GLOBAL RESEARCH

KUWAIT

Salhia Real Estate Co.

May 2000

Global Investment House (K.S.C.C.)

Global Investment House KSCC
Equity Research
Souk Al-Safat Bldg., 2nd Floor
P.O. Box 28807 Safat
13149 Kuwait
Tel: (965) 240 0551
Fax: (965) 240 0661
Email: research@global.com.kw
http://www.globalinv.net

Global Investment House stock market indices can be accessed
from the Reuters page GLOB

The recommendation scale used by Global is:

Buy
Hold
Reduce
Sell

SALHIA REAL ESTATE CO.

Reuters Code :
SREK.KW
Listing :
Kuwait Stock Exchange
Price :
305 fils

May 2000

BUY

Investment Summary

- With strategic brand positioning, competitive strategy, high profile & prestigious portfolio in Kuwait, JV & subsidiaries in Europe and investment association in US real estate, Salhia has essentially immunized its operations in the local market and created a well-diversified geographical distribution of assets.
- Chaired by Mr. Ghazi Fahad Al-Nafisi, who is also a major shareholder in the company, a stable management has guarded focus in business activities, steady ownership has added strong investor confidence in the stock.
- Owner & manager of prestigious Kuwaiti addresses like Salhia Commercial Complex, Al-Sahab Tower, Le Méridien Hotel and Fahad Al-Salem Street Buildings Block, Salhia is one of the few real estate companies in Kuwait with a high value, high profile & diversified portfolio of real estate properties. Salhia is the only real estate company in Kuwait to own a five-star hotel property.
- Haddia, a German subsidiary of Salhia, is engaged in the ownership and management of nursing homes for the elderly in Germany. The total number of nursing homes owned by Haddia as at the end of 1999 was 10, with 181 residential flats and 541 beds, all designed for the quality care and comfort of senior German citizens who require minimum health care.
- Concentrated in Hannover, BadPyrmont and BadSchwartau, the occupancy rates have risen to 100% in nursing homes and 92% in residential apartments resulting in total operational profit of DM4.15mn, earnings to Salhia representing 20.5% return on invested capital.
- A 50-50 joint venture of Salhia with St. Modwen Properties Plc of UK, KPI is capitalized at £25mn with the purpose of investing in the UK real estate market. KPI has entered into an exchange contract for acquiring the commercial centre of Farnborough comprising of Kingsmead and Queensmead for a total cost of £34mn.
- Salhia is a co-investor (with Citibank) in construction of a residential apartment project constructing 318 luxurious apartments in Raleigh North Carolina. The estimated cost of the total project is US$22.3mn, of which Salhia owns 42%, targeted for completion in June 2000.
- The upcoming project of Salhia in Kuwait is Arraya Tower, occupying land area of 7,209m^2 and located in the Sharq are of Kuwait City. The 30-storey tower will house an upscale commercial complex, a new three/four-star hotel, luxurious office spaces and 850 cars parking.
- Arraya is expected to create total space area of 60,000m^2 at an estimated cost of KD25-28mn, likely to be financed by internal accruals and long-term bank loans.
- Salhia is expected to register an average ROAE of 8.5% over the forecast period 2000-2004. At this level of expected ROAE, we view Salhia among the strong, stable & profitable real estate companies in Kuwait with promising future propositions, and afford a BUY in the stock with a long-term perspective.
- Using the DCF technique, we value Salhia stock at 352fils per share. The present market price offers a discount of 13.0% and valuation converts into P/E multiple of 14.0x for 2000e EPS.
- We estimate the market value of Salhia real estate assets at KD99.7mn, which translates into gross asset value per share of 418fils.
- Salhia stock currently trades at 27% discount to its gross asset value and about 13% to its net asset value.

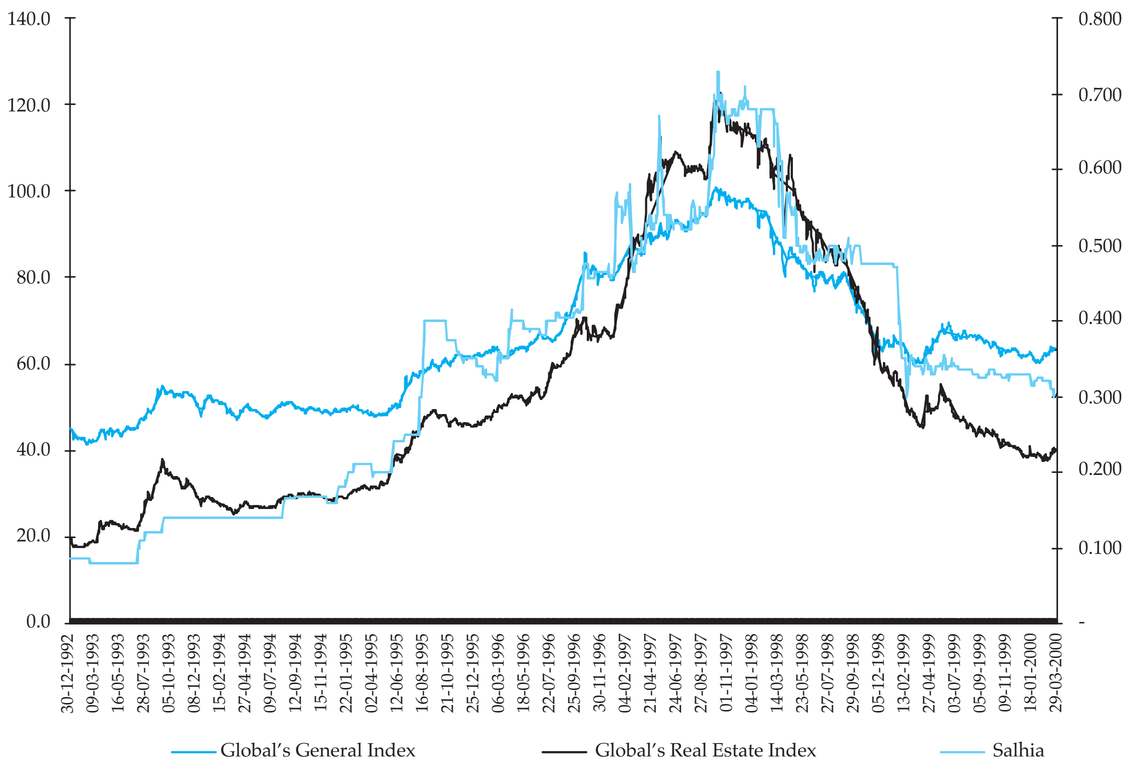
Investment Indicators

Price April 26, 2000	Shares in Issue	Market Cap	52-week price range
305fils	238,412,460	KD72.716mn	355fils-300fils

	Revenue KD mn	Net Profit KD mn	EPS in Fils	Book Value in Fils	ROAE	P/E*	P/BV*
2002E	10.313	6.903	29.0	286.8	10.4%	10.9	1.1
2001E	10.024	4.985	20.9	267.9	8.0%	15.2	1.1
2000E	9.652	6.002	25.2	257.0	10.2%	17.1	1.2
1999A	9.221	5.473	23.0	239.1	10.5%	13.5	1.4
1998A	9.057	1.238	5.2	197.5	2.7%	91.4	2.4

**Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on market price as on 26/Apr/2000. Global Kuwaiti Market & Sector Indices are published by Global Investment House and are weighted by market capitalization. Indices are available on Reuters' page GLOB and on http://www.globalinv.net.*

Share Price Performance Chart



Salhia Real Estate Co. - Sky scraping quality

Salhia represents 15.7% of the total Kuwaiti real estate market capitalization as on April 26, 2000

One of the few real estate companies in Kuwait with a diversified portfolio of real estate properties, Salhia Real Estate Co. ("Salhia" or "the company") was established in the year 1974 as a closed shareholding company. As at the end of year 1999, Salhia employed 404 employees as compared to 386 as at the end of 1998. The stock is listed on the Kuwait Stock Exchange and represents 15.7% of the total Kuwaiti real estate sector market capitalization of KD465mn as at the end of April 26, 2000. At market capitalization of KD72.7mn, Salhia ranks second in the sector, top position occupied by Kuwait Real Estate Company (20.9%) in terms of market capitalization. Important is that the number of shares in issue for Salhia (238.4mn) as compared to Kuwait Real Estate Company (570.9mn) is only 42%. In the total number of shares outstanding in Kuwaiti Real Estate sector, Salhia constitutes just 6.0% as compared to 14.4% of Kuwait Real Estate Co. Looked as the ratio of share in total market capitalization to share in total shares outstanding in the Real Estate sector, Salhia dominates with 2.6x, followed by 1.4x of Kuwait Real Estate Co. As may be drawn from the previous statement, Salhia stock commands top price in the sector and is still at a relatively lower P/E multiple as compared to some of its competitors.

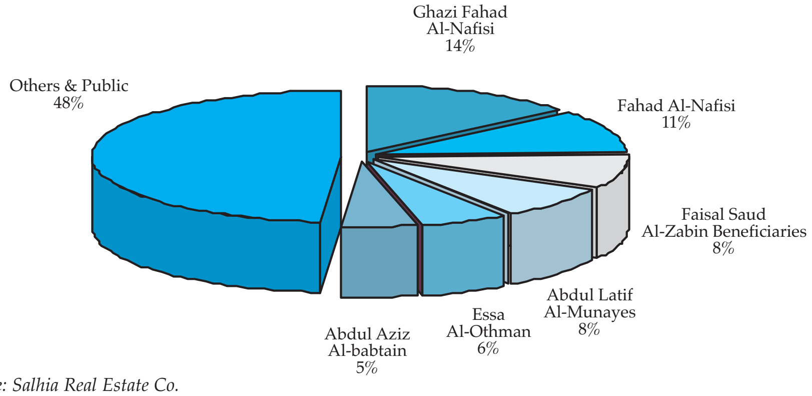
Salhia stock commands top price in the Kuwait real estate sector at a relatively lower P/E multiple compared to its competitors

Stable management and steady ownership has helped maintain unidirectional focus on business activities

Salhia is chaired by Mr. Ghazi Fahad Al-Nafisi, who is also a major shareholder in the company. While a stable management has guarded focus in business activities, steady ownership has added strong investor confidence in the stock. Over the past ten years, the ownership of Salhia has been steady with 45% equity stake owned by six high net worth individual investors. In November 1999, the list of shareholders owning stake in excess of 5% revealed that the six prominent shareholders hold about 52% of the outstanding stock in the company, which explains the illiquid nature of the stock. Salhia traded on 85 trading days in 1999, recorded volume of 34.75mn shares, which includes few block trades of a total of 11.1mn treasury shares sold by the company in the market.

52% stock is held by six prominent shareholders & stock turnover is low

Figure 1: Shareholding pattern of Salhia



Source: Salhia Real Estate Co.

Principal business activities of Salhia include owning & leasing commercial property and hotel operations

Principal business activities of Salhia comprise of dealing in various real estate activities, particularly owning and leasing commercial property, including hotel accommodation in Kuwait. High standards of quality, modern style and uncompromising maintenance are the cornerstones of Salhia real estate properties. Properties owned by the company are concentrated in prime locations in Kuwait City - the commercial district of Kuwait. The commercial district is home to the Central Bank of Kuwait, all commercial & specialized banks, finance & investment companies, insurance companies, ministries, Amiri Diwan, Court, corporate & industrial houses, consultants, travel agents, exchange houses, shopping arcades, etc.

Important properties in the real estate portfolio of Salhia are:

Salhiya Commercial Complex
Al-Sahab Tower
Le Méridien Hotel
Fahad Al-Salem Street Buildings Block

High profile & prestigious real estate portfolio, strategic positioning and competitive strategy are the success ingredients

In addition to an attractive real estate portfolio in Kuwait, Salhia is an active owner & developer of real estate properties in the developed Western countries. With strategic brand positioning, competitive strategy, high profile & prestigious real estate portfolio in Kuwait, and through some of its subsidiaries in Europe and associates in USA, Salhia has essentially immunized its operations in the local market and created a diversified geographical distribution of assets.

The real estate portfolio of Salhia can be conveniently split into two - Local & Foreign.

Real estate investments in Kuwait:

Salhia Commercial Complex:

Upmarket and premium shopping destination in Kuwait, home to 132 international brand boutiques

One of the prestigious commercial complexes in Kuwait, Salhia commercial complex was constructed about 18 years back and represents single roof destination for prime international brands. 132 boutiques of international brands and restaurants are housed in this commercial complex on the ground, first and second mezzanine floors. The complex also provides car parking at a convenient distance which is important to attract traffic. As at the end of 1999, the historical gross value of the commercial complex is KD17.8mn and the total written down book value is KD11.5mn.

