KAMCO Research

June 2007

Salhia Real Estate Co.
Equity Research Report

KAMCO كامكو

إدارة الأصول
خدمات مالية

Asset Management
Financial Services

KAMCO Recommendation Scale:

- ***Strong Buy***
- ***Buy***
- ***Hold***
- ***Sell***

Our Recommendation Indicates:

Strong Buy: the stock is undervalued by more than 15% of our Estimated Fair Value.
Buy: the stock is undervalued within the range of 5-15% below our Estimated Fair Value.
Hold: the stock is fairly valued in the market and has a potential to appreciate up to 5%.
Sell: the stock is currently overvalued relative to our Estimated Fair Value.

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Salhia Real Estate Co.

June 2007

Kuwait — **Reuters Code: SREK.KW**

Real Estate Sector — **Current Price: KD 0.490**

Recommendation: Strong BUY — **Fair Value: KD 0.657**

Key Financial Facts *(KD '000)* / **Key Ratios** *(%)*

	2005	2006		2005	2006
Total Assets	101,965	134,110	**Return on Assets**	**8.08**	**20.22**
Inv. Properties	64,159	51,812	**Return on Equity**	**17.21**	**36.56**
Total Debt	103,388	86,801	**Return on Capital**	**8.54**	**22.19**
Total Equity	101,965	134,110	Avg. Cost of Debt	6.74	9.30
Property Revenues	33,778	36,503	Net Profit Margin	51.94	134.32
Net Profits	17,543	49,031	Total Debt/Total Equity	101.40	64.72

Share Data 23/05/07

Current Price *(KD)*	0.490	Fair Market Value/Share *(KD)*	0.657
Shares Issued *(000)*	362,163	Market Cap. *(KD million)*	177.46
52-Week High *(KD)*	0.740	52-Week Low *(KD)*	0.470
Turnover 52-Week *(%)*	8.72	P/E (06) Multiple *(X)*	3.62

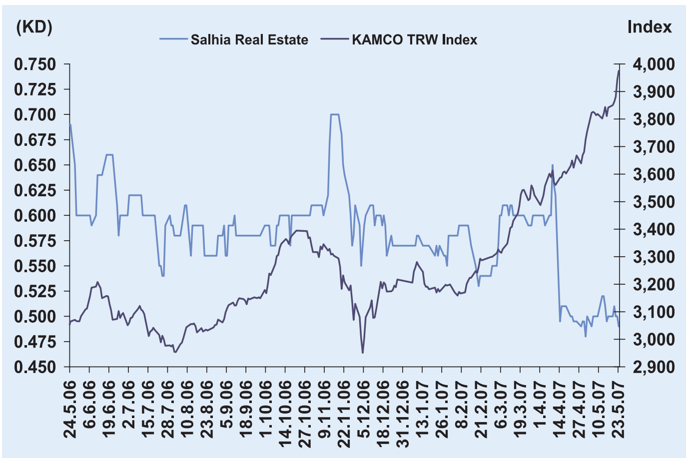
Highlights

- **Total property revenues in 2006 reported a year-over-year growth of 8.07%, supported by momentum growth across the Company s core local and foreign retail operating portfolios**
- **Salhia realized a substantial gain of 49.06 million on the sale of a real estate asset in 2006, compared to a gain of KD 4.91 million in 2005**
- **Net profits for 2006 recorded KD 49.03 million, 2.8 times that reported for 2005 of KD 17.54 million**

Valuation Snapshot

Our DCF model indicated a value of KD 0.631 per share while the PE and P/B multiples for the local real estate sector indicated a value of KD 0.793 and KD 0.645 respectively.

We used a weighted average of the above valuation models, giving a 70% weight to the DCF method, and 15% to each of the P/E and P/B methods to arrive at an estimated fair value of Salhia stock of KD 0.657. Salhia is now trading at a 25.43% discount to our estimated fair value, indicating a Strong Buy following KAMCO's recommendation scale.



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Report Highlights

Salhia is one of Kuwait's leading retail real estate owners and developers. Since its inception in 1974, the Company has grown away from the local market and established close relationships and partnerships with premier European real estate retailers. Salhia's local property portfolio is concentrated in Kuwait's central business district, while its international portfolio spans UK and Germany. Salhia's UK operations is effected through its Joint venture entity, *KPI*, while its German operations, which primarily deal with nursing homes and residences for the elderly, is provided through its German subsidiary, *Haddia Holding*.

Salhia is one of the leading real estate owners and developers...

...The Company's property portfolio spans Kuwait, UK, and Germany

Salhia is known for its ability to create unique, quality destinations and for its exceptional track record of maintaining 100% occupancy rate throughout its local property portfolio. The Company places considerable emphasis on the quality of its tenants and on building longstanding relationships with them. Currently, the Company has a couple of local high profile, development projects in the pipeline and a number of similar projects in the UK market as part of its joint venture agreement. Through KPI, Salhia has interest in a large number of UK-based properties that span key areas. The majority of these foreign properties are located in supply constrained markets which, when combined with strong demand, represent significant value adding potential in terms of value appreciation. Given current market conditions in the local and European markets coupled with Salhia's proven track record in property development and operation, returns on the Company's local and foreign real estate operations are expected to maintain their momentum in the short to medium term.

Through KPI, Salhia has interest in a number of UK-based properties in key areas

In 2006, Salhia's net profits surged to an all time high of KD 49.03 million, compared to KD 17.53 million in 2005, backed by a substantial gain of around KD 49.06 million realized on the sale of a real estate asset to a recently established associated company in relation to Al-Assima Project. Total property revenues for the year continued their upward trend to reach a high of KD 36.50 million, up 8.07% from that of 2005, supported by continued improvements across Salhia's core real estate, hotel and care home operations.

In 2006, net profits surged to an all time high...

...Property revenues maintained their momentum growth

Supported by renewed momentum growth in UK rental prices, especially in the office segment, share in profits of KPI managed to overcome the relative decline witnessed in 2005 and showed a year-over-year gain of 11.34% in 2006 to reach KD 1.67 million, representing 3.40% of total net profits for the year.

Share in profits of associated company grew by 11% in 2006

Weighed down by the relatively negative performance of the local equity market in 2006, especially following the sharp correction witnessed during the month of March of last year, investment income dropped from KD 11.47 million in 2005 to KD 885 thousand in 2006.

Going forward, Salhia seems to be in an attractive position to further grow its core and non-core income base. Given the substantial increase in liquidity associated with the sale of a real estate asset, Salhia seems to be focusing on pushing down its rising financing by partially repaying some of its outstanding debt. The Company is also considering alternative uses for some of its property holdings in the UK and stands ready to undertake further high profile development projects. Such opportunities present attractive growth opportunities for Salhia if the current real estate market conditions in the UK continue to be favorable. With regards to its German operations, current statistics estimate an increasing demand for nursing home care services and as such there are further opportunities for Salhia to continue to grow its care home revenues.

...attractive growth opportunities exist in the short to medium term

For purposes of valuation, we projected Salhia's net income for the period between 2007 and 2011 taking into consideration the overall economic situation and local and foreign real estate market conditions. We also examined all relevant potential revenue sources that are expected to be utilized when the current development projects in the pipeline becomes operational. In addition, we reassessed Salhia's investment portfolio and made conservative investment return forecasts. In an attempt to project a fair value for Salhia stock, we followed 2 valuation approaches, DCF and Relative Valuation. The DCF method estimated Salhia's fair value per share at KD 0.631, while the Relative Valuation methods, which used the local real estate sector's average P/E and P/B multiples, forecasted fair values per share of KD 0.793 and KD 0.645 respectively. A weighted average of the aforementioned methods resulted in a fair value per share of Salhia stock of KD 0.657.

...DCF value of KD 0.631

...P/E and P/B yield methods projected KD 0.793 and KD 0.645 respectively

Company Profile

Salhia Real Estate Co. (Salhia) is one of the leading real estate companies in Kuwait specialized in construction, acquisition, ownership, management, development, redevelopment, and leasing of retail properties, including high-end community shopping centers, commercial complexes, car parks, hotel accommodations, and mixed-use properties with retail components. The Company has more than 32 years of experience in the local and European real estate markets. It was established in 1974 and its shares were floated on the Kuwait Stock Exchange in September 1984.

Salhia is one of the leading real estate companies in Kuwait with more than 32 years of experience

Salhia operates in four primary geographic locations Kuwait, Bahrain, United Kingdom and Germany and through three major business areas, Real Estate Operations, Hotel Operations, and Care Home Operations :

Salhia operates in 4 geographic locations and through 3 major business areas

A - Local Portfolio: Included 3 wholly owned retail operating properties totaling approximately 70,790 square meters of net rentable area and 3 retail development properties that aggregate a spread of more than 62,181.5 square meters of land, located primarily in Kuwait's Central Business District,

B - United Kingdom : 29 partially and wholly owned U.K.-based mixed-use and retail development properties, which are held through Salhia's unconsolidated joint venture with U.K.'s St. Modwen Properties, *Key Property Investments* (KPI), and the Company's affiliated U.K.-based 50% owned subsidiary, *Drawbridge Securities*, encompassing approximately 1.033 million square meter.

C - Germany: 1,580 Germany-based condominium residential units, nursing homes for Senior citizens, which are owned through Salhia's subsidiary, *Haddia Holding Gmbh*.

Salhia's local retail operating portfolio was 100% leased as of 31 December 2006, in line with the portfolio's historical occupancy rate. The Company's local retail operating portfolio consists of:

Salhia's local retail portfolio is 100% leased

Salhia Commercial Complex: Represents the oldest and most prestigious commercial complex in Kuwait. The Complex was developed by Salhia and was established in 1978. The Complex includes around 16,698 square meters of store space that is leased to a diversified, prestigious tenant base with world renowned brands and products. It also includes around 25,500 square meters of rentable office space that are leased to major, high profile commercial corporations and government agencies. The Complex is associated with a 2-Basements floor indoor car park and outdoor parking garages that accommodate over 450 cars that was developed by Salhia and that give access not only to Salhia Commercial Complex but also to the Company's *Sahab Tower*. Salhia Complex also incorporates a five-star 300 room hotel, operated by JW Marriott Hotel.

...Salhia Commercial Complex was established in 1978

Sahab Tower: Established in 1997 and developed by Salhia. The Tower encompasses a total of 11,739 square meter of rentable space, around two thirds of which are dedicated to office use and are leased to major local and international firms. The remaining 1,244 square meters are designated for commercial activities and that are leased to major brand anchor stores.

Sahab Tower was established in 1997 and encompasses 11.74 thousand squared meters of rentable space

Arraya Commercial Center: established in 2004 and developed by Salhia. It includes a 10,904 square meters of commercial rentable space encompassing a 3-floor premium mall with a diversified store base providing luxurious, high quality brands and products, and a four star hotel. It also includes a 5,950 square meter of high quality, IT-based office space that is leased to international and local firms. Arraya Commercial Center is also associated with a 1,366 squared meters, six floor outdoor parking garage, developed by Salhia that can accommodate 1,400 cars. It is important to note that with regard to proprietary hotel operation and management, Salhia has outsourced these services to the international hotel chain, Marriott Hotels.

Arraya Commercial Center was established in 2004

As for the Company's local development properties, these comprise of the following:

Arraya Office Tower expected to be completed in 2008

Arraya Office Tower: Expected completion date during the last quarter of 2008. The tower is expected to be among Kuwait's tallest office buildings extending to a height of 60 floors, built on a spread of land of 1,058 squared meters and equipped with the latest information and communication technology.

