243,306	194,978
Employees' terminal benefits	1,341,679	1,205,031
Provisions	172,324	294,351
Kuwait Foundation for the Advancement of Sciences	95,943	88,848
National Labour Support Tax	235,534	161,184
Directors fees	77,000	77,000
Due to related parties (Note 20)	1,333,817	891,059
Unpaid dividends	22,744	132,737
Other payables	1,096,046	1,894,790
	10,768,843	11,947,792

14. LONG-TERM LOANS

Long-term loans are denominated in the following currencies:

	2004	2003
	KD	KD
Kuwaiti dinars	48,946,250	52,888,000
Euro	44,874,400	35,310,385
Japanese Yen	4,093,375	4,515,370
US Dollars	888,000	-
	98,802,025	92,713,755

The loans are due for repayment as follows:

	2004	2003
	KD	KD
2005	15,779,753	7,775,006
2006	10,571,315	14,162,068
2007	10,890,169	9,569,744
2008	11,266,945	10,150,064
After 2008	50,293,843	51,056,873
	98,802,025	92,713,755

The loans are repayable in equal periodic installments over variable periods of time with maturities extending to 31 December 2010.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

14. LONG-TERM LOANS (continued)

The Kuwaiti Dinar loans carry variable interest rates, which range from 1% and 2.25% (2003: 0.5% to 1.25%) over the Central Bank discount rate. Interest on these loans reprices 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% (2003: 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 98,802,025 (2003: KD 92,713,755) are secured by investment properties with a carrying value of KD 8,396,573 (2003: KD 8,396,573), fixed assets with a carrying value of KD 33,114,425 (2003: KD 29,392,450) owned by the group and 2,992,500 shares in Salhia Real Estate Company K.S.C (Closed) owned by the employees. Of these, bank loans amounting to KD 42,414,064 (2003: KD 33,021,842) 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 the annual general assembly of the shareholders of the parent company held on 31 March 2004, the shareholders approved the issue of bonus shares of 10% of paid up capital amounting to KD 2,384,125. The parent company also increased its paid up capital by issuing additional 47,682,492 shares with a nominal value of 100 fils per share at 350 fils per share and 4,987,500 shares with a nominal value of 100 fils at 330 fils per share under an approved employee share purchase plan.

The parent company operates an employee share purchase plan which is in operation for a period of 9 years, with the first year being the fiscal year ended 31 December 2001. Under this scheme the parent company can increase its share capital up to 21,000,000 shares through the period of the scheme. The issue price of the shares to be issued under the scheme is decided by the board of directors of the parent company.

16. TREASURY SHARES

At 31 December 2004, the parent company held 5,672,108 of its own shares (2003: Nil), equivalent to 1.8% of the total issued share capital at that date (2003: Nil). The market value of these shares at the balance sheet date was KD 2,892,775 (2003: Nil). Reserves of the parent company equivalent to the cost of the treasury shares have been ear-marked as non-distributable.

17. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

18. CUMULATIVE CHANGES IN FAIR VALUE

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

	2004 KD	2003 KD
Balance at 1 January	6,520,231	927,128
Realized gain on sale during the year	(5,111,027)	(442,056)
Impairment loss recognised during the year	-	321,512
Change in fair value during the year	(431,622)	5,713,647
Balance at 31 December	977,582	6,520,231

19. CASH AND CASH EQUIVALENTS

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

	2004 KD	2003 KD
Bank balances and cash	4,258,882	3,623,516
Due to banks	(9,769,692)	(8,306,743)
Cash and cash equivalents	(5,510,810)	(4,683,227)

20. 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 parent company's management. The following is a summary of significant related party balances:

	2004 KD	2003 KD
Consolidated balance sheet:		
Due from related parties	1,817,939	1,401,805
Staff receivables	1,742,131	57,207
Due to related parties	1,333,817	891,059
Consolidated income statement:		
Operating costs	266,294	419,421
Sales and marketing expenses	887,519	638,677

21. EMPLOYEE INFORMATION

At 31 December 2004, the group had 1,786 employees (2003: 1,284 employees).

For the year ended 31 December 2004, staff costs amounted to KD 11,824,891 (2003: KD 9,645,681).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

22. PROPOSED DIVIDEND

The parent company's board of directors will propose cash dividend of 25 fils per share for the year ended 31st December 2004 (2003: bonus shares of 10% of paid up capital amounting to KD 2,384,125) 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.

23. 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, Courtyard Marriott Kuwait and Arraya Convention Center.
- Care home operations: Consist of care home activities provided by the subsidiary company



23. SEGMENTAL INFORMATION (continued)

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

	31 December 2004			31 December 2003		
	Real estate operations KD	Hotel operations KD	Care home operations KD	Real estate operations KD	Hotel operations KD	Care home operations KD
Segment revenue	9,500,752	13,045,811	11,618,680	6,322,733	9,370,451	10,147,438
Segment operating costs	(992,725)	(4,890,209)	(7,939,433)	(596,079)	(3,201,568)	(6,740,944)
Segment results	8,508,027	8,155,602	3,679,247	5,726,654	6,168,883	3,406,494
Share of income from joint venture's result	2,094,207	-	-	2,329,305	-	-
Other operating expenses	(4,555,344)	(4,768,560)	(2,428,711)	(3,422,565)	(2,212,292)	(1,888,460)
Profit from operations	6,046,890	3,387,042	1,250,536	4,633,394	3,956,591	1,518,034
Interest income			28,109			32,298
Finance costs			(5,150,064)			(3,647,403)
Other non-operating income			5,639,185			1,494,621
Profit before minority interest and tax			11,201,698			7,987,535
Minority interest			62,634			26,440
Foreign Tax			(603,999)			(691,470)
Profit from ordinary activities			10,660,333			7,322,505
Extraordinary items			-			2,549,462
Other non-operating expenses			(408,477)			(327,032)
Net profit for the year			10,251,856			9,544,935
Other information:						
Segment assets	146,847,731	4,218,336	52,815,151	133,875,657	2,487,427	41,658,427
Investment in joint venture	17,188,349		17,188,349	13,960,176		13,960,176
Total assets			221,069,567			191,981,887
Segment liabilities	71,586,860	4,029,687	43,724,013	75,510,233	2,659,663	34,798,394
Total liabilities			119,340,560			112,968,290
Capital expenditure	15,388,294		5,379,441	19,244,887	-	7,794,843
Depreciation	3,418,938		991,205	1,454,123	-	855,681
			4,410,143			2,309,804

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

23. 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 2004			31 December 2003		
	Kuwait KD	Europe KD	Total KD	Kuwait KD	Europe KD	Total KD
Revenue	22,004,363	12,160,880	34,165,243	15,693,184	10,147,438	25,840,622
Assets	167,040,909	54,028,658	221,069,567	148,875,749	43,106,138	191,981,887
Capital expenditure	15,388,294	5,379,441	20,767,735	19,244,887	7,794,843	27,039,730

24. 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 the parent company's management, carrying values of all other financial instruments are not significantly different from fair values expected as noted in Notes 6 and 7.

25. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

25. RISK MANAGEMENT (continued)

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:

	2004 KD Equivalent Long (short)	2003 KD Equivalent Long (short)
US Dollars	6,000,927	5,263,530
Japanese Yen	(4,791,762)	(5,291,868)
Euro	(11,512,652)	(3,767,271)
Pound Sterling	471,148	440,534

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

26. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

	2004 KD	2003 KD
Letters of guarantee	253,560	1,141,360
Uncalled capital of an unquoted investments	588,936	653,969
Construction project	4,840,906	7,000,000
	5,683,402	8,795,329