In addition, five floors are leased as office space and the rent value has increased by 14% over 1993-99

Other five floors of the tower provide leased office spaces with as many as 118 offices, which accommodate a variety of companies. One of the important tenants in the Salhia commercial complex is Kuwait Petroleum Transportation Company. While the overall market has been stable, the efforts of the real estate department in Salhia brought about a gradual increase in rent value by 14% over the period of

1993 to 1999. The focus in this effort has been to increase marketing and adopt a balanced lease strategy to protect the earnings against general decline in rentals. Despite sharp growth in commercial complexes in and around Kuwait City, the department has retained its tenants over the years.

Marketing an attractive traffic, prime location, parking space, good maintenance, no new key money, no heavy load on rental agreement title transfers and capability to create tailor made spaces, the rental rates for commercial spaces in Salhia commercial complex are as much as a one-third higher as compared to the average rates in other commercial complexes. Salhia charges KD22/m^2 as compared to KD16-17/m^2 rate in the surrounding properties. In spite of the premium charged the occupancy rate in Salhia commercial complex has stayed in the vicinity of 95-100%.

Salhia charges a premium of about 30-33% as compared to market rate, and has maintained occupancy in the range of 95-100%

With an uncompromising bend towards maintenance, Salhia management has embarked upon a renovation plan for the commercial complex that intends to:

- Relocate the escalators to create more space on ground, first and second mezzanine floors which will provide for new restaurants, cafeterias, and more movement space for shops located on the mezzanine floors.
- Remodel the marble columns, interior décor and fountain to create a light and attractive ambience.
- Provide additional parking space. In this direction, Salhia has completed the construction of the police station in Watya area at an expense of KD0.51mn. The Salhia police station, which is close to the commercial complex, has already moved to its new premise and the vacated space will be utilized to construct a 400-size car park with pleasant landscape.

Remodeling of floor space and new park in vicinity are expected to increase traffic to the commercial complex

The changes in design and availability of parking space right next to the commercial complex will ensure that Salhia commercial complex maintains its premium position and attract more traffic to the complex.

Al-Sahab Tower:

Completed in year 1996 and located near the Salhia commercial complex, the Sahab tower is connected to the Salhia Commercial Complex by a pedestrian bridge positioned in the mezzanine level for quick access. A prestigious address in Kuwait, Sahab tower is one of the modern and distinctly identifiable towers in Kuwait City. The tower also has access to the Méridien hotel. Sahab tower comprises of three commercial floors and twenty office floors, currently occupied @ 100%. This level of occupancy earns an annual lease rent of KD0.8mn. The tenants of Sahab are a reputable list of multinationals and local corporate houses, which include Microsoft, Shell, British Petroleum, Texaco, KPC, Mitsui, United Bank of Kuwait, Kuwait Reinsurance, KPMG, etc.

One of the prominent real estate assets of Salhia, Al-Sahab boasts 100% occupancy and income stream of KD0.8mn each year in lease rentals

At Al Sahab, once again, the management follows the strategy of differentiation in its product by providing top of the line service & maintenance and charging a pre-

100% occupancy generates total rate of return of 14.8% for Al-Sahab on gross historical cost

mium monthly rate of KD7/m^2 as compared to KD5.5-6.0/m^2 for spaces in vicinity of the Sahab tower. While the company allows tenants to enter into a yearly contract, tenants prefer to enter into five-year contract - a comforting element for the real estate department. As at the end of 1999, the historical gross value of the Sahab tower is KD5.4mn and the written down book value is KD4.9mn.

Le Méridien Hotel:

Salhia is the only real estate company in Kuwait to have a prominent, five-star hotel property, recent annual occupancy level of about 40%

Salhia owns the Le Méridien Hotel in Kuwait, managed by the prestigious Societe des Hotels Méridien SA, which has built up a chain of more than 100 hotels across the globe offering the unique French flair and style. Besides being one of the prestigious assets of Salhia, the hotel also provides a sort of diversification from the traditional real estate business of leasing spaces into the hospitality business. Le Méridien is one of the four operational five-star hotels in Kuwait and is located in the business district i.e. Kuwait City thus attracting business travelers. The occupancy level in the hotel has stayed at 40% level in year 1998 and 1999.

The 16-floor Le Méridien constituted 49% in total revenue and 39% in gross profit of Salhia in 1999

Post invasion, Salhia management invested in excess of KD7mn to refurbish the entire structure and rooms in the Méridien and add attractive features to this property, completely in line with the Le Méridien standard worldwide. The 16-floor hotel houses 295 rooms, 2 royal wings, 8 diplomatic suites, 3 conference halls, 4 meeting rooms, 5 restaurants, a shopping arcade, basement parking and the whole range of 5-star amenities. The hotel generated KD4.5mn in operating revenue and KD2.7mn in gross profit in year 1999. As at then end of 1999, the historical gross value of Le Méridien hotel is KD17.6mn and the written down book value is KD13.3mn.

Fahad Al-Salem Street Buildings Block:

Located on the prime Fahad Al-Salem street, surrounded on all four sides by a street and 620% allowable built-up area, this super block presents a substantial future development opportunity in hands of Salhia

In the Kuwait City commercial district, Fahad Al-Salem Street is the oldest and most famous commercial street. In year 1998, Salhia management finalized the acquisition of eight strategically located and fully occupied commercial buildings, a block which is surrounded on all four sides by a street, one side facing the Fahad Al-Salem street. The acquisition was financed by an increase in capital by issue of additional 20.9mn shares at a price of 500fils per share, par value being 100fils per share. The block generates lease income of approximately KD0.650mn and the eight buildings occupy floor space of 3,605m^2 with an allowable built-up area of 620%. To fully exploit the potential of this super block and the allowable 620% limit in prime Kuwait City location, the management plans to construct a commercial complex in this location in the near future.

Others:
Salhiya owns a six-storey commercial building located in Al-Soor Street occupying a floor area of 1,222m^2 and built up area of 7,698m^2. The property generates revenue of KD0.225mn per year.

Real estate investments abroad:

Haddia Holdings GmbH:
Haddia is engaged in the ownership and management of nursing homes for the elderly in Germany. The total number of nursing homes owned by Haddia as at the end of 1999 was 10, with 181 residential flats and 541 beds, all designed for the quality care and comfort of senior German citizens who require minimum health care. Dana Co., a subsidiary of Haddia assumes the management of the buildings and provides the necessary services & care required by the lodgers. Over the past three years, Salhia management has consciously increased its base in Germany through the activities of Haddia as the potential investment return is attractive.

Haddia, engaged in ownership & management of nursing homes for the elderly in Germany, has 10 nursing homes with 181 residential flats & 541 beds

Presently, Haddia has started earth moving at another site in Germany, which is eventually expected to lead to addition of 140 beds to the present 667 beds by the end of September 2000. In 1998, Haddia finalized the acquisition of two new nursing homes. The first consists of 55 beds, located in the suburbs of Hannover for a total cost of DM5.75mn. The second nursing home consists of 67 beds and a land area of 10,000m^2. This property is located in BadSchwartau and was acquired for a total cost of DM7.9mn. Furthermore, Haddia has finalized the acquisition of another nursing home in April 2000, which consists of 126 beds, thereby increasing the total number of beds to 667, together with 181 residential flats.

Salhia has started work to add 140-bed facility on the 10,000m^2 land bought and acquired another 126-bed facility in April 2000

The high occupancy rates in the residential apartments and nursing homes are a testimony to the strategy pursued by Haddia in this business. All the nursing homes owned by Haddia incorporate luxury standards with quality services. The occupancy rates have risen to 100% in nursing homes and 92% in residential apartments. The properties are concentrated in Hannover, BadPyrmont and BadSchwartau.

Occupancy rates have risen to 100% in nursing homes and 92% in residential apartments

Salhia entered into the German market at an opportune moment when the demand for quality nursing homes was picking up. Over the period, Haddia has established itself as a brand, another extension of the competitive strategy of differentiation pursued in Salhia activities. It is estimated that the cost to home an individual is likely to cost the German government about 30-33% more than its costs the private sector, and thus the private sector has a suitable case & potential in this service of senior citizens, especially with quality services like those catered by Haddia.

We view that Haddia has a strong business case with sizeable cost advantage (savings) compared to Government operations

In year 1999, the total investment in the subsidiary was pegged at KD3.6mn as compared to KD3.3mn in 1998. The investment of KD3.6mn in Haddia in 1999 represented KD0.8mn in investment cost and KD2.8mn in loans. The results of this sub-

Year 1999 reported investment in Haddia amounts to KD3.6mn and Salhia earned 20.5% return on invested capital

sidiary are not consolidated with those of the parent company owing to the reason that Salhia owns this subsidiary and is investing in it from an investment perspective. To achieve its investment objectives from this subsidiary, the management believes that it may have to hold and invest over another two years before it achieves a critical mass to be lucrative enough to spin off. In year 1998, Haddia's total sales amounted to DM37.2mn, up by 7.5% as compared to DM34.6mn in year 1997. In the year 1998, Haddia earned total operational profit of DM4.15mn. In year 1998, Salhia reported that it generated 20.5% of the invested capital in Haddia, which includes capital provided as both, equity and debt.

Haddia to be developed into a strong chain of nursing homes and residential apartments for the housing & care of senior German citizens

To restructure the holding in the wake of the new German tax laws, a series of ownership changes were effected in year 1999, so that now Salhia directly owns Haddia without any intermediary owning structure. We estimate that Salhia will dispose its investment in Haddia during the year 2002 after having shaped Haddia into a strong chain of nursing homes and residential apartments for the housing & care of the senior citizens of Germany.

Key Property Investments Ltd., UK:

KPI is Salhia's joint venture with St. Modwen Properties to invest in the UK real estate market

Established in 1997 in the UK, KPI is capitalized at £25mn with the purpose of investing in the UK real estate market, with a plan to undertake partial or comprehensive development and renovation activities. KPI is a 50-50 joint venture of Salhia with St. Modwen Properties Plc of UK. The paid-up capital as at the end of 1999 was £17.55mn, of which Salhia owned £8.755mn. We expect that with the influx of projects in this joint venture, the capital will be fully paid in year 2000. In the year 1999, KPI earned operational profit of £2.96mn (1998: £2.5mn) and net profit of £2.07mn (1998: £1.6mn).

KPI has won two major projects in UK for a sum of approximately £70mn

Since incorporation, KPI has won two major projects, viz. Refuge Assurance Portfolio and Farnborough City Commercial Centre development. In 1997, KPI won a bid to acquire a real estate portfolio comprising 23 commercial buildings, four hotels and an open land, which are all occupied, for a sum of £35mn. The buildings are spread throughout Britain. In the same year, KPI sold the four hotels to raise the portfolio return from 10.5% to 12.5%. The balance portfolio is presently held by KPI to modernize in order to raise its rentals & occupancy rates.

KPI work on the Farnborough commercial centre requires major revamp of the entire area of 31,586m²

In year 1998, KPI entered into an exchange contract for acquiring the commercial centre of Farnborough comprising of Kingsmead and Queensmead for a total cost of £34mn. The two complexes are linked together and constitute total area of 31,586m². The centre hosts 129 commercial shops, office buildings, 68 residential flats and a multi-storey car park accommodating 750 cars & related services. The awarded contract stipulates the development and upgrading of this centre in order to attract commercial companies, national & international restaurants, recreational centre with cinema theatres and services including a multi-storey car park.

KPI has developed the master plan and new designs for the commercial centre and presented it to the City Council, shop owners and Farnborough residents prior to execution. It is learnt that the renovation work and development should start in second half of 2000.

Thornhill Luxury Apartment Project, North Carolina, USA:

In 1998, Salhia signed a contract with three other partners (including Citibank) to co-invest in constructing a residential apartment project constructing 318 luxurious apartments in Raleigh North Carolina. The estimated cost of the total project is US$22.3mn, of which Salhia owns 42%. The project will be built over an area of 30 hectares and is targeted for completion by the end of second quarter of year 2000. The expected IRR on investment is in the range of 18-20%. Salhia targets to dispose its investment following the completion of the project construction and leasing. We expect that Salhia will dispose its investment in Thornhill during the year 2001 achieving an IRR of 18% on investment.