Super Block Project is expected to be built on 13.5 thousand squared meter of land

Super Block Project: Actual construction work has not yet begun. The project is expected to be built on a spread of land estimated at 13,495.5 squared meters and would consist of two parts: a commercial tower dedicated for premium stores and office space and a multiple-floor, outdoor parking garage. The Company's Board of Directors publicized that it currently has no plans to begin developing this project in the short term.

Preparation works for Al-Assima Project are underway and completion date is expected to be in 2010

Al-Assima Project: A 40,152 squared meters project that is expected to host a wide range of commercial facilities including a premium, high profile commercial mall retail area of 78,407 square meters and a 3-floor indoor car park spanning the entire land of the project, cinemas, restaurants, cafes, four-star hotel apartments, and a 70-floor office tower with each floor spanning from 5.31 to 1.40 thousand squared meters of rentable space. Salhia has begun with the preparation works for the project and completion date is expected to be in 2010.

As for the Company's U.K. property investments, these comprise a range of income producing, development, and redevelopment opportunities including regional malls, offices, and industrial properties. It is important to note that a number of Salhia's industrial properties have recently been subject to a change of use which consents with the Company's current focus is on developing attractive warehouse distribution facilities in key markets throughout the UK.

Salhia has a couple of significant large-scale development projects in the U.K, and these include :

Elephant & Castle incorporates 30.7 thousand squared meters of land to be developed

Elephant & Castle: A 30.683 thousand squared meter of land in central London to be regenerated and developed into a multi-facet community center incorporating shopping malls, hotels as well as office and residential accommodations. The cost of the project is estimated at around GBP 3.3 billion (KD 1.5 billion). The project once the construction is approved will be phased across 10 years, starting in 2010. It is important to note that this project would be developed by Salhia's joint venture company, *KPI*.

Farnborough Town Center incorporates a 33.3 thousand squared meter of land to be developed

Farnborough Town Center: A 33.274 thousand squared meter of land to be developed into a leisure and retail scheme incorporating shopping centers, hotels, residential and leisure space. Project demolition has already started in May 2007. This project would also be developed by Salhia's joint venture company, *KPI*.

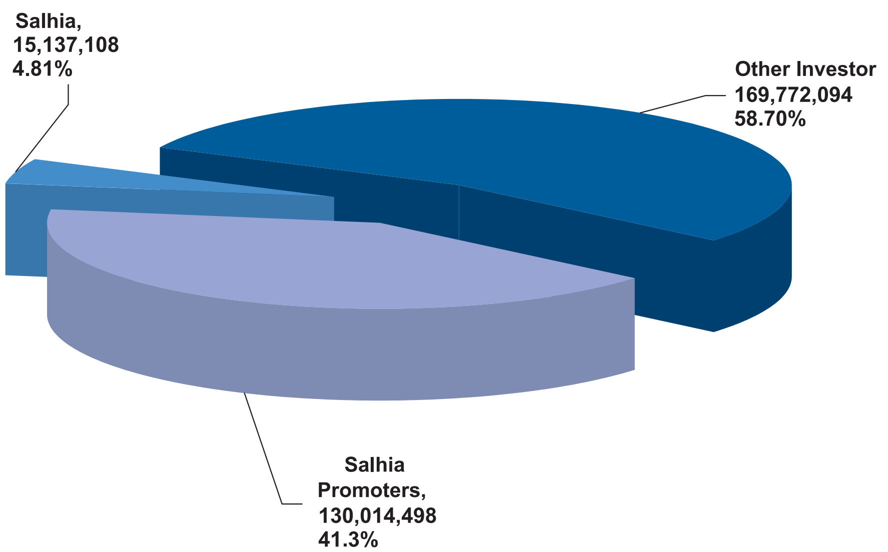
Southampton Office Building: A 4-storey office building held in joint venture between Salhia's subsidiary, *Drawbridge Securities*, and *Deeley Properties*. Expected completion date May 2007.

In addition, Salhia is currently in negotiations with U.K.'s major distribution developers and logistics operators to engage in joint ventures or sales of the Company's land options in Peterborough.

Major Shareholders

Salhia promoters control 41.30% of the Company's share capital. Salhia itself owns around 4.81% with the remaining 58.70% being held by a range of institutional and individual investors with five single investors holding more than 5.00% of Salhia share capital.

Chart 1. Salhia Shareholding Structure



Source: Salhia Management & KAMCO Research

Business Strategy

The Company's primary objective is to achieve sustainable long-term growth and maximize shareholder value primarily through the development, redevelopment, acquisition and management of well-located, high quality, retail property. Toward that end, Salhia is committed to the following strategies:

- *Concentrate on carefully selected local and foreign geographic markets with a demonstrated preference for high quality mixed use properties and other facilities*
- *Emphasize on submarkets within carefully selected markets where the diculty of receiving the necessary approvals for planning and development constitute barriers for supply, and where skill and diligence is required to successfully develop high quality commercial space*
- *Maintain a focused leasing strategy that targets 100% occupancy rate*
- *Take on complex, design projects by leveraging the skills and expertise of the Company's management team*
- *Concentrate on high-quality properties designed to meet the demands of businesses and individuals who require sophisticated infrastructure and support services*
- *Explore joint venture opportunities with leading local real estate companies and strategic institutional partners who seek to leverage Salhia's management skills and expertise as owners and developers of high quality, first class mixed use properties and the Company's access to capital*
- *Pursue on a selective basis the sale of proprietary properties, including core properties, to take advantage of full unrealized value of the created in the Company's core operating markets*

Profitability in 2006

Backed by a substantial one-time gain of around KD 49.06 million related to the KD 115 million sale of a real estate asset to the Company's associated company, *Al Assima Real Estate Co.*, net profits in 2006 reached an all time high of KD 49.03 million, 2.8 times that reported for 2005 of KD 17.54 million.

Net profits in 2006 surged to an all time high of KD 49.03 million

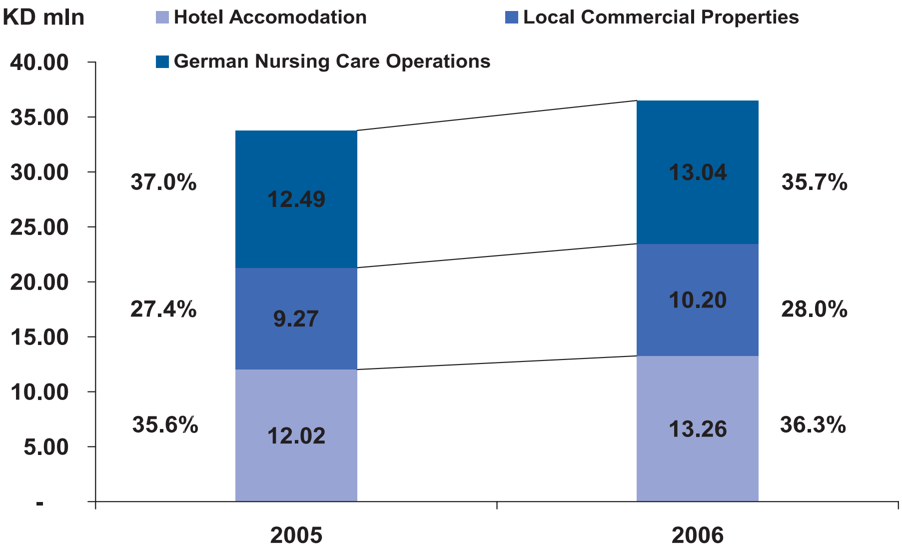
Total property revenues regained their momentum growth in 2006 with the account increasing by KD 2.73 million, or 8.07% compared to 2005 to reach KD 36.50 million, supported primarily by increased rental proceeds in the Company's core local and foreign retail operating portfolios. Hotel accommodation revenues, which primarily relate to Salhia's JW Marriott and Marriott Courtyard Hotels, showed a gain of KD 1.24 million or 10.35% in 2006 compared to 2005 on the back of higher occupancy rates and higher room revenue, especially in the JW Marriott brand. Total hotel-

...Property revenues regained momentum supported by advances across the different operating segments

related revenues for 2006 contributed to around 36.33% of total property revenues for the year.

Local commercial property revenues, which relate to Salhia's commercial complexes were up by KD 0.94 million or 10.09% in 2006 relative to 2005, backed by a double digit year-over-year growth of 34.14% in Sahab Tower related revenues, which in turn was primarily driven by an increase in the tower's average base rents. Revenues from Sahab Tower recorded KD 1.32 million in 2006 and represented around 12.94% of Salhia's total commercial property revenues.

Chart 2. Retail Property Revenue Decomposition & Contribution



Source: Salhia Financial Statements & KAMCO Research

Revenues from Salhia Commercial Complex and Arraya Commercial Center jumped by 6.89% and 7.90% in 2006 respectively compared to 2005 and recorded KD 5.63 million and KD 3.25 million, respectively contributing to 55.22% and 31.83% of the Company's total commercial property revenues.

Local revenues were up by 10.24% in 2006

In total, local revenues from hotel accommodations and commercial properties amounted to around KD 23.47 million in 2006, up 10.24% from 2005 and representing around 64.28% of Salhia's total property revenues for the year.

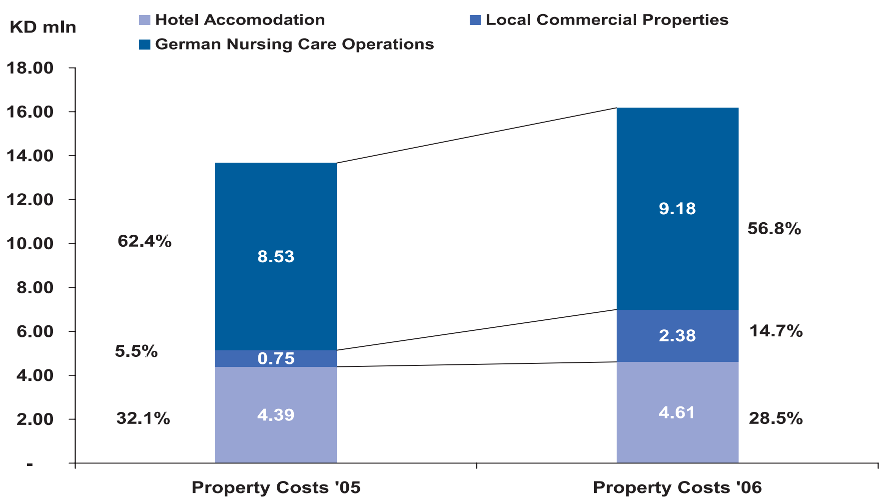
Revenues from care home operations maintained momentum growth

On the international front, the Company's foreign operating portfolio, which relate to Salhia's Germany-based Care Home operations, followed through past year's growth momentum, albeit at a much slower rate, with a year-over-year growth of 4.38% in 2006 and recorded KD 13.04 million, representing 35.72% of total property revenues.

Operating costs showed a gain of 18.28% in 2006...

Total property operating costs, which correspond to such costs as utilities, insurance, repairs and maintenance, rebounded from last year's drop and showed an increase of KD 2.51 million or 18.28% in 2006 compared to 2005 to reach KD 16.18 million. This increase was driven by a substantial increase in Salhia's operating costs corresponding to the increased level of sales in the Hotel operations, along with an increased staff and their associated labor costs in the nursing care operations in Germany.Retail commercial property costs more than tripled for the year to reach KD 2.38 million, up from KD 0.75 million in 2005 and contributing to around 14.74% of total property costs.

Chart 3. Retail Property Cost Decomposition & Contribution



Source: Salhia Financial Statements & KAMCO Research

Hotel and Care Home-related operating costs grew by 5.07% and 7.72% in 2006 compared to 2005 and recorded KD 4.61 million and KD 9.18 million, contributing to 28.49% and 56.77% of total property costs for the year.

Share in profits of associates, net of taxes, dropped by 13.06%

As part of the Company's 50% equity interest in the joint venture entity, *Key Properties Investments*, share in profits of unconsolidated joint venture entity, before tax, was up by 11.34% in 2006 compared to 2005 and recorded KD 1.67 million. However, after accounting for the effects of taxes, fluctuations in rent, and accounting provisions the share in joint venture's results showed a drop of 13.06% and recorded KD 789 thousand, down from KD 908 thousand in 2005.

G&A expenses inched up by 2.28%

General and administrative expenses inched up by 2.28% for the year and recorded KD 5.32 million, which was primarily the result of relatively higher salaries, benefits and related costs. As a result of a relatively minor change in the Company's net investments in real estates and fixed assets during 2006, depreciation expense remained relatively flat compared to 2005, edging up by 0.04% to KD 5.20 million. Sales and marketing expenses for the year dropped by more than half to reach around KD 987 thousand. In total, operating expenses during 2006 showed a drop of 8.23% relative to 2005 and recorded KD 11.51 million.

Investment income in 2006 showed a gain of KD 885 thousand

In line with the overall bearish tone in the local equity markets with the local KSE Price index dropping by 12.04% compared to a gain of 78.56% in 2005, Salhia's total realized investment income for the year showed a substantial 92.29% decline relative to 2005 and recorded a gain of around 885 thousand, down from 11.47 million in 2005. The decomposition of investment income in 2006 changed in favor of dividend income, with the latter account decreasing, from KD 1.03 million, equivalent to 9.00% of total investment income, in 2005 to KD 738 thousand, equivalent to 83.47% of total investment income, in 2006.

Table 1. Investment Income Decomposition

KD '000	2005	2006
Gain on Sale of Equity Investments	10,435	146
% of Total Investment Income	*91.0%*	*16.5%*
Dividend Income	1,032	738
% of Total Investment Income	*9.0%*	*83.4%*
Total Investment Income	**11,467**	**885**

Source: Salhia Financial Statements & KAMCO Research

During 2006, Salhia increased its exposure to foreign securities

It is important to note that during 2006, Salhia increased its exposure to less liquid foreign equity investments with the ratio of foreign equity holdings to total investment holdings increasing from around 35% in 2005 to slightly over 45% in 2006. Going forward, however, the Company intends to shift its investment policy toward more active and more liquid securities. Salhia already has a plan in place to gradually release some of the illiquid fund investments in favor of more liquid, higher yield, growth oriented equities.

During 2006, Salhia realized a gain of KD 49 million as part of a sale of a real estate asset to an associated company

During 2006, and following the increase in the share capital of Salhia's wholly owned subsidiary, Al Assima Real Estate Co, from KD 1 million to KD 80 million and the resulting drop in the Company's equity interest in the latter to 50%, Salhia sold a real estate asset to Al Assima Real Estate Co. with a carrying value of KD 16.53 million, resulting in a total gain of around KD 98.11 million, of which KD 49.06 million are Salhia's profit share. In 2005, gain on sale of investment properties amounted to around KD 4.91 million.

Interest and other income dropped by 2.22% in 2006 relative to 2005 as a result of a substantial 89.42% decline in foreign exchange gain that reached KD 30 thousand in 2006, compared to a gain of KD 286 thousand in 2005.

...interest expense was up in 2006 on the back of higher financing costs

Despite repayment of around KD 11.539 million worth of long-term loans and the substantial drop in the value of bank overdrafts, interest expense during 2006 showed an increase of 23.82% compared to 2005 and recorded a consolidated amount of KD 8.85 million. The resulting surge in interest expense was driven by higher costs of debt financing in the local and international markets as reflected by the 25 basis point increase in the local CBK discount rate to 6.25% in July of 2006 and the 164 basis point average increase in the 3-month LIBOR rate from around 3.56% in 2005 to around 5.20% in 2006. The increasing cost of debt financing during 2006 was translated into a higher average cost of debt for Salhia that reached 9.30%, up from 6.74% in 2005.

Backed by a substantial gain on the sale of a real estate property, net profits in 2006 surged to KD 49.03 million, up from 17.54 million in 2005. Consequently, net profit margin jumped from 51.94% in 2005 to 134.32% in 2006.

Net profits recorded KD 49.03 million

In line with its plan to always secure a high yield dividend plan, Salhia's Board of Directors approved cash dividends in the amount of 50 fils per share, equivalent to that of 2005, and 15% bonus shares.

Cash Dividends of 50 fils per share and 15% bonus shares

Going forward, Salhia's profitability and financial strength seems to be on the rise. The Company is expected to benefit from the improved real estate outlook, especially in the foreign retail and office segments and the increased momentum of the Company's foreign development and redevelopment activities. The Company also is expected to benefit further in the medium to long-term when the local new development projects become active in 2008 and 2010.

...Salhia profitability appears to be on the rise

Historical Financial Performance

Salhia's property revenues have been showing consistent year-over-year increase since 2000, except for 2005 when the account dropped marginally by 1.13% on the back of lower hotel-related revenues, with a cumulative annual growth rate (CAGR) of 28.68% between 2000 and 2005.

Property revenues have been showing consistent annual growth

Table 2. Historical Revenue Classification & Decomposition

KD '000	2001	2002	2003	2004	2005
Hotel-Related Rev.	5,535	6,542	9,370	13,046	12,019
Y-O-Y % Growth	*18.9%*	*18.2%*	*43.2%*	*39.2%*	*(7.9)%*
% of Total Property Rev.	***30.8%***	***31.9%***	***36.3%***	***38.2%***	***35.6%***
Local Retail Property Rev.	5,346	5,585	6,323	9,501	9,268
Y-O-Y % Growth	*8.8%*	*4.5%*	*13.2%*	*50.3%*	*(2.5)%*
% of Total Property Rev.	***29.7%***	***27.2%***	***24.5%***	***27.8%***	***27.4%***
Nursing Care Rev.	7,096	8,414	10,147	11,619	12,491
Y-O-Y % Growth	*NM*	*18.6%*	*20.6%*	*14.5%*	*7.5%*
% of Total Property Rev.	***39.5%***	***41.0%***	***39.3%***	***34.0%***	***37.0%***
Total Property Rev.	**17,978**	**20,541**	**25,841**	**34,165**	**33,778**
Y-O-Y % Growth	***87.8%***	***14.3%***	***25.8%***	***32.2%***	***(1.1)%***

NM: Not Meaningful
Source: Salhia Financial Statements & KAMCO Research

Revenues across the different local and foreign retail operating segments were on the rise during the same period, led by the hotel segment with a CAGR of 20.88%, followed by the foreign care home operations of 15.18%, and the local retail operating segment of 13.52%.

Segment revenues were on the rise since 2000, led by those related to hotel operations

Except for 2002 which saw total gross profit margin dropping from 59.61% in the previous year to 56.93% on the back of relatively higher percentage increase in operating costs, gross profit as a percent of revenues was relatively stable at around 59%.

Gross profit margin was relatively stable at 59% between 2000 and 2005

Table 3. Historical Gross Profit Margin (GPM)

KD '000	*2001*	*2002*	*2003*	*2004*	*2005*
Hotel-Related Revenues	5,535	6,542	9,370	13,046	12,019
Hotel-Related Costs	2,490	2,861	3,202	4,890	4,388
GPM on Hotel Operations	***55.0%***	***56.3%***	***65.8%***	***62.5%***	***63.5%***
Local Retail Property Revenues	5,346	5,585	6,323	9,501	9,268
Local Retail Property Costs	458	514	596	993	753
GPM on Local Retail Operations	***91.4%***	***90.8%***	***90.6%***	***89.6%***	***91.9%***
Nursing Care Revenues	7,096	8,414	10,147	11,619	12,491
Nursing Care Costs	4,314	5,472	6,741	7,939	8,526
GPM on Nursing Care Operations	***39.2%***	***35.0%***	***33.6%***	***31.7%***	***31.7%***
Total Property Revenues	**17,978**	**20,541**	**25,841**	**34,165**	**33,778**
Total Property Costs	**7,262**	**8,847**	**10,539**	**13,822**	**13,667**
Total GPM	***59.6%***	***56.9%***	***59.2%***	***59.5%***	***59.5%***

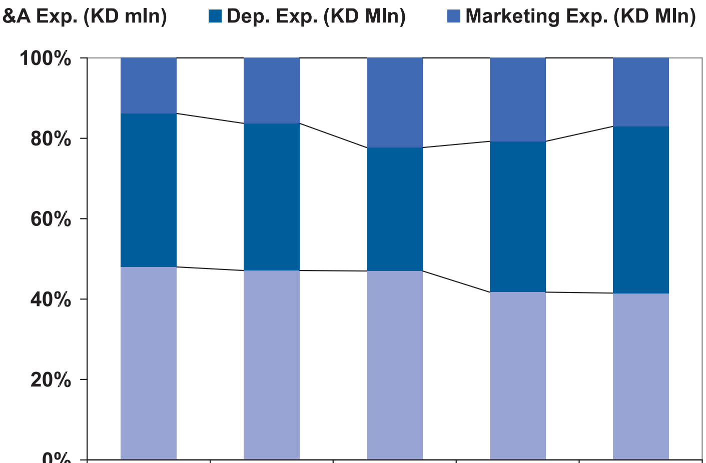
Source: Salhia Financial Statements & KAMCO Research

Share in joint venture profits in the Company's JV entity, KPI, managed to quadruple between 2000 and 2004 with the account reaching KD 2.09 million, compared to KD 473 thousand in 2000. In 2005, however, and as a result of provisions for asset valuation of some properties under development in KPI's retail portfolio, share in profits of JV dropped by 28.48% compared to 2004 and recorded KD 1.50 million.

Share in profits of JV quadrupled between 2000 and 2004

Total operating expenses, which include selling, marketing, depreciation and general and administrative expenses, grew by a CAGR of 29.73% between 2000 and 2005, roughly in line with the 28.68% CAGR in property revenues over the same period.

Chart 4. Historical Decomposition of Operating Expenses



	2001	2002	2003	2004	2005
Marketing Exp. (KD Mln)	0.71	0.99	1.68	2.44	2.14
Dep. Exp. (KD Mln)	1.97	2.22	2.31	4.41	5.20
G &A Exp. (KD mln)	2.47	2.86	3.54	4.90	5.20

Source: Salhia Financial Statements & KAMCO Research

Between 2000 and 2005, total investment income showed impressive growth with a CAGR of 51.06%, rising from KD 1.56 million to KD 11.47 million in 2005. The reported rise in investment income during this period was primarily driven by the Company's decision to maintain a balanced strategy between local and foreign, quoted and unquoted active long-term equity investments. Realized gain from sale of equity securities dominated total investment income, with an average share contribution of 83.20% between 2001 and 2005.