Entirely from an investment perspective, Salhia is 42% partner in a residential apartment project in North Carolina USA, estimated cost of US$22mn and expected completion in June 2000

Others:

In addition to the projects above in the US & Europe market, Salhia has invested in twelve holdings in American & European private companies. These holdings amount to KD1.23mn and have been acquired over the past five years. In 1998, one of these companies was floated on the US Stock Exchange while another was sold out to an American investment company. Realized annual cash return on these investments achieved by Salhia amounted to 26% and 32% respectively.

Salhia holds investments in 12 private companies in USA & Europe

Future Projects of Salhia:

Attractive projects in the pipeline

Although Salhia management has several blueprints of plans and projects which it presents to the local authorities, those which are at an advanced stage are discussed in this report. One of the major plans that Salhia management wishes to undertake is the development of the entire Fahad Al-Salem Street. The plan has been presented to concerned authorities but some bottlenecks still remain. The projects, which are approaching their scheduled start, are:

Arraya Tower Project:

Occupying land area of 7,209m^2 and located in the Sharq area of Kuwait City, the Arraya project comprises of two components:

Like the present Salhia properties, Arraya is planned to be a landmark in Sharq area of Kuwait City

- An upscale commercial complex.
- A 30-storey tower housing a new three-star hotel topped with luxurious office spaces. The three or four-star hotel is expected to offer service comparable to those of five-star hotels in Kuwait.
- A car parking lot to house 850 cars. This car park will be connected to the main building by means of a suspended bridge.

Arraya is planned to aggregate 60,000m^2 of total space at an estimated cost of KD25-28mn and expected completion by the end of year 2002

The total space area in Arraya project is expected to aggregate 60,000m^2 and will cost Salhia in the range of KD25-28mn, likely to be financed by internal accruals and long-term bank loans. We view that Salhia may have to spin off its substantial investment portfolio to meet the expenses of this project without jeopardizing the present income stream by a heavy interest burden. While groundwork is already underway, the actual construction activity is expected to begin shortly and the tower is expected to meet completion in a period of 26 months. With expected completion by end 2002, the project will substantially expand the income stream from 2003 onwards.

Salhia management expects to generate a yield of 14-15% p.a. from Arraya project

Beginning with an expected 85% occupancy, the lease space in Arraya is expected to hit 100% occupancy in a span of two years. From this project, Salhia management expects to earn a yield of 14-15%. The project capitalizes on the experience of Salhia management to bring together the concept of hotel, office and shops in vicinity and this time together.

The Super Block Project (Fahad Al-Salem Street Buildings Block):

We view the Super Block on Fahad Al-Salem Street, acquired for KD10mn, as a strong opportunity in the future plans of Salhia

The super block refers to the Fahad Al-Salem Street Buildings Block surrounded on four sides by streets, one side facing Fahad Al-Salem Street. The project plan involves the construction of a commercial tower consisting of shopping area and office spaces. The upside to Salhia from the completion of this project on the prime Fahad Al-Salem Street can be huge and constitutes strong opportunity for enhancing future earnings stream. However, this project is still in its infancy stage and we have not incorporated the development of this super block in our forecast as no immediate or concrete plans have been disclosed yet. We will update our forecast accordingly when any developments on the Super Block project are initiated or disclosed.

Market Overview

Hotel:

In Kuwait, the hotel industry is of KD18-20mn annual size in terms of billing, with annual available room night capacity slightly in excess of 500,000 in the five-star category. Presently, the five-star hotels of Kuwait are Radisson SAS, Sheraton, Le Méridien, Crown Plaza, Regency Palace and Safir International. These six hotels first signed an agreement in 1983 to form a cartel that dictates the room rates for all room categories in the five star hotels in Kuwait. The cartel is manifest in the Kuwait Hotel Owners' Association (KHOA). KHOA stipulates the minimum room rates and meal charges and demands disclosure of all contracts & agreements to the auditor so as to ensure compliance with the minimum rate requirements by signatories. The Association exempts those signatories that are undergoing reconstruction or refurbishment. Of the six member hotels in KHOA, Regency Palace is largely non-operational following the damages done during the Gulf war and currently operates only 40-50 rooms. Another member Safir International has recently undertaken renovation & refurbishment of facilities and the constitution of rooms & services is likely to change. It is important to note that KHOA is a cartel of five-star hotels for protection of interests of five-star hotel owners and thus, not much information on the hotel industry is publicly available.

Hotel industry in Kuwait is estimated in the range of KD18-20mn in annual billing size and annual available five-star capacity slightly above 500,000 room nights

KHOA is the association of five-star hotel owners in Kuwait, which guards the interests of five-star hotels in Kuwait

Figure 2: Hotels, rooms & occupants by class of hotels

	1994	1995	1996	1997	1998
Deluxe					
hotels	5	5	6	5	5
rooms	1,437	1,537	1,577	1,374	1,339
occupants	107,199	130,515	137,397	134,504	134,067
occupancy	20.4%	23.3%	23.9%	26.8%	27.4%
1st Class					
hotels	6	6	5	6	6
rooms	454	487	447	520	495
occupants	33,399	45,907	48,998	62,713	67,288
occupancy	20.2%	25.8%	30.0%	33.0%	37.2%
Total					
Hotels	21	21	21	20	21
Rooms	2,407	2,528	2,528	2,335	2,224
Occupants	191,100	239,117	252,028	265,729	266,527
Occupancy	21.8%	25.9%	27.3%	31.2%	32.8%

Source: Ministry of Planning Annual Statistical Abstract 1998

Average occupancy in five-star hotels in Kuwait over period 1994-98 is 24%, highest being at 27% in 1998 during the period

As per the annual statistical abstract of the Ministry of Planning (MOP), the number of rooms in the deluxe category (five star hotels) increased by 100 in 1995 over the previous year and decreased by 203 in 1997 as compared to the previous year. Based on the market information collected, we view that availability of rooms has fluctuated in the range of 30-60 rooms only over respective previous years. Surprisingly the occupancy levels in MOP statistics for deluxe category (five-star) averages to 24% over the period 1994 to 1998. Although wide categorization of data is available in MOP statistics, the occupancy levels shown for each category are unbelievably low when compared to market information. It is still unclear if these statistics are verified & required by law or disclosed voluntarily to the MOP on request.

In total five star rooms availability of 1,475 in Kuwait, SAS is smallest at 200 and Crown Plaza is largest at 330

In our analysis, currently, the 5-star room capacity in Kuwait is about 1,475 rooms of which Crown Plaza has the largest share of 22%. Next three are almost similar in size with capacity of about 300 rooms each. The present size of five-star capacity translates into 538,375 five-star room nights available each year in Kuwait and as per MOP statistics, the occupancy level is about 27-28%. Owing to its size, location and features, we believe that hotels like SAS, Sheraton and Méridien enjoy higher than average occupancy level in the five star category.

Figure 3: Five-star hotel room capacity in Kuwait

Le Méridien commands 20% share in the Kuwaiti five-star hotel capacity

Hotel	# of rooms	Capacity share
Sheraton Hotel and Towers	300	20.3%
Safir International	300	20.3%
Le Méridien	295	20.0%
Radisson SAS	200	13.6%
Crown Plaza	330	22.4%
Regency Palace	50	3.4%
Total	**1,475**	**100%**

The Crown Plaza is currently supplying the largest number of rooms and indeed has been competing with the Sheraton over market share of rooms sold during the 1996-1998 period. However, the client bases of the two hotels differ significantly, which is primarily accounted for by the difference in location.

Sheraton & Le Méridien present an advantageous location proposition for the business traveler in Kuwait

Location is a major factor in determining the type of clients each of the six 5-star hotels attracts. The Sheraton and Méridien hotels are situated in the heart of the business area of Kuwait City. The client base is predominantly from the business community. They have also complemented the location factor with the provision of restaurants of various international cuisines. The Sheraton has also transformed parts of its room floors to commercial offices and is currently renting it to a few companies. As a result, these two hotels represent direct competition to each other more than any other hotel in their category.

Crown Plaza derives large portion of its clientele from aircrew and transit passengers

The Safir International, on the other hand, is slightly farther away from the prime business districts. Since it only overlooks the sea rather than having immediate access to the beach, it has an advantage that is, to a high degree, lost. Located in Farwaniya, close to the

Airport, the Crown Plaza derives the largest proportion of its clientele from aircrew and transit passengers. Its location away from the city and near the airport explains the different rates charged by Crown Plaza.

The Radisson SAS hotel enjoys a seafront location yet away from the major business districts. Its clients tend to be longer staying guests and visitors of the oil sector due to it being the closest to the oil companies. The hotel is located only a few blocks from the Regency Palace hotel along the very same shoreline. In addition, we view SAS as strong competitor in the banqueting and functions capacities, given that SAS has already opened its large dhow (boom) to serve as a large-scale conferencing and functions facility. The new dhow is a big attraction and a likely contender for entry into the Guinness Book of World Records.

SAS benefits substantially from the combined benefits of seafront location, proximity to oil companies and inviting attractions

The 5-star market described above exhibits a high degree of segmentation, with location being the prime factor behind it. Rooms to the business people segment are sold at the rack or general rate, with the Sheraton and Méridien capturing most of the segment. The SAS and Safir hotels are the hotels best positioned in the long-stay market. The Crown Plaza, as said earlier, benefits from the constant flow of aircrew. The government sector business is equally distributed among the hotels, and represents the single largest demand segment for most hotels.

Government sector business, the single largest demand segment, is equally distributed among all operational five-star hotels

Tourist demand has only started to pick up very recently. The visitors are mainly from the Gulf region. With Kuwait being the Arab World's cultural capital for the year 2001 and with the Hala February Festival becoming a recurring reality, political stability remaining as is or improving, improving business environment & new business opportunities, and new large scale projects, we expect modest increases in tourism driven and business driven demand.

We foresee only modest increases in tourism driven and business driven demand for five-star accommodation

It is common knowledge that one of the most important indicators in the hotel industry is the "occupancy level." Also, the individual hotel performance is largely estimated based on the occupancy. Occupancy levels drive the food & beverage and conference / business revenue of the hotel too. High occupancy levels reveal the preference for the hotel from the visitors and indicate the perceived quality of the hotel, especially so in the five star category. It is important to point out here that location and brand names are also important factors that affect the occupancy levels.

High occupancy is crucial for all departments in hotel industry, and seemingly the occupancy levels are quite low

From our analysis, Le Méridien recently is estimated to have reduced the gap between the capacity share and real market share (as number of rooms sold). Management reports that the occupancy level of Le Méridien has been fair at 40% each in 1998 and 1999.

Le Méridien reports to have maintained 40% occupancy level in 1998 and 1999

Kuwait is not a tourist destination, rather more of a business destination. Importantly, addition of a new hotel cannot increase the influx of visitors into Kuwait, but can definitely motivate & reorient existing customer preference. The availability of a brand new hotel in Kuwait can surely affect the consumer prefer-

Due to low overall occupancy rate in Kuwaiti hotel industry, the opportunities are non-existent unless strategically structured

ences because when rates do not vary substantially, the preference can easily & sometimes automatically get shifted towards a newer facility which has new features to offer. However, if the rates can be lowered without changing services and prime location, the opportunity can be worth exploring. However, with low overall occupancy, the fortunes of the hotel industry still do not outweigh other opportunities in the local market.

Still, a new star hotel may generate concerns in the industry that operates at low occupancy rates

We believe that the inclusion of newer capacity of star accommodation in Kuwait will further push down the occupancy levels of hotels that do not appeal to visitors/customers. The success of a new hotel in Kuwait will largely depend on its capability to make a dent in the performance of other existing hotels because any major increase in five-star category visitors in Kuwait is not anticipated. Inclusion of a large 5-star capacity in Kuwait is likely to generate concern in the industry that operates on a rather low occupancy level of 27% (Source: Ministry of Planning) in the present 5-star rooms availability of approximately 1,400 in Kuwait.

Brand name or management of the hotel is likely to be one of the deciding factors in success of any new hotel in Kuwait

Salhia intends to rely on its long experience of bringing together the best elements of shopping space, office and hotel space

The importance of exploring the case of a new star hotel in Kuwait finds context in the future plans & projects of Salhia. The Arraya Tower will house a three or four-star hotel through which Salhia management intends to offer services comparable to those in five star hotels. Presently, Kuwait has no middle range hotel of acceptable standards. All existing ones are traditional or in dilapidated conditions and do not have full-scale services of expected or acceptable quality. The Arraya project is expected to bridge this wide gap that exists between the five-star hotels and the middle scale (so called three or four-star) hotels in Kuwait. Priced somewhere in between the middle scale and five-star range, this hotel can offer attractive packages to attract customers. One factor that is of concern is the brand name or management of the hotel as a hotel guest derives prestige from associating with the likes of Sheraton or Le Méridien or SAS or Hilton. Besides, the capital expenditure outlay is substantial and the returns from a three-star hotel project may fail to justify the investment, as the occupancy levels have been historically low in Kuwaiti star hotels. Taking cognizance of these factors, Salhia plans to create a combination of shopping area, office space and hotel in the Arraya Tower to optimize returns from the project.