Investment income reported a CAGR of 51.06% between 2000 and 2005

Table 4. Decomposition of Investment Income

KD '000	**2001**	**2002**	**2003**	**2004**	**2005**
Gain on Sale of Equity Investments	1,777	2,713	1,820	5,167	10,435
Y-O-Y % Growth	*384.3%*	*52.6%*	*(32.9)%*	*184.0%*	*102.0%*
% of Total Investment Income	***60.5%***	***79.1%***	***70.6%***	***87.2%***	***91.0%***
Dividends	1,161	718	758	756	1,032
Y-O-Y % Growth	*6.4%*	*(38.1)%*	*5.5%*	*(0.2)%*	*36.6%*
% of Total Investment Income	**39.5%**	**20.9%**	**29.4%**	**12.8%**	**9.0%**
Total Investment Income	**2,938**	**3,431**	**2,577**	**5,923**	**11,467**
Y-O-Y % Growth	***101.5%***	***16.8%***	***(24.9)%***	***129.8%***	***93.6%***

Source: Salhia Financial Statements & KAMCO Research

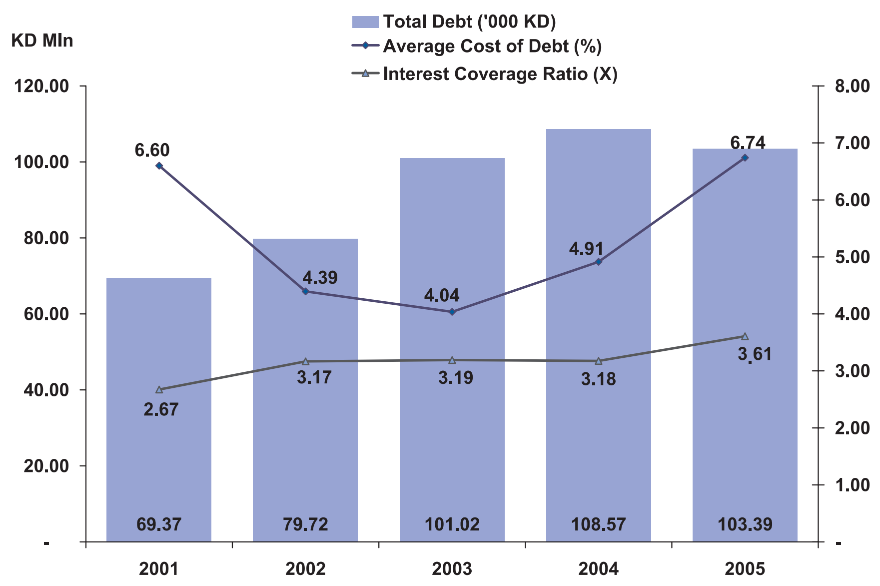
Salhia considers itself as a long-term developer and operator of commercial properties. As such, the Company's decision to dispose of an investment property is one of a strategic relevance and is not an end by itself to

Gain on sale of properties accounted for around 5% of net profits between 2000 and 2004 improve bottom line results. Prior to the substantial gain realized on sale of a real estate property in 2006, gain on sale of investment properties and fixed assets varied between a low of KD 116 thousand in 2001 to a high of KD 4.91 million in 2005. It is important to note that during 2003 and 2004, the Company did not engage in any property sales. Consequently, the average percentage contribution of gain on sale of investment property was around 5% between 2001 and 2004. In 2005, the account's share of net profits increased to 28%.

Between 2001 and 2004, Salhia increased its debt exposure in response to relative declines in interest rates

Between 2001 and 2004 and in response to a relative decline in local and international interest rates, Salhia prudently increased its exposure to debt financing with financing costs registering a CAGR of 10.81% for the period. Average cost of debt showed a drop from around 6.60% in 2001 to 4.39% and 4.04% in 2002 and 2003 respectively. In 2004, the Company's average cost of debt witnessed a marginal increase of 88 basis points to 4.91%. In 2005, and as interest rates began to rise, which was reflected in the 183 basis point increase in Salhia's average cost of debt compared to 2005, the Company started to refinance its existing loans. It is interesting to note that since 2000, Salhia managed to effectively manage its cost of debt as reflected by the interest coverage ratio that average around 3.16X between 2001 and 2005.

Chart 5. Total Debt Exposure and Cost of Debt Financing

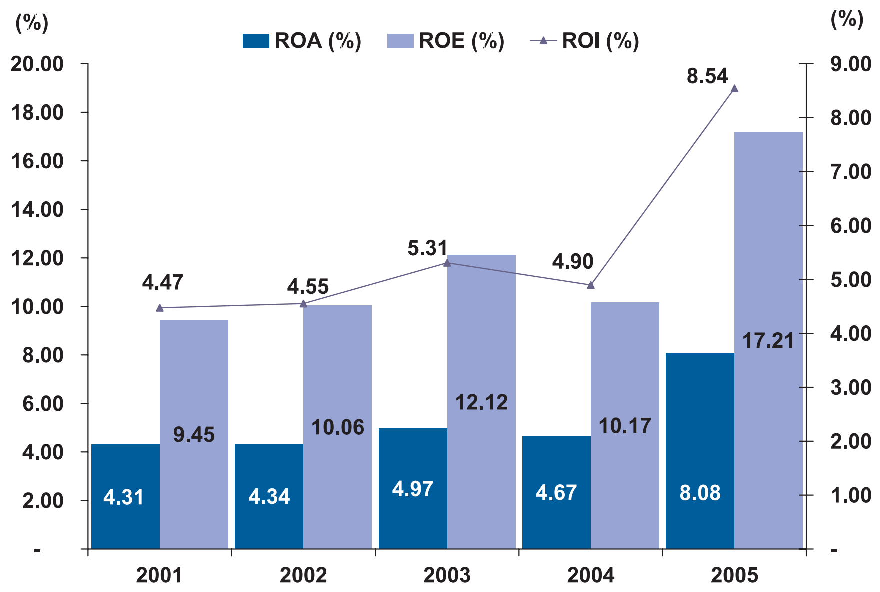


Source: Salhia Financial Statements & KAMCO Research

...net profits showed a CAGR of 28.18% between 2000 and 2005

Net profits showed consistent improvement since 2000 with net profits registering a CAGR of 28.18% between 2000 and 2005, growing from KD 5.07 million to KD 17.54 million over the 5-year period. In line with this improvement in the Company's bottom line results, Salhia core profitability ratios showed consistent improvement since 2000, except for 2004, with Return on Assets (ROA) and Return on Equity (ROE) reaching 8.08% and 17.21% in 2005.

Chart 6. Historical Trend in Core Profitability Ratios



Source: Salhia Financial Statements & KAMCO Research

Asset Structure & Capital Base

Total assets grew at a CAGR of 11.83% between 2000 and 2005. In 2006, and on the back of substantial net profit reported for the year, total assets showed a gain of 31.53% compared to 2005 and recorded KD 242.45 million. Given the nature of Salhia's business, fixed assets, which primarily consist of the Company's hotels and ballrooms as well as the nursing home care units, and investment properties constitute a majority share of assets with a percentage ranging between a low of 69.76% recorded as of the end of 2000 and a high of 77.84% recorded as of the end of 2002.

Total assets grew at a CAGR of 11.83% between 2000 and 2005...in 2006, assets grew by 31.53%

It is important to note that the individual share of investment properties in the Company's asset structure varied considerably since 2000 dropping from a majority share of 46.57% to a low of 29.56% in 2005, representing the second highest individual asset contributor, in favor of fixed assets that saw their share of total assets rise during the same period from a low of 23.20% to a high of 45.74%. As of the end of 2006, fixed assets and investment properties amounted to around KD 103.96 million and KD 51.81 million and represented 42.88% and 21.37% of total assets.

...fixed assets and investment properties dominate Salhia's asset structure

Since 2000, Salhia has been prudently capitalizing on the rising local and foreign demand for mixed use commercial real estate properties with the Company's total holdings of investment properties and fixed assets registering a CAGR of 13.10%, slightly below that of total assets of 14.66% for the same period, with a total of KD 100.51 million worth of gross additions between 2001 and 2006. Fixed assets showed the highest individual asset growth with a CAGR of 27.02%, driven primarily by new capital investments in Kuwaiti Marriott Hotels, Arraya Ballroom, car parks, and in the Company's foreign nursing care units.

Between 2001 and 2006, Salhia made KD 100.51 million worth of gross investments in fixed assets and investment properties

Table 5. Decomposition of Available for Sale (AFS) Investments by Type

KD '000	***2002***	***2003***	***2004***	***2005***	***2006***
Total Quoted Investments	8,072	13,742	15,346	16,156	17,966
Y-O-Y % Growth	*(25.1)%*	*70.2%*	*11.7%*	*5.3%*	*11.2%*
% of Total AFS Investments	***51.2%***	***65.9%***	***66.5%***	***57.5%***	***48.8%***
Total Quoted Investments	7,708	7,118	7,720	11,943	18,853
Y-O-Y % Growth	*34.1%*	*(7.7)%*	*8.5%*	*54.7%*	*57.9%*
% of Total AFS Investments	***48.8%***	***34.1%***	***33.5%***	***42.5%***	***51.2%***
Total AFS Investments	**15,780**	**20,860**	**23,066**	**28,099**	**36,819**
Y-O-Y % Growth	*(4.5)%*	*32.2%*	*10.6%*	*21.8%*	*31.0%*

Source: Salhia Financial Statements & KAMCO Research

Available for sale equity investments represented the third highest individual asset contributor with a total amount of KD 36.82 million and a share contribution to total assets of 15.19% as of the end of 2006. Salhia has been carefully growing its equity investments with the account registering a CAGR of 9.14% between 2000 and 2006. The majority of the equity investments are held in quoted securities in the form of managed funds and portfolios with the remaining amount invested in unquoted securities and funds. In terms of geographic focus, the majority of equity investments are being invested in the local Kuwaiti market with the rest invested in regional and international equity markets.

Available for sale security investments represent the third highest individual asset contributor

Table 6. Decomposition of Available for Sale (AFS) Investments by Geographic Segments

KD '000	**2004**	**2005**	**2006**
Local Investments	**15,463**	**18,278**	**20,094**
Y-O-Y % Growth	*NA*	*18.2%*	*9.9%*
Foreign Investments	**7,603**	**9,821**	**16,725**
Y-O-Y % Growth	*NA*	*29.2%*	*70.3%*

NA: Not Available
Source: Salhia Financial Statements & KAMCO Research

Between 2001 and 2004, Salhia was relatively focused on increasing its investment exposure in quoted securities with total investments in quoted securities through funds and portfolios growing by a CAGR of 12.49% compared to a CAGR of 10.33% for unquoted investments. In 2005 and 2006, however, the Company began to shift its focus to unquoted investments with the latter posting a year-over-year growth of 54.70% and 57.86% compared to 5.20% and 11.20% for quoted investments respectively. Consequently, the share of unquoted equity investments by in the Company's total investment portfolio increased from 34.78% in 2001 to 51.21% in 2006. As of the end of 2006, total quoted investments amounted to around KD 17.97 million while total unquoted investments totaled KD 18.85 million. Investments in the local Kuwaiti equity market recorded KD 20.09 million as of the end of 2006, up by 9.94% from 2005 while investments in foreign equity markets reached KD 16.73 million, 70.30% higher than that of 2005.

...In 2005 and 2006, focus shifted toward unquoted investments

Investment in the joint venture entity, KPI, recorded KD 18.58 million as of the end 2006, contributing to around 7.66% of total assets and representing the second fastest growing individual asset component behind fixed assets with a CAGR of 26.66% between 2000 and 2006. It is worth noting that the life of the KPI joint venture is expected to end in 2013.