Real Estate:

Real estate development & management is one of the largest industries in Kuwait

Real estate development is one of the largest industries in Kuwait bearing significant influence on domestic economic activities, well being of the population, employment and investment opportunities. The real estate & construction sector is considered a major component of the development and economic activity of a nation and spending in this sector induces growth in other sectors in the economy. To drive this point home, three indicators are of prime importance, viz. value added by construction & real estate in GDP, public expenditure on construction activities and the share of construction and real estate sector in the domestic cash credit facilities utilized. As an offshoot of these development activities, a large number of real estate companies in Kuwait have specialized in development and subsequent management of large-scale commercial properties.

In spite of its importance, the contribution of the construction sector in Kuwait's GDP (at purchaser's prices) constitutes a mere 3.2% in 1998. Although this is far higher from the 1.9% in 1989, the ratio stayed in the range of 2.7-3.2% in 1995 to 1998. However, the brighter side is that despite the movement in GDP value, the construction sector value has stayed in the range of KD241-247mn. While GDP declined 16.3% in 1998 to KD7.7bn, the construction sector activity has held its own. Under the head 'Finance, Insurance, Real Estate and Business Services' of the GDP account, the value of Real Estate services amounted to KD613.1mn in 1996, marginally below the 1995 figure of KD616.3mn. As a percentage of GDP, the share of real estate services in 1996 was 6.7% as compared to 7.8% in 1995. Although the relative weight of the real estate sector in the GDP has marched ahead in 1997 and 1998 to 7.1% and 8.4% respectively, the value effect is negligible. The KD value contribution by real estate sector to GDP was registered at KD654mn in 1997 and KD647mn in 1998, largely unaffected by GDP variations.

Real estate services accounted for 8.4% of Kuwait's GDP account

Public expenditure on construction, a major factor that propels the growth rates of economic activity in the construction sector, showed a marginal decline of 6% from KD383.5mn in 1995 to KD360.5mn in fiscal year 1996. Further from this slight decline, the construction activity in public expenditure went up significantly by 9% to KD393.7mn in 1997 and another 5% to KD414mn in 1998 over the respective previous years. The approved budget for construction activities in the Kuwaiti government's expenditure plan for the fiscal year 1998-99 is up by another 5% to KD435mn (9.96% of the total approved public expenditure budget) as compared to the previous year. The trend indicates that owing to the pressing development needs of the country, the downward oil price movement has not dampened public expenditure on construction activities in any significant way. The significance of construction expenditure in the entire public expenditure budget is evident in the fact that in all the years, construction activities have accounted for about 9-10% of the total public expenditure. Although outlays are high, the market witnesses a large lag in completion of projects which does affect the overall real estate development market & sentiment.

Public expenditure on construction is still a major factor that sparks activity in all compartments of real estate sector

Construction activities have accounted for 9-10% of the total public expenditure in Kuwait

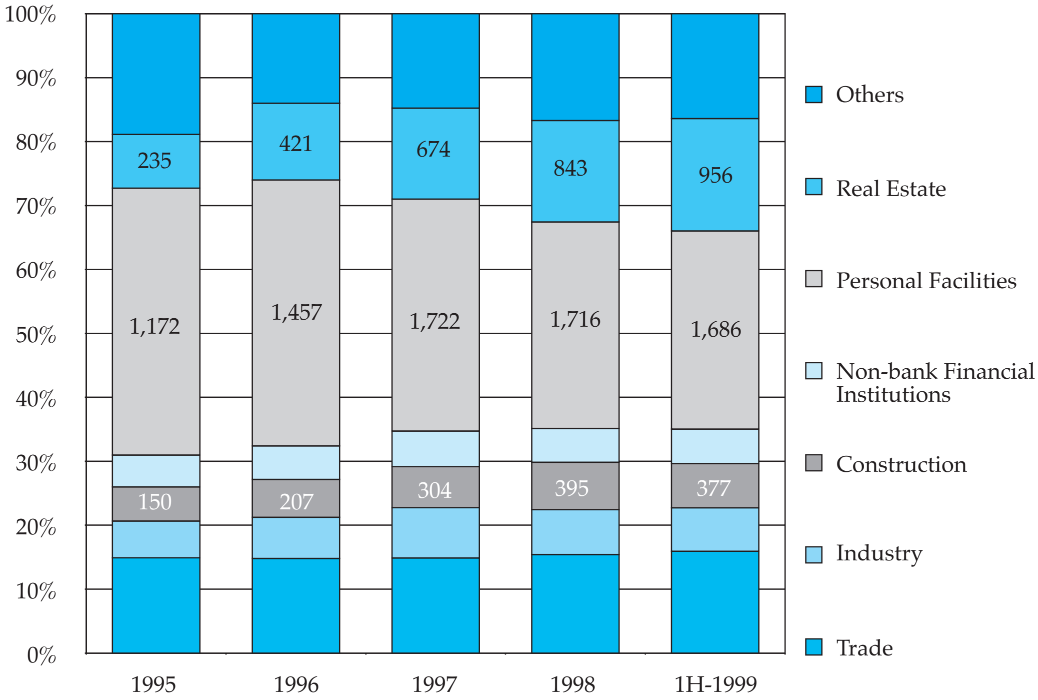
The development of bank credit in the Central Bank of Kuwait monetary statistics reveals that the local banks in Kuwait have aggressively increased their exposure to the construction & real estate sector, which is another indicator of the expansion of activities in this sector.

Aggressive increase to construction & real estate sector on local banks' books

While the share of the construction sector in the Claims of Local Banks on Private Sector has stayed in the range of 6-7% over the period 1994 to 1H-1999, the share of the real estate sector has grown from 5% in 1992 to 18% in 1H-1999. Over the six-and-a-half year period reviewed here, the claims (loan portfolio) on the real estate sector, the construction sector and the personal facilities loans registered an annual compound average growth rate of 55%, 33% and 21% respectively.

Share of real estate sector in total claims of local banks on private sector has increased from 5% in 1992 to 18% in 1999

Figure 4: Constitution of claims of local banks on private sector



Loans to construction, real estate & personal facilities continued growth unabated in 1999

In terms of fresh distributions concluded with residents of Kuwait, it is evident that the growth in loans extended to construction, real estate and personal facilities (especially loans for purchase of houses) continues unabated. In 1H-1999, the real estate, construction and personal facilities fresh loans have increased by a substantial level compared to the same period in previous year i.e. 1H-1998. Upon plain annualization, all these three sectors show sharp increase over the previous year 1998.

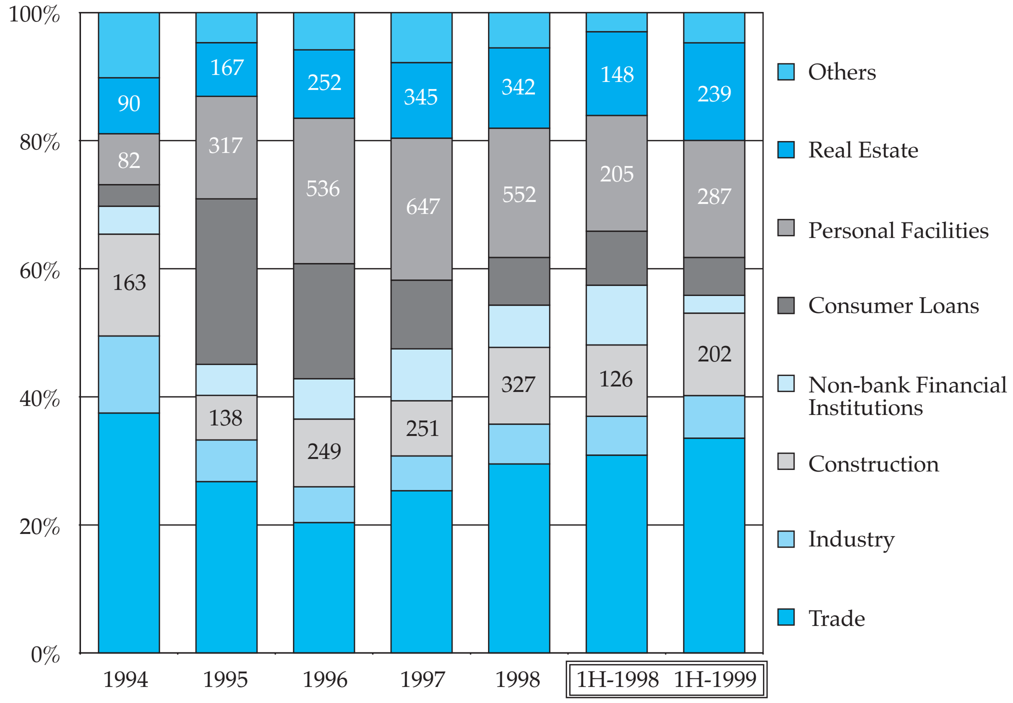
All indicators lead to believe that real estate sector in Kuwait has gained strong ground over past five years...

Utilizing the above statistics to serve as an indicator, the real estate development sector in Kuwait has seen rapid growth over the past five years and the same has trickled down into the profitability of real estate ownership & management companies that have seized the opportunity to develop quality properties in prime locations. Upon completion, the properties are leased at market rates and companies like Salhia can manage to charge a premium owing to location, amenities, construction quality, and maintenance.

...and the momentum continues, although signals of oversupply are more evident now

The spate of new disbursements in real estate & construction sector concluded by local banks indicates the continuing momentum of development in real estate. Though encouraging, the market limitations & level of economic activity lead to the fears of oversupply. Once again, companies wit a quality real estate portfolio and stable tenant base are sufficiently insulated against the ups & downs of the real estate market.

Figure 5: New disbursements concluded with Kuwaiti residents by local banks



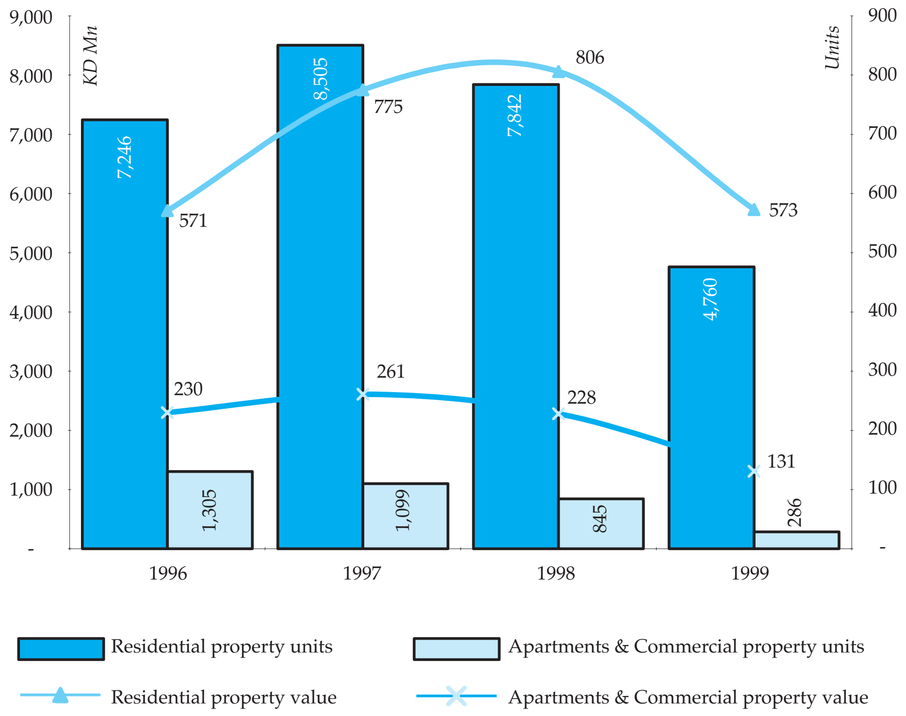
Real Estate Sales & Construction Activity

Based on the figures available for 1998, in value terms, Kuwait real estate market can be split into approximately 70-80% residential properties sales and 20-30% apartment & commercial building sales. The total size of the market in 1998 is fractionally lower, and largely lower in 1999 as compared to KD1,036mn in 1997. In terms of total real estate activities, 1999 seems to have been a relatively slow and modest year. The 1999 size of KD704mn is about KD100mn lower as compared to the size in 1996. The year 1997 was a remarkable year in the real estate market when the total value of transactions increased by about 29% to reach KD1,036mn as compared to KD801mn in 1996. This surge in 1997 was led by the residential sector as the number of residential properties sold in 1997 increased 17% over 1996 to 8,505 valued at KD775mn. The increase in the value of residential properties sold over the previous year was a substantial 36% in 1997. During the same period, the unit sale of apartment & commercial buildings dropped 16% to 1,099 units while their value increased 13% to reach KD261mn. As compared to the previous year, the real estate activities in 1999 declined by 29% in residential segment and 43% in apartment & commercial segment in value terms. In terms of number of units, the decline was steep in apartment & commercial properties segment at 66% as compared to a decline of 39% in residential unit sales over the previous year.

Kuwaiti real estate market was estimated at KD1bn in 1997, subdued to KD0.7bn in 1999

Activity in the apartment & commercial segment declined by 43% yoy in value terms in 1999

Figure 6: Yearly Real Estate Sales in Kuwait



As compared to decline registered in residential segment activities, that in commercial sector is large reflecting the strong correlation with economic activities

Although the number of transactions have dropped in both residential and apartments & commercial properties segments, the residential sector aggregated higher value on lower transactions in 1999. The first quarter is usually slow in the real estate properties market in Kuwait, and to that extent the first quarter of 1999 was no different from that of 1998. However, the sales in the 2nd quarter of 1999 have dropped sharply in both segments. Over the years, average residential property sales in the 2nd quarter of the year are slightly less than 2,000 units. However, the activity in the second quarter of 1999 is lower by 36% in volume and by 22% in value as compared to the same period in the previous year. Further from the second quarter and into the third and fourth quarter of 1999, the real estate activities in Kuwait seem to have come to a virtual halt. As compared to the 3rd quarter in 1998 of 2,436 units for KD229mn in residential sector and 212 units for KD43mn in apartment & commercial sector, the same period in 1999 was miserably lower at 994 units for KD133mn in residential and 69units for KD31mn in apartment & commercial segment. Both the segments held their ground in the 4th quarter of year 1999 with 1099 units for KD129mn in residential and 67 units for KD32mn in apartment & commercial sector.

1999 closed with KD0.57bn in residential and KD0.13bn in apartment & commercial properties segment

Rapid development of properties in apartment & commercial segment in 1997 & 1998 has led to an oversupply situation, deepened by slow economic activity

The apartment & commercial segment is continually declining since 1997 and at the end of year 1999, the units traded and value of these units is lower by 78% and 43% as compared to that in 1996. The slowdown in the apartments & commercial properties is partially an outcome of rapid development of properties & resultant oversupply coupled with slowdown in economic activity and large-scale reduction in government spending. The slowdown in the residential properties segment is government spending cutbacks, and the tight situation in the government institutions dealing with Kuwaiti housing.

Figure 7: Construction Permits Issued

	Residential	%	Non-Residential	%	Total
1995	13,172	92%	1,173	8%	14,345
1996	14,297	91%	1,367	9%	15,664
1997	13,700	90%	1,447	10%	15,147
1998	13,249	91%	1,254	9%	14,503

After touching the peak in 1996, construction permits issued have declined by about 500 in each following year to 14,503 in 1998. In the non-residential sector, the annual permits issued in the range of 1,200-1,400. However, it is becoming increasingly clear that the permits issued are not a leading indicator of the real estate activities in Kuwait.

Construction permits issued in residential & non-residential segment have not translated into real activity

The lackluster state of real estate activities in the commercial segment in Kuwait does not paint a rosy picture. With the sharp increase in crude oil prices in the past six months, the impact of the same on the domestic economic activities & government spending is still to be felt in the lower orbits of the economy. Salhia has a more secure position in the local real estate market as the quality of its commercial complexes has resulted in high occupancy levels. Despite the changing fortunes of the activity in the industry, the occupancy rates are close to 100% and rental revenue of Salhia has held in the vicinity of KD4.7mn per annum. For the future, the completion of the Arraya project is likely to muster the expected occupancy rates, increasing from 85% to 100% as Arraya will be one of the dominant high-rise structures in Sharq area.

In spite of all turmoil, Salhia has demonstrated steady performance in its real estate department

Importantly, the growing momentum of BOT (Build-Operate-Transfer) projects in Kuwait, expected entry of foreign firms for oil exploration & production, possibilities of gradual opening of the financial sector and the opening of the economy in light of the WTO agreement, all this is likely to result in rising demand for quality office spaces for large scale users (LSU). The completion of Arraya project in late 2002 or early 2003 is likely to be opportune to meet the demand of LSU.

Arraya is expected to make opportune completion to lease quality apace to meet the demand by LSUs

Financial Analysis

Over the past five years, Salhia real estate portfolio has expanded substantially to KD88mn in gross fixed assets @18% p.a.

Over the past five years, one class of real estate assets has achieved remarkable growth - free hold land - from book value of KD4.6mn to KD42.6mn, increase in excess of nine folds over a five-year period. In addition, Salhia had substantial amount of investment in German real estate (KD22mn in 1995) which was restructured by the end of 1997 and Haddia Holdings was entrusted the German operations in the form of a wholly owned subsidiary. Other than land, sizeable increase in the real estate portfolio came in with the capitalization of Al-Sahab Tower built at the expense of KD5.1mn in 1996. With the exception of these two items, other properties i.e. Salhia commercial complex and Le Méridien hotel have seen marginal growth in amount invested. Overall the real estate portfolio has expanded from KD45mn in 1995 to KD88mn in 1999, annual growth rate of 18%.

Substantial generation of cash led to rapid increase in stock market investments over 1995 to 1997...

...and equally rapid loss of value & income in year 1998 due to rapid loss on local exchange

Limited avenues for expansion in core business, substantial cash generation and buoyant local stock market resulted in increasing size of the investment portfolio of Salhia. From KD12.5mn in 1995, the investments of Salhia went on to KD46.5mn in 1997 of which quoted investments amounted to KD22.5mn. During the same year, the German real estate portfolio was restructured and transferred to a wholly owned subsidiary. The results of this subsidiary are not consolidated with the parent company as Salhia intends to dispose this subsidiary in due course. With a rapid loss in value on the local stock exchange in 1998, the investment portfolio of Salhia witnessed hectic activity to be trimmed down to KD34.8mn and provision requirements of KD2.7mn in the income statement. From 45.5% share in the total assets, size of investments in 1998 fell to 37.8% as part of the total assets. In 1999, this portfolio was down further by 6% to reach 31.3% of the total assets.

Restructuring of German real estate portfolio for eventual disposal led to trimming of real estate assets on Salhia books

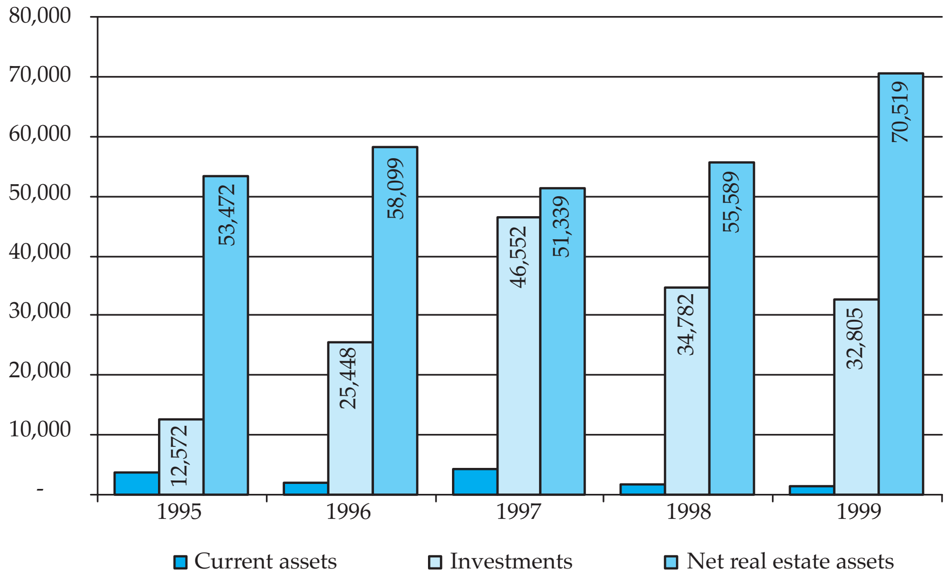
The net fixed assets & capital work-in-progress amount of Salhia declined from KD58.1mn in 1996 to KD51.3mn in 1997 largely due to the restructuring of the German real estate portfolio. Simultaneously, there was a sharp increase in the value of freehold land which increased from KD9.0mn in 1996 to KD22.2mn in 1997. As compared to this decline in core assets, the borrowings declined from KD52.5mn in 1996 to KD48.3mn in 1997. Importantly, the company issued shares to new shareholders & raised KD20mn from shareholders in 1997 to fund the purchase of the freehold land and the super block on Fahad Al-Salem Street.

Expensive affair with a volatile category of non-core assets - investments

This is the time in year 1997, we believe, Salhia exposed itself to a more volatile category of assets i.e. investments. Salhia increased its exposure sharply in quoted & unquoted investments in 1997 over 1996, investments increasing from KD25.5mn to KD46.6mn in 1997. In 1998, the subdued market activity and loss in value saw the portfolio size shrink to KD34.8mn and net sale of security worth KD14.4mn. To reduce the interest burden, the company reduced debt to KD38.7mn in 1998. In year 1999, the size of free hold land has increased from KD27mn to KD43mn and accordingly, borrowings have increased to KD43.8mn in 1999 from KD38.7mn in 1998. Internal accruals and reduction in investments, from KD34.8mn in 1998 to KD32.8mn in 1999, have financed the balance of this acquisition. Except for the increase in the size of quoted investments and free hold land, the activity in year 1999 has been more or less predictable. During the years 1998 and 1999, the cash & bank balances of Salhia slipped to as low as KD0.281mn and KD0.053mn. However, the management does not regard it as any serious indicator in terms of liquidity pressures.

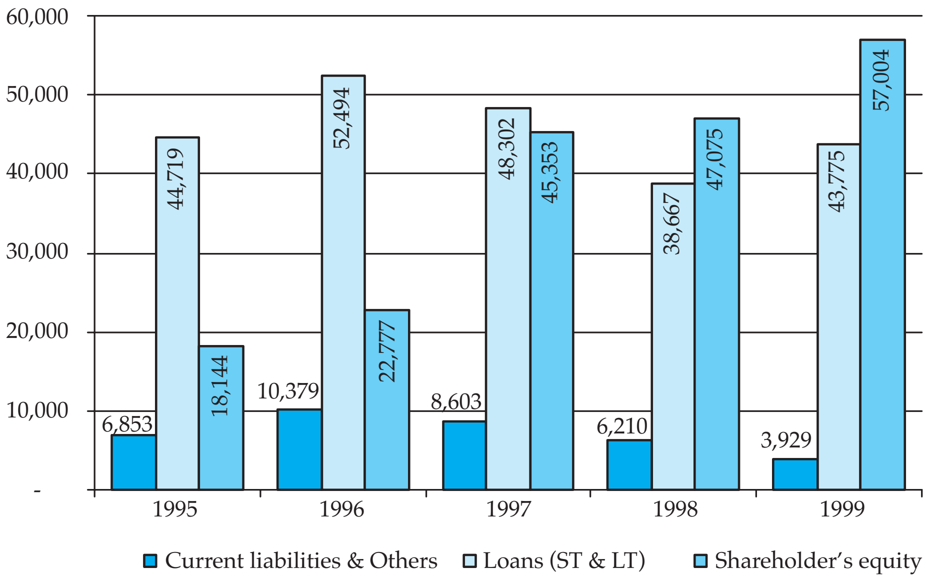
Cash & bank balances in 1999 declined to threateningly low level

Figure 8: Asset profile - Core assets & non-core assets of Salhia



While unconsolidated subsidiary for German real estate led to decline in net real estate assets in 1997 and free cash moved into investments

Figure 9: Shareholders' equity and funding liabilities



Equity injection in 1997 led to rationalization of debt equity structure

Total debt to equity ratio declined from 231% in 1996 to 107% in 1997

With additional infusion of equity in year 1997, the profile of total debt and equity begin to look more acceptable from the investors' and creditors' points of view. In 1995 and 1996, the total debt to equity ratio was as high 247% and 231% before receding to 107% in 1997. The total debt ratio has continually declined from 74% in 1995 & 1996 to 56% in 1997, 49% in 1998 and 46% in 1998. At this level of borrowing, Salhia has paid out almost KD13mn as funding cost in the five-year period 1995-1999, paying an average KD2.6mn each year as financing charges. From a comfortable 2.1x, the interest coverage ratio slipped to as low as 1.3x in 1997 before improving to 1.8x in 1998 and 1999. With the expected initiation of the Arraya project in year 2000, outstanding capital commitment of KD3.4mn expected to be fulfilled in year 2000 and scheduled repayment of long-term loans, we expect the interest coverage ratio to be at 1.6x in 2000 before it begins to improve to 1.9x in 2001 and 2.7x in 2003. With the capital expenditure plan laid out and long-term loans structured for repayment, we expect some streamlining in the investment portfolio of Salhia to fund the capital expenditure and ease the interest burden. Further with a view to strengthen the balance sheet, the company is likely to hold back on liberal dividend policy for the next few years.