Investments in JV represented the second fastest growing asset class

It is important to note that during 2006, Salhia founded a new company, Bunyan Al Salhia Project Management Co. with a capital of KD 100 thousand. The purpose of the 100% owned subsidiary is to provide professional technical and labor support services to the Company's Al Assima Project with a long-term vision to bid for third party management mandates. Bunyan Al Salhia Project Management Co. has not yet started operations and there is no planned budget as to how much profits the company is expected to realize.

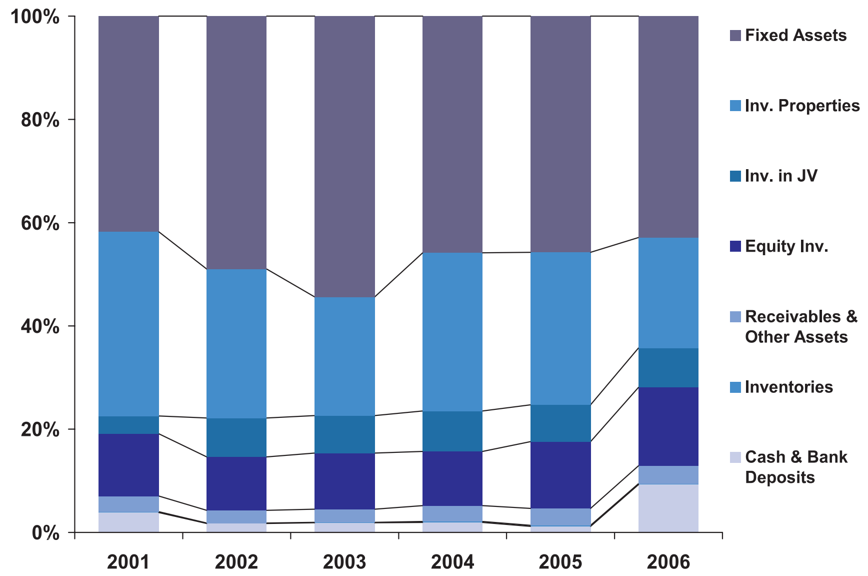
In 2006, Salhia founded Bunyan Al Salhia Project Management Co. with a capital of KD 100 thousand

During the same year, the company also founded Al Assima Real Estate Co. with an initial paid up capital of KD 1 million, which was later increased to KD 80 million. The Company decided to retain a KD 40 Million, 50% equity interest in Al Assima Real Estate Co. Following the sale of a real estate asset related to Al Assima Project to its associated company, Al Assima Real Estate Co. Salhia's share in the gain from the sale amounted to around 49.06 million, which represents an excess of the Company's KD 40 million cost of investment in its associated company and as such the excess KD 9.06 million was recorded as a deferred gain item on the balance sheet that would be utilized to offset future increases in the carrying value of the investment in associate. It is worth noting that Al Assima Real Estate Co. would begin operations in 2010.

...also founded Al Assima Real Estate Co. with a capital of KD 1 million, which was later increased to KD 80 million...

Salhia retains 50% interest in Al Assima Real Estate Co.

Chart 7. Asset Structure Decomposition



Source: Salhia Financial Statements & KAMCO Research

Fixed deposits surged by KD 20 million as of the end of 2006

On the back of the substantial gain reported on the sale of Salhia's real estate asset to an associated company during 2006, the Company deposited around KD 20 million in fixed deposits, representing around 8.25% of total assets.

Bank facilities and loan dominate capital base

On the other side of the balance sheet, bank facilities and loans dominated the Company's capital base with a percentage contribution averaging around 53.15% between 2001 and 2005. In 2006, and in response to plans to payoff medium to long-term debt balances, total debt dropped from KD 103.39 million as of the end of 2005 to KD 86.80 million in 2006. As such, the share of debt in the Company's capital base dropped in 2006 to reach a low of 39.29%.

Table 7. Capital Base Decomposition

KD '000	2001	2002	2003	2004	2005	2006
Due to Banks	5,424	7,037	8,307	9,770	19,477	6,925
Y-O-Y % Growth	*52.5%*	*29.7%*	*18.0%*	*17.6%*	*99.4%*	*(64.4%)*
% of Total Capital Base	***4.1%***	***4.8%***	***4.6%***	***4.7%***	***9.5%***	***3.1%***
Short-Term Loans	618	-	-	-	-	-
Y-O-Y % Growth	*(77.7)%*	*(100.0)%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
% of Total Capital Base	***0.5%***	***0.0%***	***0.0%***	***0.0%***	***0.0%***	***0.0%***
Long-Term Loans	63,323	72,686	92,714	98,802	83,911	79,875
Y-O-Y % Growth	*62.3%*	*14.8%*	*27.6%*	*6.6%*	*(15.1)%*	*(4.8)%*
% of Total Capital Base	***48.1%***	***49.9%***	***51.6%***	***47.2%***	***40.9%***	***36.2%***
Total Loans	**69,366**	**79,723**	**101,020**	**108,572**	**103,388**	**86,801**
Y-O-Y % Growth	***53.0%***	***14.9%***	***26.7%***	***7.5%***	***(4.8)%***	***(16.0)%***
% of Total Capital Base	***52.6%***	***54.7%***	***56.2%***	***51.9%***	***50.3%***	***39.3%***
Total Equity	62,394	65,962	78,766	100,794	101,965	134,110
Y-O-Y % Growth	*7.0%*	*5.7%*	*19.4%*	*28.0%*	*1.2%*	*31.5%*
% of Total Capital Base	***47.4%***	***45.3%***	***43.8%***	***48.1%***	***49.7%***	***60.7%***
Total Capital Base	**131,760**	**145,685**	**179,787**	**209,366**	**205,354**	**220,911**
Y-O-Y % Growth	***27.1%***	***10.6%***	***23.4%***	***16.5%***	***(1.9)%***	***7.6%***

Source: Salhia Financial Statements & KAMCO Research

Total shareholders' equity posted a CAGR of 13.06% between 2001 and 2005

Supported primarily by consistent growth in net profits, total shareholders' equity posted a 13.06% CAGR between 2001 and 2005 to reach KD 101.97 million as of December 2005, contributing to an average of 46.85% of total capital base. In 2006, shareholders' equity grew by 31.53% compared to 2005 and recorded KD 134.11 million, representing 60.71% of total capital base.

Salhia's primary sources of liquidity are cash flow from operations, short-term and long-term bank facilities and loans. The principal use of the generated funds on the foreseeable future would be to fund normal recurring expenses, meet debt service payments, slowly payoff outstanding medium to long-term loans, fund current development costs on the Arraya Tower that is expected to be completed in 2008, and fund capital expenditures stemming, from property maintenance, and fund new property acquisitions especially in the UK market.

Cash holdings and bank deposits in 2006 surged by almost 9 times that of 2005

Cash holdings and short-term bank deposits totaled KD 22.46 million as of the end of December 2006, almost 9 times the KD 2.54 million reported in 2005. Cash flow from operations is primarily attributable to the operations of the Company's local hotel and retail commercial properties and foreign home care and nursing units. The level of the Company's cash flow depends on a number of factors including rental rates and occupancy rates at the retail commercial properties and room rates and occupancy rates at the hotel and home care properties. Cash flow from operations is also affected by the operating costs and other expenses at the different operating property categories.

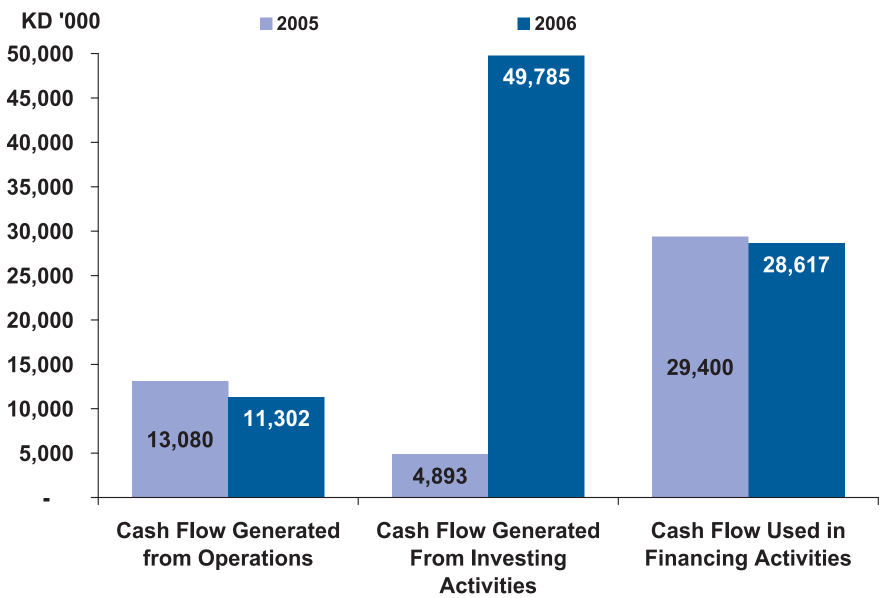
Cash provided by operating activities reached KD 11.30 million for the year ending December 2006, down 13.59% from 2005. This decrease resulted primarily from changes in operating assets and liabilities, which in turn was driven by a KD 2.04 million increase in receivables and prepaid expenses for the year compared to 2005. In relation to the Company's 50% share in the gain of the KD 98 million sale of a real estate asset to an associated company, receivables from related parties during 2006 increased by KD 1.63 million compared to 2005 while advance payments to contractors showed a gain of KD 1.10 million over the same period. Partially offsetting these items was a drop in the amount of KD 1.36 million in other receivables and an increase of around KD 750 thousand in cash flow from operations before working capital requirements.

Cash flow from operations was down by 13.59% in 2006

Cash generated from investing activities surged to around KD 49.79 million during 2006, up from KD 4.89 in the previous year. This increase is primarily attributable to higher net proceeds from sale of properties, specifically the sale of a real estate asset to an associated company in the amount of KD 115.26 million, compared to KD 7.54 million in 2005 and a KD 4.53 million decline in purchases of new equity securities with total new security investments amounting to KD 20.46 million in 2006, compared to KD 24.99 million in 2005. These increases were partially offset by an KD 8.49 million rise in new purchases in investment properties and fixed assets with total purchases totaling KD 16.14 million, up from KD 7.65 million in 2005, and a KD 39 million worth of additional investments in the newly established associated company, Al Assima Real Estate Co.