Interest coverage ratio improved from 1.3x in 1997 to about 1.8x in 1998 and 1999...

...and expected to remain at similar level up until the completion of Arraya Tower

Completion of Arraya to expand the revenue stream, which is presently contained by 100% occupancy level in real estate properties and hotels unlikely to see any major improvement

Over the period 1995-1999, the operational revenue stream has been almost constant and we expect it to remain this way until the Arraya project reaches completion. The commercial real estate market in Kuwait is quite stable and especially so for Salhia which has achieved 100% occupancy in commercial spaces with long-term contracts. In the hotel business, we do not see any major changes in the medium term in the hotel occupancy levels in Kuwait. Over the past three years, about 48% of operating revenue is derived from hotel business and balance 52% is derived from real estate rentals. With the addition of the Arraya tower, we expect the rental income to go up to 60-62% of the operating revenue and balance to come from hotel business. Picking up from KD9.1mn in 1998 and KD9.2mn in 1999, we expect the revenue to increase to KD9.7mn with a small contribution from Thornhill project in USA. From estimated operating revenue of KD10.3mn in 2002, sharp increase in operating revenue is expected in year 2003 with revenue zooming up to KD13.6mn. This increase is expected following the completion of Arraya Tower by the end of 2002 and beginning of full operations in year 2003. The occupancy level of Arraya is expected to increase gradually from 85% in 2003 to 100% by the end of year 2005.

Arraya Tower expected to hit 100% occupancy level by end of 2005

While we do expect some economies of scale to be achieved from utilization of centralized services and overall savings resulting in stronger gross profit margin, we do not expect it immediately. A new project of the size of Arraya is expected to have initial teething problems and will need 1-2 years to stabilize. The gross profit margin of Salhia has stayed in the range of 75-76% over the past years and we estimate gross profit margin to stay in this range over the forecast period. Similarly no immediate savings are expected at EBIDT or EBIT levels either and our estimates maintain the present earnings level with the expectation that Arraya project will be depreciated over a period of 32-33 years beginning 2003. The interest expense on the Arraya financing will have an impact from year 2003 and the principal repayment is expected to begin from 2004.

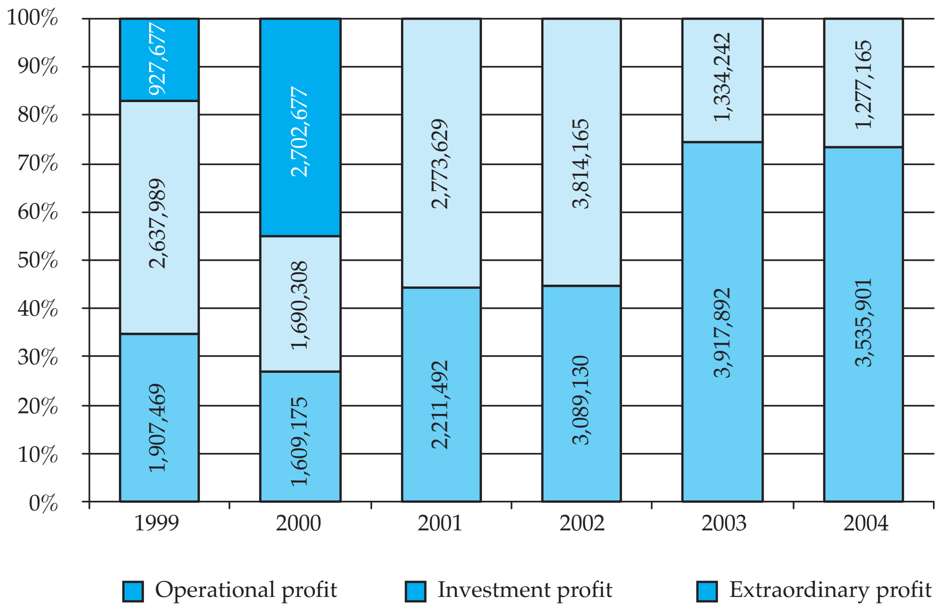
We estimate the gross profit margin of Salhia to stay in the 75-76% range over the forecast period

In our net profit analysis, we expect a gradual decline in the proportion of investment income and expect better operational profit (total operating profit - KFAS contribution - BoD remuneration) margin for Salhia. The investment income is expected to visit two peaks in year 2002 and 2003 resulting from the disposal of Thornhill project and Haddia Holdings respectively. We expect that Thornhill investment will realize an IRR of about 18% in 2001 and in 2002 Haddia Holdings disposal will bring home an amount of KD2-2.5mn. These disposals will help fund the capital expenditure on hand in the Arraya project. The extraordinary income avenue, an outcome of Law 41 of 1993 loan repayment discounts, is expected to extinguish in 2001. In year 2000, an additional KD2.1mn is expected as extraordinary income from the decision on pending claims.

From year 2003, we expect a decline in non-operating profit from investments & extraordinary items

We estimate disposal of Thornhill project & Haddia Holdings in year 2001 and 2002

Figure 10: Net profit break down into operational & non-operational profit



In the year 1999, about 50% of the investment income is derived from write back of investment provision and another 14% from foreign exchange translation adjustment. With such extraordinary sources exhausted in year 2001 and continuing financing charges, the net profit is likely to see a yoy decline of approximately 17% in the year. In year 2001 and 2002, the disposal of investment assets abroad is likely to boost the investment income. Further from year 2003 and onwards, we expect that rental & hotel operations will emerge as strong income avenues to provide for stable & quality earnings and repayment of debt. In addition, the investment income is expected to play a subdued role in the future profitability of Salhia due to our assumption of sale of investments to part finance the principal repayment & capital expenditure.

From year 2003 onwards, rental & hotel operations are expected to emerge as strong income avenues to provide stable & quality earnings

In estimating the financing charges, we have estimated 7.5% annual rate of interest on existing loans and 8.5% on new long-term borrowings. For a company of Salhia's standing and added security of lien over the assets of the company, we expect that this level of cost of borrowing is reasonable for the company. Financing charges during construction phase of Arraya are estimated to be capitalized.

Changes in accounting policies in 1999 have resulted in retrospective impact of increase of KD4.3mn in retained earnings

Changes in accounting policies effected in year 1999 have resulted in a retrospective impact of KD4.3mn in retained earnings. The company will now not treat current year dividend as a liability. Rather the actual dividend payment expected to be made in the financial year will be shown as deduction in the P&L appropriation account. We have maintained the same policy in our forecast.

While EBIT & operating profit is expected to demonstrate improvement,...

...net profit is expected to fluctuate due to investment income and impact of financing charges

In our overall analysis, we expect Salhia earnings to be underpinned by interest expenses before being airlifted in year 2004 after the stabilization & high occupancy level in Arraya Tower. EBIT & operating profit are expected to post continuous improvement. However, from KD6.0mn net profit expected in 2000, the earnings are expected to decline to KD5.0mn and rise again to KD6.9mn in 2001 & 2002 respectively, buoyed by the investment income. From year 2003, we expect operational profits to take the driver's seat in Salhia operations with net profit level of KD5.3mn in 2003 and KD4.8mn in 2004. The net profit expectations can be improved by structuring the debt and disposal of investments to serve the long-term objectives of the company. In our profitability forecast, we estimate average financial charges of KD2.7mn approximately each year for Salhia over the next five years.

Gross real estate assets of Salhia likely to grow @6.3% each year over 2000-2004

Gross real estate assets of Salhia are expected to increase at an annual rate of 6.3% from 1999 to 2004 and we expect EBIDT to gross real estate assets return in the range of 6.5-7.5% and EBIT to net real estate assets return in the range of 6-6.5%. Both levels are expected to increase sharply with the completion of construction and stabilization of income from the Arraya Tower.

Total debt ratio expected to decline gradually, keeping in the vicinity of 40%

With lower expected dividend pay out ratio, the total debt ratio is set to decline from 46% in 1999 to 43% in 2000 and 38% in 2002 before increasing to 42% in 2003 as Arraya takes complete shape in 2003. From this point onwards factors like expected improvement in gross margin, repayment of loans resulting in lower debt and thus lower financial charges are expected to lead to improvement of the profitability of Salhia at all levels from year 2004 and beyond.

Over 2000-2004, we estimate Salhia to register an average ROAE of 8.5%, among the best in local real estate sector

Due to smaller equity, strong investment income & high extraordinary income in year 1996 & 1997, the return on average equity (ROAE) was placed high at 39% and 33% respectively. With the sharp decline in the investment income, almost 10% reduction in income from rentals and expansion in equity, the ROAE was drastically reduced to 2.5% in 1998 that further improved to 10.5% in 1999. However with no abnormal investment income except those expected from disposal of Thornhill & Haddia, high interest burden and steady operational income, the ROAE is likely to remain subdued in the forecast period, registering an average of 8.5% over the forecast period. At this level of expected ROAE, we view Salhia among the strong, stable & profitable real estate companies in Kuwait. Besides, with this level of ROAE, the company compares well with similar real estate companies in the developed part of Europe.

Valuation

For the valuation of Salhia, we have approached the valuation from an entity perspective using the discounted cash flow model. While this is the principal approach to our valuation, we have also attempted to contrast this valuation against those generated from "asset valuation approach" and "comparative multiple approach".

DCF Analysis:

In essence, the value of operations equals the discounted value of estimated free cash flow for the future. Free cash flow is equivalent to the after-tax operating earnings of the company, plus non-cash charges, less investment in operating working capital, property, plant and equipment, and other assets. One must remember that it does not include any financing related cash flow such as interest expense or dividends. As a result, we arrive at the operating free cash flow and use it to value the operations of the entity. The operating free cash flow reflects the cash flow that is generated by a company's operations and is available to all the company's capital providers, both debt and equity.

Operating free cash flow, which reflects cash flow generated from company's operations, available to all the company's capital providers...

To arrive at the equity value, we add the value of non-operating investments expected at year-end and less the market value of debt as on the valuation date, which in this case happens to be the balance sheet date. The value of the company's debt equals the present value of the cash flow to the debt holders, discounted at a rate that reflects the riskiness of that flow. The discount rate used should equal the current market rate on similar-risk debt with comparable terms. Usually, only the company's debt outstanding on the valuation date is valued. Future borrowings can be assumed to have zero net present value, because the cash inflows from these borrowings will exactly equal the present value of the future repayments, discounted at the opportunity cost of the debt. To maintain consistency with the definition of the cash flow, the discount rate applied to the free cash flow should reflect the opportunity cost to all capital providers weighted by their relative contribution to the company's total capital. This is known as the weighted average cost of capital (WACC). Cost of capital is calculated based on the Capital Asset Pricing Model. The components are tabulated below.

...is discounted using the weighted average cost of capital to arrive at entity value

Adjustments regarding non-operating investment & debt return equity value of the firm

Figure 11: Cost of capital based on CAPM

Year	2000e	2001e	2002e	2003e	2004e
Risk free rate	6.75%	6.75%	6.75%	6.75%	6.75%
Beta	0.85	0.85	0.85	0.85	0.85
Expected market rate	11.70%	11.70%	11.70%	11.70%	11.70%
Cost of capital	10.96%	10.96%	10.96%	10.96%	10.96%

Expected market rate is based on the geometric mean of the annual return on the Global Real Estate Index for the period 1993-1999 and Beta is based on actual data during the same period. To arrive at the weighted average cost of capital, the cost of the individual component is weighted by its proportion in the total capital provided.

Figure 12: Calculation of Weighted Average Cost of Capital (WACC)

Year	2000e	2001e	2002e	2003e	2004e
Debt (KD mn)	40.3	38.1	33.8	43.9	39.7
Equity (KD mn)	61.2	63.9	68.3	71.2	73.7
Debt %	39.7%	37.4%	33.1%	38.1%	35.0%
Equity %	60.3%	62.6%	66.9%	61.9%	65.0%
Cost of capital	11%	11%	11%	11%	11%
Cost of debt	8%	8%	8%	8%	8%
WACC	9.8%	9.8%	10.0%	9.8%	9.9%

3% terminal growth rate used

Using this weighted average cost of capital, we value the operations of the company. The terminal value assumes a perpetual growth rate of 3%, in line with inflation.

Figure 13: Valuation

Amount in KD '000	**2000e**	**2001e**	**2002e**	**2003e**	**2004e**
EBITDA*	6,221	6,519	6,756	8,751	9,320
Payment to KFAS & BoD	(171)	(151)	(190)	(156)	(147)
Gross cash flow	6,050	6,368	6,566	8,595	9,173
Changes in working capital	838	248	567	(1,321)	(371)
Capital expenditure	(4,793)	(7,028)	(12,350)	(6,041)	(536)
Gross investment	(3,956)	(6,780)	(11,783)	(7,362)	(907)
Operating free cash flow	2,094	(412)	(5,217)	1,233	8,266
Terminal value					103,879
PV of free cash flow	1,908	(375)	(4,744)	1,123	7,520
PV of terminal value					94,502
Value of operations	**99,933**				
1999a non-operating investments	27,776				
Total Entity Value	**127,710**				
Less: 1999a value of debt	43,775				
Equity Value	**83,935**				
# of outstanding shares ('000)	238,413				
Equity value per share	**352fils**				

EBITDA = Earnings before interest, taxes, depreciation & amortization. Does not include investment related income.

DCF value of Salhia at 352fils per share

Valued at 352fils per share, the present market price offers a discount of 13.0% and this valuation converts into P/E multiple of 14.0x for 2000e EPS.

Comparative Multiples:

The companies in the real estate sector listed on the Kuwait Stock Exchange number to 13. A comparative analysis of these companies is provided in the table that follows. A quick overview of the table suggests that Salhia is among the reasonably priced stock in the sector with relatively handsome EPS. Salhia commands the second largest share in terms of market capitalization with just 42% in outstanding stock as compared to Kuwait Real Estate Co. - the dominant shareholder in the real estate sector market capitalization.

Approach compares profitability indicators and price/earning & price/book multiples

Figure 14: Comparative indicators of listed real estate companies in Kuwait

	# of shares o/s ('000)	Book Value in Fils	EPS in Fils	Price in Fils	P/BV	P/E	ROE	Market Cap KD Mn	Market Cap %
Kuwait Real Estate Co.	570,932	158	24.3	170	1.08	7.0	11.6%	97.1	20.9%
The United Realty Co.	471,230	140	0.5	104	0.74	208.0	0.3%	48.8	10.5%
National Real Estate Co.	444,190	141	0.6	128	0.91	213.3	0.3%	55.3	11.9%
Salhia Real Estate Co.*	238,413	239	23.0	305	1.28	13.3	9.6%	72.7	15.7%
Pearl of Kuwait	400,000	71	5.8	59	0.83	10.2	6.1%	22.9	4.9%
Tamdeen Real Estate Co.	251,690	139	4.2	104	0.75	24.8	2.3%	26.2	5.6%
Int'l Inv. Projects Co.	600,000	83	(8.5)	58	0.70	na	-7.6%	34.8	7.5%
Ajial Real Estate Co.	70,000	169	2.9	95	0.56	32.8	1.3%	6.7	1.4%
Al-Masaleh Real Estate Co.*	120,000	196	4.4	146	0.75	33.2	2.3%	16.5	3.5%
Arab Real Estate Co.	154,970	89	(45.3)	59	0.66	na	-38%	4.5	1.0%
Union Real Estate Co.	150,000	164	13.9	110	0.67	7.9	6.4%	16.5	3.6%
Al-Enmaa Real Estate Co.*	300,000	113	2.2	114	1.01	51.8	1.9%	34.2	7.4%
Kuwait Bldg. & Cons. Co.*	300,000	120	7.7	95	0.79	12.3	6.4%	28.5	6.1%
Average					**0.83**	**55.9**			
Total								**464.5**	

** indicates December 1999 figures. Rest all are September 1999 figures EPS annualized, BV actual & ROE = EPS/BV.*

It can be observed that three companies have book value below par value and all the companies except Salhia Real Estate Co. and Al-Enmaa Real Estate Co. trade below their declared book value. Barring Kuwait Real Estate Co. and Salhia Real Estate Co., the return on equity is below the long-term bank rate on deposits or government securities. Using comparative multiple approach for Salhia valuation may thus be only a mathematical exercise leading to redundant and misleading results.

Sector P/E of 56x and P/BV of 0.8x rules out the application of this approach to Salhia

From an in-depth analysis of the asset portfolio, future projects, vision, management profile, invested assets, etc., we view only Salhia Real Estate Co. and a couple

Positive medium-term outlook for Salhia

of other real estate companies as performers in the Kuwaiti real estate sector. Upon completion of the Arraya project, the operating cash flow of the company is expected to zoom up, but until that time, the interest burden is likely to keep earnings depressed. In an overall perspective, we view Salhia Real Estate Co. along with a couple of other real estate companies to exhibit superior market performance in the medium-term outlook. For valuation purpose, we do not find the methodology appropriate for valuation of real estate companies.

Asset Valuation:

Salhia real estate assets portfolio in Kuwait valued at KD100mn - 418fils per share

The written down value of the real estate assets of Salhia is KD69.4mn and another KD1.1mn in capital work in progress. Reviewing each property individually based on location, floor area, income earned and market discount factor, the market value of Salhia real estate assets is estimated at KD99.7mn, which translates into gross asset value per share of 418fils.

Net asset value of Salhia estimated at 351fils per share

The gross asset value is extremely close to that arrived at by valuing the operations of the company by employing the entity DCF model. However, the company carries KD43.8mn as debt on its books as at the end of December 1999, which must be taken into consideration. On the other hand, the reported value of investments as at the end of December 1999 is KD27.8mn. Thus the net asset value of 351fils per share generated from the asset valuation approach converges with that arrived at by employing the entity DCF model.

For valuation purpose, we have refrained from speculating on the disposal value of Salhia investments, and taken them at reported book value as at end 1999

Before concluding on the valuation, it is important to bear in mind that the value of unquoted investments and the unconsolidated subsidiary are accounted at lower of cost or market value. This mainly refers to Thornhill & Haddia Holdings GmbH, which is being prepared for profitable disposal in the future. Adjusting the value of investments for gain from this sale may enhance the value of the entity, though we have refrained from speculating on the disposal value of Thornhill project & Haddia Holdings GmbH from the point of view of the valuation of Salhia Real Estate Co.

Amount in Kuwaiti Dinars in thousands unless stated otherwise	Salhia Real Estate Company KSCC									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Income Statement										
Income from real estate & hotel operations	9,333	9,368	10,507	9,057	9,221	9,652	10,024	10,313	13,571	14,563
Direct operating expenses	(2,192)	(2,306)	(2,387)	(2,236)	(2,262)	(2,398)	(2,478)	(2,528)	(3,298)	(3,565)
Gross profit	7,141	7,062	8,120	6,821	6,959	7,254	7,546	7,785	10,273	10,998
Income from subsidiaries	-	-	(64)	413	513	565	625	656	677	699
Administrative expenses	(1,083)	(1,140)	(1,179)	(1,053)	(1,172)	(1,159)	(1,198)	(1,222)	(1,594)	(1,723)
Other operating expenses	(401)	(422)	(437)	(422)	(401)	(440)	(454)	(463)	(605)	(654)
EBIDT	5,657	5,501	6,439	5,760	5,900	6,221	6,519	6,756	8,751	9,320
Depreciation & amortization	(1,689)	(1,633)	(1,742)	(1,374)	(1,387)	(1,393)	(1,403)	(1,434)	(2,299)	(2,305)
EBIT	3,968	3,868	4,698	4,385	4,513	4,829	5,116	5,322	6,452	7,016
Financing charges	(1,860)	(2,407)	(3,657)	(2,508)	(2,459)	(3,048)	(2,754)	(2,043)	(2,378)	(3,332)
Total operating profit	2,108	1,461	1,041	1,877	2,054	1,781	2,362	3,279	4,074	3,683
Net provisions	367	1,442	75	(2,666)	1,256	(113)	(119)	(125)	(131)	(137)
Add: Investment & interest income	1,390	3,384	8,848	1,485	987	1,778	2,867	3,914	1,440	1,389
Add: Other income	104	491	302	(318)	394	25	25	25	25	25
EBT	3,970	6,778	10,265	378	4,692	3,471	5,136	7,093	5,408	4,960
Minority interest	6	1	-	-	-	-	-	-	-	-
Extraordinary items	1,230	1,605	1,659	929	928	2,703	-	-	-	-
KFAS contribution	(234)	(377)	(537)	(33)	(101)	(123)	(103)	(142)	(108)	(99)
BoD remuneration	(27)	(36)	(45)	(36)	(45)	(48)	(48)	(48)	(48)	(48)
Net profit	**4,945**	**7,970**	**11,342**	**1,238**	**5,473**	**6,002**	**4,985**	**6,903**	**5,252**	**4,813**
Trfr to statutory reserve	(521)	(838)	(1,192)	(181)	(562)	(600)	(499)	(690)	(525)	(481)
Trfr to voluntary reserve	(521)	(838)	(1,192)	(181)	(562)	(600)	(499)	(690)	(525)	(481)
Trfr to general reserve	(1,250)	(1,750)	(1,250)	-	-	-	-	-	-	-
Cash dividend KD	(2,811)	(3,124)	(4,322)	(3,912)	(2,147)	(3,499)	(2,384)	(2,384)	(2,384)	(2,384)
Stock dividend KD	-	-	-	(2,167)	-	-	-	-	-	-
Retrospective impact of policy changes	-	-	-	4,322	-	-	-	-	-	-
Op bal of retained earnings	1,683	1,526	2,946	6,331	5,450	7,652	8,955	10,559	13,697	15,515
Cl bal of retained earnings	**1,526**	**2,946**	**6,331**	**5,450**	**7,652**	**8,955**	**10,559**	**13,697**	**15,515**	**16,981**