Cash flow from investing surged to KD 49.79 million from KD 4.89 million in 2005

Chart 8. Cash Flow Analysis



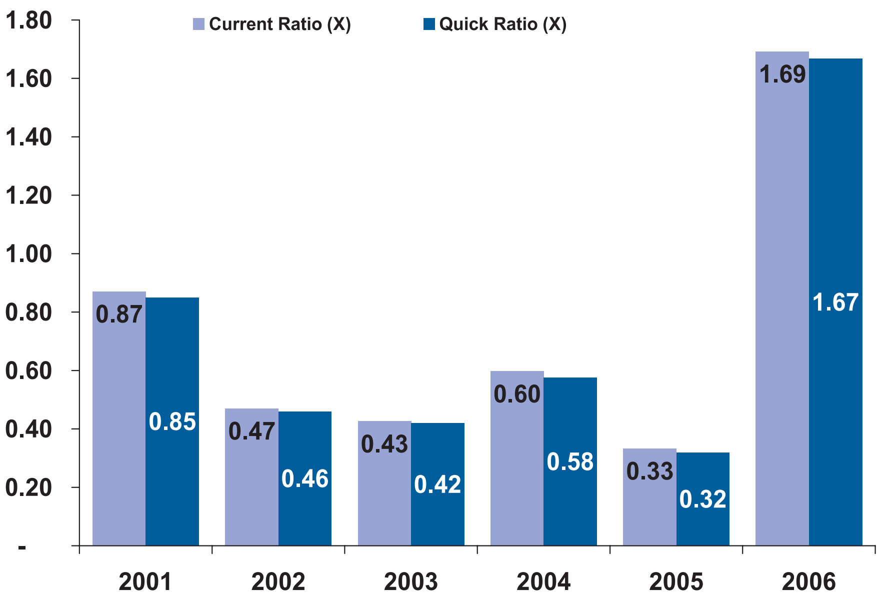
Source: Salhia Financial Statements & KAMCO Research

Cash flow used by financing activities dropped by 2.66% compared to 2005

Cash used by financing activities totaled KD 28.62 million during 2006, down by 2.66% from that of 2005. Loan payments amounted to around KD 11.539 million compared to KD 9.59 million in 2005. Dividends paid for the period reached KD 15.04 million, up from last year's 7.61 million, which was accompanied by an increase in approved cash dividend per share for 2005 compared to 2004 from 25 fils to 50 fils per share. It is interesting to note that during 2006, Salhia made KD 694 thousand worth of net purchases in treasury shares, compared to around KD 4.97 million in 2005.

The nature of Salhia's business model that depends heavily on the availability of short-term credit facilities to finance its operating activities weighed down on the size of the Company's working capital levels that showed continued declines between 2001 and 2005, falling from a shortage of KD 1.43 million to around KD 20.17 million in 2005. In 2006, however, and backed by the substantial gains on sale of a real estate property and the resulting KD 20 million increase in short-term fixed deposit accounts, working capital managed to show an excess of KD 12.81 million. Salhia's liquidity position improved significantly in 2006 compared to the previous years with the Company's current and quick ratios rising above 1.00 for the first time since 2000.

Chart 9. Current & Quick Ratios



Source: Salhia Financial Statements & KAMCO Research

Industry Overview

Kuwait Real Estate Market

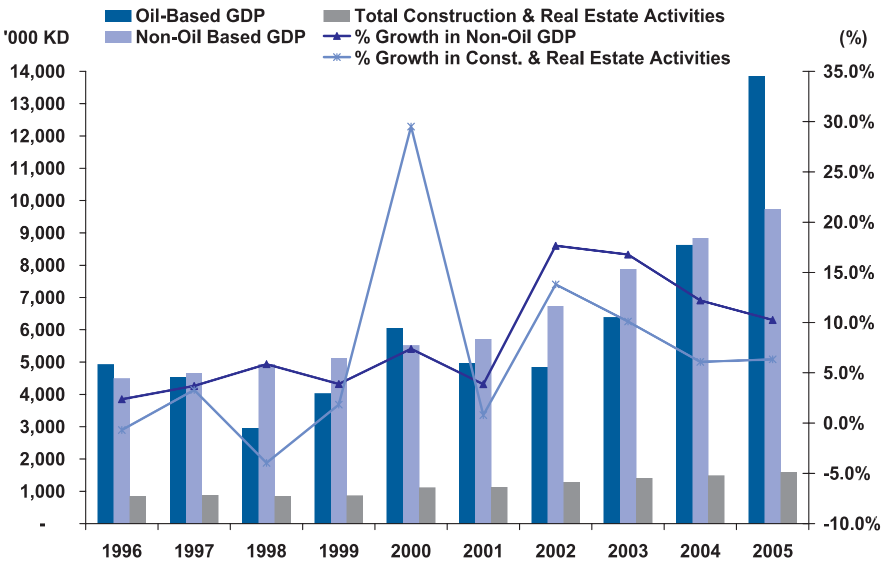
Since 2003 and with the easing down of geopolitical tensions in the region, the Kuwaiti and regional real estate industry has been evolving at exceptional speed. Rising oil prices and unprecedented surpluses in public finances have been pouring vast sums of money into real estate projects, specifically retail, office and residential projects. Based on the latest economic figures available for the GCC region, construction and real estate activities have been thriving since 2002 with a cumulative annual growth rate (CAGR) of 9.34% between 2002 and 2004 compared to a CAGR of 6.79% between 1994 and 2002 and a total value estimated at around USD 48.47 billion, contributing to around 10.22% of the region's total gross domestic product of around USD 474.46 billion as of the end of 2004.

Since 2003, the local and regional real estate industry has been evolving at exceptional speed

In Kuwait, figures are compelling with total real estate and construction activities growing by an average of 9.04% per year between 2002 and 2005, compared to an average annual growth of 5.87% recorded between 1995 and 2002. This increase in real estate-related activities has been associated with an impressive growth in the value of real estate transactions. According to Al Jal Real Estate Co., total value of registered real estate transactions in Kuwait grew by an average of 20% between 2001 and 2006 with average real estate transaction value rising by 17.5% over the same period.

...total real estate and construction activities grew by an average of 9% between 2002 and 2005, almost double that reported between 1995 and 2002

Chart 10. Kuwait Major GDP Components



Source: Central Bank of Kuwait & KAMCO Research

Mega-size projects in the GCC is estimated at around USD 408 billion

More recent research estimates the current cost of mega-size real estate projects (over and above USD 500 million) in the GCC at around USD 408 billion, representing 71.20% of the region's total estimated GDP. Total value of mega real-estate projects in Kuwait alone is estimated at around USD 120.13 billion, contributing to around 29% of the total GCC projects.

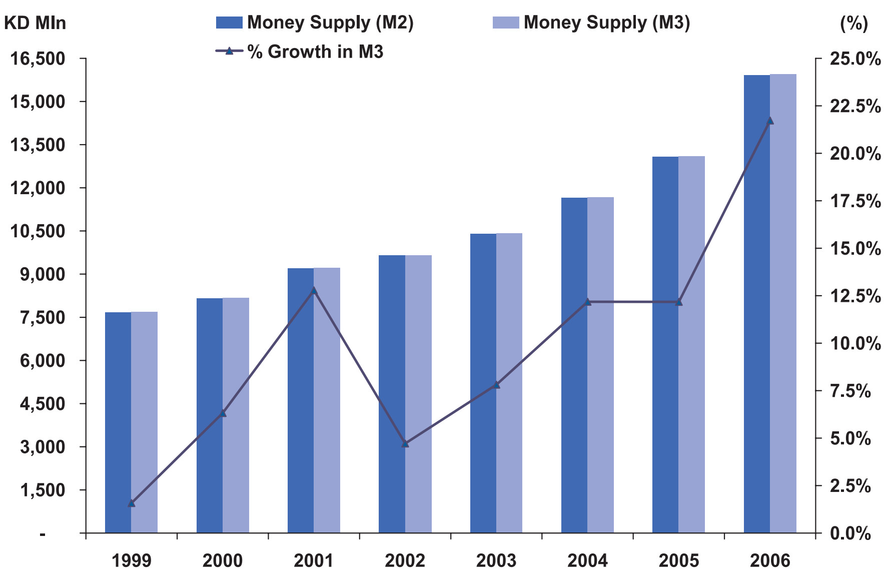
The retail real estate market in the GCC has been showing impressive buildup

Increased interest in the GCC real estate market, including Kuwait, has been accompanied by an impressive buildup in the region's retail real estate market with current estimates, as per world renowned *Retail International*, exceeding USD 53 million square feet, more than double the USD 22 million square feet in 2000, with projections to exceed 135 million square feel of gross leasable area (GLA) in 2010. The primary reasons for the region's exceptional growth in the retail real estate market are increases in population growth and record liquidity levels. Between 2002 and 2006, population growth in the GCC region showed a CAGR of 3.37%, compared to a CAGR of 3.04% between 1998 and 2002, and recorded around 36 million as of the end of 2006.

...local and regional liquidity levels have been surging since 2003

Backed by record increases in oil prices with the latter growing by a cumulative 157% between 2002 and 2006, liquidity levels in Kuwait and the rest of the GCC region have been surging since 2003 with the broadest measure of money supply growing by 18%, 19%, and 24% in 2004, 2005 and 2006 respectively compared to an average of around 8.5% between 1998 and 2003. Growth in Kuwait's liquidity was marginally lagging those of the region with the M3 measure of money supply rising by 12.2% in 2004 and 2005 and by 21.7% in 2006 compared to a CAGR of 6.6% between 1998 and 2003.

Chart 11. Kuwait M1 and M2 Measures of Money Supply



Source: Central Bank of Kuwait & KAMCO Research

High liquidity is expected to be maintained in the short to medium term

Going forward, high oil prices are expected to continue in the short to medium-term which would in turn maintain the region's relatively high liquidity levels. The current account balance for the GCC region as per IMF estimates is expected to witness a marginal drop from its 2006 historical record surplus of around USD 177 billion to reach USD 129 billion and USD 126 billion in 2007 and 2008 respectively. Kuwait, which is estimated to have recorded the second highest current account surplus of almost USD 42 billion, is projected to record further account surpluses of USD 32.8 billion and USD 33.5 billion in 2007 and 2008 respectively, contributing to around a quarter of the region's total forecasted current account surplus.

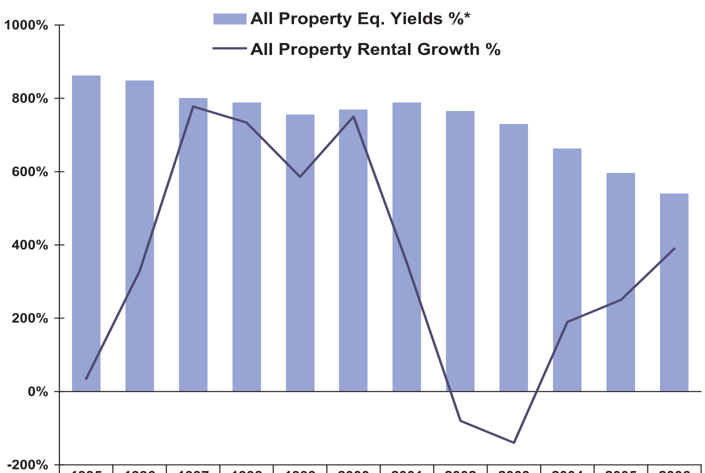
Kuwait is considered to be in the evolutionary stage of its construction boom with a number of high cost real estate projects in the pipeline over the next 5 years designed to replicate what is going on in Dubai. The presence of a young, growing and affluent population presents attractive opportunities for the Kuwaiti real estate market. Based on recent available information from Kuwait's Ministry of Planning, more than 90% of the Kuwaiti population is below the age of 50 with per capita GDP estimated to have exceeded USD 31 thousand as of the end of 2006.

UK Real Estate Market

UK property market maintained its momentum growth in 2006

Backed by resilient economic growth, the UK property market in 2006 maintained its relative strength with total returns on property investments for the year averaging around 18% compared to almost 17% returns on equity investments, supported primarily by capital growth on property investments as investors continued to push down all property equivalent yields to reach a 25-year low of 5.40% in 2006, down from 5.97% in 2005.