Amount in Kuwaiti Dinars in thousands unless stated otherwise	**Salhia Real Estate Company KSCC**									
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Balance Sheet										
Cash & bank balances	2,128	640	2,511	281	53	731	1,027	654	827	1,224
Receivables	1,102	1,102	1,610	970	991	1,118	1,208	1,243	1,553	1,612
Advances & prepaid expenses	264	67	53	97	107	118	119	132	146	161
Inventories	178	196	192	232	234	246	253	259	438	366
Current Assets	3,672	2,004	4,366	1,581	1,384	2,213	2,607	2,288	2,963	3,363
Investment in land	3,444	6,783	3,376	1,352	297	297	297	297	297	297
Investments	9,128	18,665	37,738	25,588	23,865	20,773	15,201	9,625	17,375	16,598
Joint venture investment	-	-	2,380	4,515	5,029	7,483	7,695	7,919	8,149	8,386
Unconsolidated subsidiary investment	-	-	3,057	3,327	3,614	3,906	4,221	-	-	-
Gross fixed assets (incl. cwip)	45,078	52,881	66,423	72,037	88,293	91,198	98,226	110,576	116,617	117,153
Accumulated depreciation	(12,499)	(13,711)	(15,083)	(16,447)	(17,775)	(19,167)	(20,570)	(22,005)	(24,304)	(26,608)
Net fixed assets	32,579	39,170	51,339	55,589	70,519	72,030	77,656	88,571	92,313	90,544
German real estate	21,704	20,054	-	-	-	-	-	-	-	-
Acc. depreciation (incl_translation_adj)	(811)	(1,124)	-	-	-	-	-	-	-	-
Net German real estate assets	20,893	18,929	-	-	-	-	-	-	-	-
TOTAL ASSETS	**69,716**	**85,551**	**102,258**	**91,952**	**104,708**	**106,703**	**107,677**	**108,700**	**121,098**	**119,189**
Due to banks	2,071	9,522	11,749	1,661	7,930	7,930	7,930	7,930	7,930	7,930
Payables	1,236	3,267	574	2,239	395	1,177	1,528	2,233	1,121	809
Advances, deposits & accrued expenses	845	1,092	955	914	651	887	911	857	1,187	1,166
Provisions	1,458	2,246	2,283	2,510	2,260	2,373	2,491	2,616	2,747	2,884
Provision for dividend	2,811	3,124	4,322	-	-	-	-	-	-	-
Short-term loans	3,589	4,512	10,937	11,635	15,976	17,202	14,778	6,666	11,933	11,711
Current Liabilities	12,012	23,762	30,819	18,960	27,211	29,569	27,639	20,302	24,918	24,501
Long-term loans	7,390	12,978	20,470	22,307	19,869	15,178	15,411	19,182	24,016	20,016
Government loans	13,250	8,866	5,146	3,064	-	-	-	-	-	-
Long-term loans for German realty	18,418	16,617	-	-	-	-	-	-	-	-
Employee indemnity	301	366	469	547	624	694	764	834	914	994
Minority interest	201	185	-	-	-	-	-	-	-	-
Share capital	15,619	15,619	23,773	23,841	23,841	23,841	23,841	23,841	23,841	23,841
Treasury stock	(3,596)	(3,596)	(8,027)	(8,347)	(1,754)	-	-	-	-	-
Reserves	4,595	7,808	25,437	26,131	27,265	28,465	29,462	30,843	31,894	32,856
Retained earnings	1,526	2,946	4,170	5,450	7,652	8,955	10,559	13,697	15,515	16,981
Shareholders' Equity	18,144	22,777	45,353	47,075	57,004	61,261	63,862	68,382	71,250	73,679
TOTAL LIABILITIES & EQUITY	**69,716**	**85,551**	**102,258**	**91,952**	**104,708**	**106,703**	**107,677**	**108,700**	**121,098**	**119,189**

Amount in Kuwaiti Dinars in thousands unless stated otherwise	Salhia Real Estate Company KSCC									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cash Flow Statement										
Profit before extraordinary items, KFAS payment and BoD remuneration	3,976	6,779	10,265	378	4,692	3,471	5,136	7,093	5,408	4,960
Adjustments:										
investment income	-	(3,324)	(8,662)	(1,458)	(982)	(1,763)	(2,852)	(3,899)	(1,425)	(1,374)
share in JV results	-	-	64	(413)	(513)	(565)	(625)	(656)	(677)	(699)
interest income	(143)	(59)	(185)	(28)	(6)	(15)	(15)	(15)	(15)	(15)
provision write back	(367)	(1,442)	(75)	-	(1,310)	-	-	-	-	-
forex translation (gain) loss	272	(213)	(216)	523	(362)	-	-	-	-	-
new provision created	-	-	-	2,666	165	113	119	125	131	137
financial charges	1,860	2,407	3,657	2,508	2,459	3,048	2,754	2,043	1,678	1,634
depreciation	1,689	1,633	1,742	1,374	1,387	1,393	1,403	1,434	2,299	2,305
(gain) loss on disposal of fixed assets	(60)	(19)	0	(2)	17	-	-	-	-	-
minority interest	14	(16)	(185)	-	-	-	-	-	-	-
employee terminal benefits	65	133	122	114	108	100	100	100	116	116
Operating profit before changes in operating assets & liabilities	7,306	5,876	6,527	5,662	5,655	5,781	6,019	6,225	7,516	7,064
increase in inventories	(18)	(17)	4	(40)	(2)	(12)	(7)	(7)	(178)	71
(inc) dec in a/r & prepayments	61	87	(908)	596	(143)	(139)	(91)	(47)	(324)	(74)
(dec) inc in a/p and accruals	(200)	1,814	(3,117)	1,996	(2,105)	1,019	375	651	(782)	(333)
payment of employee terminal benefits	(11)	(69)	(19)	(36)	(30)	(30)	(30)	(30)	(36)	(36)
Cash from operations	7,138	7,691	2,487	8,178	3,374	6,619	6,267	6,791	6,195	6,692
interest received	143	59	185	28	2	15	15	15	15	15
financial charges paid	(1,860)	(2,407)	(3,657)	(2,510)	(2,462)	(3,048)	(2,754)	(2,043)	(1,678)	(1,634)
KFAS payment	-	(328)	(612)	-	(569)	(123)	(103)	(142)	(108)	(99)
BoD remuneration	-	-	(36)	(45)	(36)	(48)	(48)	(48)	(48)	(48)
Net cash from operating activities	5,422	5,016	(1,632)	5,651	310	3,414	3,378	4,574	4,375	4,926
Purchase of investments	(10,611)	(20,315)	(59,321)	(13,578)	(23,047)	3,092	5,572	5,576	(7,750)	777
Proceeds from sale of investments	-	13,782	47,075	27,932	19,259	-	-	-	-	-
Dividends received	-	-	885	955	519	2,329	3,477	4,555	2,102	2,074
Purchase of real estate & fixed assets	(2,772)	(7,857)	(13,557)	(5,625)	(9,284)	(2,904)	(7,028)	(12,350)	(6,041)	(536)
Proceeds from disposal of real estate	162	41	15	3	1,322	-	-	-	-	-
Investment in unconsolidated subsidiaries	-	-	(1,114)	(269)	(288)	(291)	(315)	4,221	-	-
Equity advance to joint venture	-	-	(2,445)	(1,722)	-	(2,454)	(212)	(223)	(230)	(238)
Net cash from investing activities	(13,221)	(14,350)	(28,461)	7,696	(11,519)	(230)	1,493	1,779	(11,920)	2,077
Inc (dec) in short-term loans	6,731	4,070	4,291	(1,753)	(1,487)	3,929	(2,424)	(8,113)	5,268	(222)
Inc (dec) in long-term loans	655	(879)	8,410	2,975	1,750	(4,691)	233	3,771	4,834	(4,000)
Inc in share capital & share premium a/c	-	-	20,203	309	-	-	-	-	-	-
Sale (purchase) of treasury shares	-	-	-	(235)	5,630	1,754	-	-	-	-
Dividend paid	(2,425)	(2,795)	(3,166)	(4,312)	(1,182)	(3,499)	(2,384)	(2,384)	(2,384)	(2,384)
Net cash from financing activities	4,961	395	29,738	(3,015)	4,711	(2,506)	(4,575)	(6,726)	7,718	(6,606)
Inc (dec) in cash & cash equivalents	(2,839)	(8,939)	(355)	10,331	(6,498)	678	296	(374)	173	397
Op cash & cash equivalents	2,895	56	(8,882)	(11,711)	(1,380)	(7,878)	(7,200)	(6,903)	(7,277)	(7,104)
Cl cash & cash equivalents	56	(8,882)	(9,238)	(1,380)	(7,878)	(7,200)	(6,903)	(7,277)	(7,104)	(6,706)
Due to banks	2,071	9,522	11,749	1,661	7,930	7,930	7,930	7,930	7,930	7,930
Bank balances & cash	2,128	640	2,511	281	53	731	1,027	654	827	1,224

Amount in Kuwaiti Dinars in thousands	**Salhia Real Estate Company KSCC**									
unless stated otherwise	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Ratios										
Number of shares outstanding in million	156.191	156.191	237.733	238.412	238.412	238.412	238.412	238.412	238.412	238.412
Book value per share in fils	116.17	145.83	190.77	197.45	239.10	256.96	267.87	286.82	298.85	309.04
EPS in fils	31.66	51.03	47.71	5.19	22.96	25.18	20.91	28.96	22.03	20.19
CEPS in fils	42.48	61.48	55.04	10.96	28.77	31.02	26.79	34.97	31.67	29.86
Price per share in fils	350.00	465.00	710.00	475.00	330.00	305.00	305.00	305.00	305.00	305.00
P/E multiple	11.05	9.11	14.88	91.44	14.37	12.11	14.59	10.53	13.85	15.11
P/BV multiple	3.01	3.19	3.72	2.41	1.38	1.19	1.14	1.06	1.02	0.99
Return on average equity	na	39.0%	33.3%	2.7%	10.5%	10.2%	8.0%	10.4%	7.5%	6.6%
Return on average assets	na	10.3%	12.1%	1.3%	5.6%	5.7%	4.7%	6.4%	4.6%	4.0%
Gross profit margin	76.5%	75.4%	77.3%	75.3%	75.5%	75.2%	75.3%	75.5%	75.7%	75.5%
EBIDT margin	60.6%	58.7%	61.3%	63.6%	64.0%	64.5%	65.0%	65.5%	64.5%	64.0%
EBIT margin	42.5%	41.3%	44.7%	48.4%	48.9%	50.0%	51.0%	51.6%	47.5%	48.2%
Net profit margin	53.0%	85.1%	108.0%	13.7%	59.4%	62.2%	49.7%	66.9%	38.7%	33.1%
Operational profit margin	19.9%	11.2%	4.4%	20.0%	20.7%	16.7%	22.1%	30.0%	28.9%	24.3%
Net profit analysis	4,945	7,970	11,342	1,238	5,473	6,002	4,985	6,903	5,252	4,813
Operational profit	1,853	1,049	459	1,809	1,907	1,609	2,211	3,089	3,918	3,536
% share in net profit	37.5%	13.2%	4.0%	146.0%	34.9%	26.8%	44.4%	44.7%	74.6%	73.5%
Investment income	1,862	5,317	9,225	(1,499)	2,638	1,690	2,774	3,814	1,334	1,277
% share in net profit	37.6%	66.7%	81.3%	-121.0%	48.2%	28.2%	55.6%	55.3%	25.4%	26.5%
Extraordinary income	1,230	1,605	1,659	929	928	2,703	-	-	-	-
% share in net profit	24.9%	20.1%	14.6%	75.0%	16.9%	45.0%	0.0%	0.0%	0.0%	0.0%
Gross real estate assets	39,121	49,534	65,280	72,263	88,413	93,830	101,051	113,312	119,278	120,086
Net real estate assets	27,983	37,464	52,380	58,062	73,191	77,524	83,655	94,816	98,852	97,724
EBIDT to gross real estate assets	14.5%	11.1%	9.9%	8.0%	6.7%	6.6%	6.5%	6.0%	7.3%	7.8%
EBIT to net real estate assets	14.2%	10.3%	9.0%	7.6%	6.2%	6.2%	6.1%	5.6%	6.5%	7.2%
Interest coverage	2.13	1.61	1.28	1.75	1.83	1.58	1.86	2.61	2.71	2.11
Current ratio	4.40	4.10	9.19	2.84	6.94	4.47	2.80	1.38	3.23	3.28
Total borrowings	44,719	52,494	48,302	38,667	43,775	40,310	38,120	33,778	43,880	39,658
Bank borrowings	2,071	9,522	11,749	1,661	7,930	7,930	7,930	7,930	7,930	7,930
Short-term debt	3,589	4,512	10,937	11,635	15,976	17,202	14,778	6,666	11,933	11,711
Long-term debt	39,058	38,461	25,616	25,371	19,869	15,178	15,411	19,182	24,016	20,016
Equity	18,144	22,777	45,353	47,075	57,004	61,261	63,862	68,382	71,250	73,679
Total debt to equity	246.5%	230.5%	106.5%	82.1%	76.8%	65.8%	59.7%	49.4%	61.6%	53.8%
Long-term debt to equity	215.3%	168.9%	56.5%	53.9%	34.9%	24.8%	24.1%	28.1%	33.7%	27.2%
Total liabilities to equity	384.2%	375.6%	225.5%	195.3%	183.7%	174.2%	168.6%	159.0%	170.0%	161.8%
Total debt ratio	74.0%	73.4%	55.6%	48.8%	45.6%	42.6%	40.7%	37.1%	41.2%	38.2%
Dididend %	18.0%	20.0%	20.0%	10.0%	15.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Dividend KD	2,811	3,124	4,322	2,384	3,499	2,384	2,384	2,384	2,384	2,384
Dividend payout ratio	56.8%	39.2%	38.1%	192.5%	63.9%	39.7%	47.8%	34.5%	45.4%	49.5%

GLOBAL

Global Investment House (K.S.C.C.)
Souk Al-Safat Bldg; 2nd Floor, P.O.Box: 28807 Safat, 13149 Kuwait
Tel: (965) 2400551 Fax: (965) 2400661 Faxback: 246-0918 / 9
(www.globalinv.net)