Chart 12. UK All Property Equivalent Yields & Rental Growth



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
All Property Eq. Yields %*	8.62	8.49	8.01	7.89	7.56	7.69	7.88	7.65	7.30	6.63	5.97	5.40
All Property Rental Growth %	0.34	3.29	7.78	7.34	5.86	7.50	3.50	-0.80	-1.40	1.90	2.50	3.90

**: Discount rate that sets estimated future cash flows to current market value*

Source: Investment Property Databank

Following a rather muted period of relatively sluggish and even negative rental growth between 2002 and 2004, all property rents seemed to have gathered momentum starting 2005 with all property rental growth rising to 2.50% and 3.90% in 2005 and 2006 respectively, supported by an impressive acceleration in office rental growth that grew by 7.00% in 2006, up from 1.90% in 2005. The retail real estate market showed the second highest rental growth during 2006 of 3.00%, down from 3.50% in 2005.

Property rents in the UK began gathering momentum in 2005

The relatively rapid growth in the UK office market has been benefiting from high growth rates in the country's financial and business services sector that showed the highest annual gain among the other economic sectors of 5.40% in 2006, representing the highest year-over-year growth since 2000. This increase in business service activities has been associated with an increase in demand for quality office space across the UK prime office markets. In terms of yields, the UK office market showed initial yield of 5.50% in 2006, down from 6.32% in 2005 and representing the second lowest yield level following that of the retail market of 5.00%.

High growth rates in UK financial and business services has been supporting rapid growth in the country's office market

Strong demand for UK office space continued to push yields down by the end of 2006, producing capital growth of 17.20%, the highest since 1988. Continued strong growth for financial and business services in the short to medium-term would be translated into further improvement in returns for the UK office market.

Table 8. Real Estate Equivalent Yields, Capital Growth, and Rental Growth by Category

Equivalent Yields*	**2002**	**2003**	**2004**	**2005**	**2006**
Office	8.14%	8.00%	7.29%	6.32%	5.50%
Retail	7.04%	6.64%	6.04%	5.46%	5.00%
Industrial	8.57%	8.33%	7.61%	6.88%	6.20%
All Property	**7.65%**	**7.30%**	**6.63%**	**5.97%**	**5.40%**
Capital Growth (%)					
Retail	7.30%	8.80%	15.10%	12.70%	10.30%
Office	(3.10%)	(3.90%)	7.10%	12.10%	17.20%
Industrial	2.20%	3.20%	9.20%	10.50%	11.30%
All Property	**2.70%**	**3.70%**	**11.60%**	**12.10%**	**12.40%**
Rental Value Growth (%)					
Retail	3.20%	3.20%	3.90%	3.50%	3.00%
Office	(6.50%)	(8.80%)	(0.60%)	1.90%	7.00%
Industrial	1.00%	0.30%	0.90%	1.20%	1.40%
All Property	**(0.80%)**	**(1.40%)**	**1.90%**	**2.50%**	**3.90%**

Source: Investment Property Databank

...initial yields on retail real estate properties dropped by 46 basis points in 2006

Supported by signs of growth in the UK retail market on the back of renewed momentum growth in retail sales volume with the latter growing by an annual rate of 3.64%, more than double that of 2005 of 1.70%, investor demand for retail real estate properties continued to be strong in 2006 and helped to push down initial yields on the retail market by 46 basis points to 5.00% by year end. However, increased penetration of online retail trades and increased supply of retail stores weighed down on retail rental growth, following through the apparent deceleration witnessed in 2005 to grow by 3.00% in 2006, compared to 3.90% and 3.50% in 2004 and 2005 respectively.

Signs of recovery in manufacturing activity helped to push initial yields down by 68 basis points

Backed by signs of recovery in manufacturing activity with the latter showing a year-over-year growth of 1.5%, compared to a negative growth of 10% in 2005, coupled with an increase in demand for freehold units from local businesses and entrepreneurs and for large distribution warehouses from third party logistics operators helped to push initial yields on industrial properties down by 68 basis points compared to 2005 to reach 6.20% as of the end of 2006. Rental growth for industrial sites witnessed marginal advance in 2006, rising by 20 basis points to reach 1.40%. Given the relatively limited rental growth witnessed since 2002 and the length of time it would take to meet the demand for large distribution warehouses in addition to the existence of already historically low initial yields, analysts expect rental growth and initial yields for industrial sites to remain fairly stable in the short-term to medium-term.

German Care Homes Market

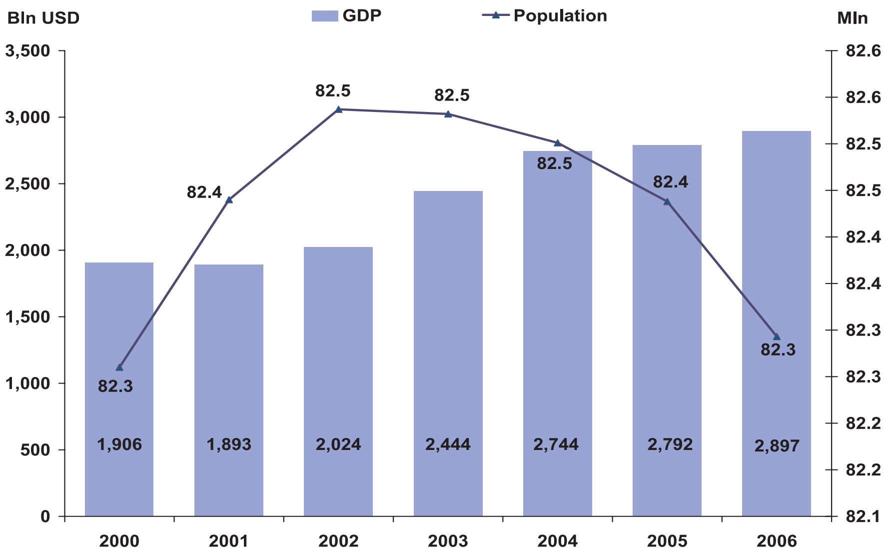
There is limited information with regard to country-wide occupancy and general fee levels for the German Residential Care home market. As such, we have focused our research on the industry's potential outlook by analyzing the country's population growth, age groups, and population structure.

Population growth has been marginal in Germany between 1980 and 2006

...65+ age group is expected to increase exponentially relative to other age groups

Total population in Germany, as per the *International Monetary Fund*, has been growing at a marginal rate of 0.26% between 1980 and 2006. Recent estimates of the country's total population as of the end of 2006 were slightly over 82 million. Current expectations of Germany's population growth over the next 10 and 20 years estimates historical trends to continue with population expected to reach almost 83 million in 2015. The 65+ age group is considered one of the largest growth groups as reflected by the latter's share of total population age that is currently around 19% and which is expected to increase exponentially relative to other age groups to reach 21.5% in 2015, resulting in 2.27 million more people aged over 65 years by 2015. It is important to note that based on recent statistics, average life expectancy for German population is around 78 years.

Chart 13. Germany GDP and Population



Source: International Monetary Fund

Germany has the second highest elderly dependency ratio after Italy

Moreover, Germany is considered as having the second highest elderly dependency ratio, after Italy, of around 27%. This ratio is expected to increase further by 2015 to 33%. This means that from the current estimated 4.21 million people over the age of 65 that require institutional care, 1.68 million more elderly people would need institutional care by 2015. This would translate into higher occupancy rates and higher demand for German Care Home centers.

Notwithstanding the relative intensity of local and foreign competition, Salhia seems to be in a good position to capitalize on the growing demand for mixed use real estate projects in the local and European markets. The Company's ability to maintain an impressive 100% occupancy rate in the Kuwaiti commercial real estate sector and the recent increased momentum of the Company's foreign real estate operations, especially in the UK, coupled its prudent property selection and asset management business models and its heightened awareness of impending risk levels would be the necessary ingredients for Salhia's long-awaited out-performance.

Projections

In an attempt to project Salhia's primary and non-primary segment revenues, a comprehensive analysis of the Company's core revenue drivers was followed.

A detailed examination of the Company's local and future operating properties was done to project revenues from real estate operations

With regard to income from real estate operations, a detailed examination of each of Salhia's local operating properties, taking into account those properties that are expected to be developed and begin operations over the forecasted horizon period. Current operating properties include: *Salhia Commercial Complex*, *Sahab Tower*, and *Arraya Commercial Center* with a total estimated leasable area of around 227.69 thousand squared feet (69.40 thousand squared meters). Occupancy rate in each of the Company's currently operating properties is 100%, primarily in line with each of the property's historical track record. Work is currently under way for Salhia's *Arraya Tower*, which is expected to be completed by the end of 2008 with a total leasable area of around 136.48 thousand squared feet (41.60 thousand squared meters). Given the Company's impressive track record in terms of occupancy, we assumed occupancy rate in the new *Arraya Tower* to reach 100% after two years of operation.

...local inflation has been picking up speed over the last 3 years

Over the last 3 years, local inflation has been quickly gaining momentum, despite evidence of a recent slowdown, as reflected by the Consumer Price index (CPI) that grew by 1.26%, 4.11%, and 3.03% in 2004, 2005, and 2006 respectively compared to an average of around 1.06% between 2001 and 2003. Notwithstanding the increase in local inflation, demand for real estate has also been showing impressive growth in the last 4 years as reflected by the 17.45% CAGR in the average value per registered real estate transaction reported between 2001 and 2006 and the 27.49% CAGR in local construction, installment and real estate loans originated by local banks between 2003 and 2006. It is interesting to note that between 2003 and 2006, total credit facilities extended by local banks showed an average annual growth of 21.05%. After accounting for the impact of inflation, the estimated occupancy rates across Salhia's primary operating properties, real estate activities and the overall local real estate market, conservative estimates of the potential revenues generated from Salhia's real estate operations were calculated.

...demand for real estate has been showing impressive growth since 2002

Operations related to Salhia's JW Marriott and Courtyard Marriott hotels were analyzed

As for income from hotel operations, a historical assessment of the Company's JW Marriott and Courtyard Marriott Hotels was done by analyzing each hotel's estimated occupancy rate and average revenue per room. On average, revenue per room grew by an average of around 6.00% between 2000 and 2006. Further analysis was required to incorporate potential changes in local inflation and in the hotels' average occupancy rate per year.

A detailed and comprehensive analysis of Salhia's care home operations was done

With regard to income from Care Home operations, we followed the same line of reasoning as that of the hotel operations, taking into consideration the historical growth in the average revenue per home care bed and the average occupancy rate between 2001 and 2006. A detailed and comprehensive analysis of the German inflation rate, potential increase in the demand for home care in Germany given the current and forecasted change in the population's age group decomposition over the next 5 to 10 years was required.

..analysis of KPI individual operating properties

Share in profits in Salhia's U.K. based joint venture, KPI, was forecasted based on the joint venture's current portfolio of operating and development properties. A detailed and comprehensive analysis of the expected net operating income from each property in the portfolio was done based on property type and on an assumed historical probability distribution of each individual property type rental growth, which in turn was built using UK 's historical rental growth rates by property between 1981 and 2006.

Potential rental income from Al Assima Project was also assessed

As for Salhia's share in profits of its newly established associated company, Al Assima Real Estate Co, forecasts of the expected rental revenues, from the project's retail complex, office tower, and parking area in addition to any potential gain from sale of the project's office tower were used. Al Assima Real Estate Co. is expected to begin generating revenues in 2010.

With regard to investment income, we conducted a careful analysis of Salhia's investment portfolio, taking into consideration the historical returns on investments and investment decomposition. Following discussions with Salhia's management, and as supported by the Company's recent cashing out of some of its local investment in the amount of around 5.76 million, representing 16% of total investments as of the end of 2006, the Company plans to target more yielding, liquid investments. A careful analysis of the impact of this new investment focus was considered in projecting reasonable and conservative investment income figures over the projection horizon.

Table 9. Salhia Key Projected Revenue & Income Figures

(KD '000)	**2007F**	**2008F**	**2009F**	**2010F**	**2011F**
Property Revenues	39,170	41,306	47,466	50,507	53,732
Operating Costs	17,151	17,862	20,266	21,284	22,343
Gross Profit	**22,019**	**23,444**	**27,201**	**29,223**	**31,389**
Share in Joint Venture Profits	1,659	1,549	1,497	1,444	1,391
Share in Profits of Associates	-	-	-	17,336	6,135
Investment Income	7,417	7,442	8,186	9,005	9,905
Net Profit	**11,816**	**12,988**	**15,131**	**34,875**	**27,081**
EPS (KD)*	***0.033***	***0.036***	***0.042***	***0.096***	***0.075***

**: Calculated based on current issued capital of 362.16 million shares*
F: Kamco forcast
Source: KAMCO Research

Valuation

Valuation methodology incorporated DCF and Relative Valuation

In an attempt to forecast a fair value for Salhia's stock, we used a combination of 2 valuation models: Discounted Cash Flow Method, which accounts for the intrinsic value of the stock from the perspective of strategic investors, and Relative Valuation, which accounts for the fair value of the stock from the perspective of short-term financial investors.

Discounted Cash Flow Valuation Method (DCF)

...DCF Method resulted in a fair value per share of KD 0.631

Following the DCF method, we followed a top-down approach accounting for all relevant industry specific and firm-specific factors to estimate Salhia's primary revenue sources across its core operating segments. These estimates coupled with a projection of Salhia's operating expenses were then used to forecast the Company's net profits over the projection horizon. Capital expenditures, non-cash expenses, working capital requirements, and net debt issued were also estimated to project the stream of free cash flows. In line with the DCF valuation exercise, the Company's free cash flows between 2007 and 2011 were forecasted. The year 5 free cash flow was used with an assumed perpetual growth of 5.00% to estimate the terminal value of the Company's equity at the end of the projection horizon. The stream of free cash flows were then discounted using an appropriate discount rate to find the current fair value of the Salhia's equity, which was calculated to be ***KD 0.631***.

Table 10. DCF Valuation Assumptions & Calculation

Perpetual Growth Rate	**5.00%**	
Salhia's Beta	1.00	*Assumed Beta of 1.00 given the stock's relatively low liquidity*
Risk Free Rate	6.63%	*Average yield on long-term treasury bonds*
Equity Risk Premium	5.81%	*Aswath Damodaran interpretation of Kuwait's Eq. Risk Prem.*
Cost of Equity	**12.44%**	

('000 KD)	2007F	2008F	2009F	2010F	2011F
Net Income	**11,816**	**12,988**	**15,131**	**34,875**	**27,081**
Depreciation	5,362	5,399	7,284	7,304	7,363
CAPEX	(18,423)	(20,995)	(1,137)	(1,185)	(1,147)
Change in Net Working Capital	3,755	(10,156)	(2,417)	(1,139)	(1,385)
Net Debt Issued	(14,805)	(1,528)	(9,064)	(7,465)	(6,902)
FCFE	**(12,295)**	(14,291)	9,797	32,390	25,008
Terminal Value					**353,175**
PV of FCFE*	**(11,595)**	**(11,987)**	**7,308**	**21,491**	**223,175**

Total Equity Value	**228,392**
Shares Outstanding ('000)	***362,163***
Fair Share Value (KD)	**0.631**

** Discounted as of the end of May 2007*
f: KAMCO forecast
Source: KAMCO Research

Table 11. presents a sensitivity analysis on Salhia's DCF value per share based on changes in the underlying cost of equity and in the assumed terminal growth rate.

...sensitivity analysis of DCF value

Table 11. Sensitivity Analysis of Salhia DCF Value Per Share

Perpetual Growth Rate	Cost of Equity							
	11.00%	**11.50%**	**12.00%**	**12.44%**	**13.00%**	**13.50%**	**14.00%**	**14.50%**
2.50%	0.581	0.540	0.504	0.476	0.442	0.416	0.391	0.369
3.00%	0.616	0.571	0.531	0.500	0.464	0.435	0.409	0.385
3.50%	0.656	0.606	0.562	0.527	0.487	0.456	0.428	0.402
4.00%	0.702	0.645	0.596	0.558	0.514	0.479	0.448	0.420
4.50%	0.754	0.690	0.634	0.592	0.543	0.505	0.471	0.441
5.00%	0.816	0.742	0.679	**0.631**	0.576	0.534	0.497	0.464
5.50%	0.888	0.802	0.730	0.675	0.614	0.567	0.525	0.489
6.00%	0.975	0.874	0.789	0.726	0.657	0.604	0.557	0.517
6.50%	1.082	0.960	0.860	0.786	0.706	0.646	0.594	0.548
7.00%	1.215	1.064	0.944	0.857	0.764	0.695	0.635	0.584
7.50%	1.386	1.195	1.047	0.943	0.832	0.751	0.683	0.625
8.00%	1.614	1.364	1.176	1.047	0.914	0.819	0.739	0.672

Source: KAMCO Research

Relative Valuation Model

Following the Relative Valuation approach, we used sector analysis to calculate average P/E, P/B, and Yield multiples for the local real estate industry as of 23 May 2007 using full year 2006 earning figures, equity figures as of December 2006 and full year 2006 cash dividends. The sector's P/E and P/B multiples were 24.31X, 1.60X respectively.

...relative valuation methodology incorporated local real estate sector P/E and P/B multiples

Table 12. Local Real Estate P/E, P/B, and Yield Multiples Calculation

000 KD	Market Cap	Profits	Equity	P/E*	P/B*
Salhia Real Estate Co.	**177,460**	**49,031**	**134,110**	**3.62**	**1.32**
Kuwait Real Estate Co.	138,480	(9,776)	138,382	NM	1.00
United Real Estate Co.	129,652	13,525	102,338	9.59	1.27
National Real Estate Co.	444,106	34,251	212,225	12.97	2.09
Pearl Real Estate Co.	42,903	134	26,634	NM	1.61
Tamdeen Real Estate Co.	140,768	4,530	139,888	31.07	1.01
Int'l Inv. Projects	82,667	(62,528)	45,701	NM	1.81
Ajial Recreational Co.	59,640	4,076	80,175	14.63	0.74
Al Massaleh Real Estate Co.	38,562	(42)	44,011	NM	0.88
Arab Real Estate Co.	74,916	3,585	64,119	20.90	1.17
Union Real Estate Co.	41,734	2,674	36,145	15.61	1.15
Enmaa Real Estate Co.	69,433	8,223	53,510	8.44	1.30
Mabanee Co.	312,180	10,031	68,500	31.12	4.56
Injazzat Real Estate Co.	75,141	10,212	53,632	7.36	1.40
Jeezan Real Estate Co.	37,498	(30,590)	33,408	NM	1.12
Grand Real Est. & Tour. Dev.	134,000	104	21,945	NM	6.11
International Resorts Co.	25,644	(7,217)	19,854	NM	1.29
Commercial Real Estate Co.	412,670	35,628	198,729	11.58	2.08
Sanam Real Estate Co.	17,009	380	9,718	44.78	1.75
A'ayan Real Estate Co.	46,788	4,674	27,967	10.01	1.67
Aqar Real Estate Inv. Co.	28,810	760	24,045	37.91	1.20
Kuwait Real Est. Holding Co.	48,000	2,144	39,672	22.39	1.21
MAZAYA Holding Co.	173,910	23,431	87,802	7.42	1.98
Al Dar Nat'l Real Estate Co.	68,040	1,578	56,252	43.12	1.21
Al Themar Real Estate Co.	135,675	3,903	104,071	34.76	1.30
Grand Real Estate Projects	116,443	19,137	80,673	6.08	1.44
Tijara Real Estate & Inv. Co.	74,586	7,681	53,964	9.71	1.38
Al TAMEER Real Est. Inv. Co.	34,560	(123)	36,502	NM	0.95
Arkan Al-Kuwait Real Est Co.	36,506	3,010	23,686	12.13	1.54
Gulf Horizon Holding Co.	15,900	593	3,783	26.83	4.20
Real Estate Sector	**3,233,681**	**133,019**	**2,021,442**	**24.31**	**1.60**

Mkt Cap as of 23 May 2007; Profits are for full year 2006; Equity figures as of 30 December 2006; Dividends are for FY '06
**: P/E and P/B Multiples are calculated based on current Market Cap and corresponding earnings, equity, and dividends for FY '06*
Source: KAMCO Research

Based on Salhia's expected earnings per share and book value per share for full year 2007 of KD 0.033 and KD 0.403 and the local real estate sector's average P/E and P/B multiples, Salhia fair value per share was around ***KD 0.793*** and ***KD 0.645*** respectively.

Sector P/E and P/B resulted in a fair value per share of KD 0.793 and KD 0.645

Valuation Conclusion

To arrive at a fair estimate for Salhia stock, we used a weighted average of the above valuation models, giving a 70% weight to the DCF Method and 15% to each of the P/E and P/B methods. Our weighting scheme resulted in an estimated fair value per share for Salhia of ***KD 0.657***.

...weighted average share of KD 0.657

Table 13. Salhia Weighted Average Value per Share

Method	Value per Share (KD)	Weight (%)	Contribution (KD)
Discounted Cash Flow	0.631	70	0.442
Sector P/E	0.793	15	0.119
Sector P/B	0.645	15	0.097
Salhia Weighted Avg. Value per Share		**100**	**0.657**

Source: KAMCO Research

As of 23 May 2007, Salhia was trading at KD 0.490 per share which is at a 25.43% discount to our estimated fair value of KD 0.657 indicating a ***Strong* Buy** following KAMCO's recommendation scale.

...Strong Buy

Trading & Share Data

Table 14. Historical Share Data

	2003	2004	2005	2006	YTD-07*
Market Capitalization ('000 KD)	138,279	163,760	245,641	179,507	177,460
Closing Share Price (KD)	0.580	0.520	0.780	0.570	0.490
High (KD)	0.580	0.680	0.820	0.880	0.660
Low (KD)	0.340	0.450	0.450	0.500	0.470
Volume ('000 Shares)	19,100	26,100	39,935	13,405	20,365
Value ('000 KD)	7,786	13,290	25,820	8,773	11,768
No. of Deals	765	979	1,196	984	1,217
EPS (KD)	0.027	0.034	0.058	0.163	0.163^
Book Value Per Share (KD)	0.330	0.326	0.339	0.447	0.447^
Dividend Per Share (KD)	0.000	0.025	0.050	0.050	NA
Price to Earnings Multiple (X)**	18.59	17.31	10.12	3.62	3.62
Price to Book Multiple (X)**	2.25	1.76	1.74	1.32	1.32
Dividend Yield (%)**	0.00	3.36	8.87	8.87	8.87
Pay-out Ratio (%)	0.00	72.76	86.42	30.65	NA

N/A: Not Applicable

**: As of 23 May 2007. Market Cap is calculated based on new share capital of 362.16 million shares*
***: Based on market cap as of 23 May 2007 and FY 06 earnings, shareholders' equity as of Dec. '06 and dividends for full year 2006*

^: FY 06 earning per share and book value per share as of Dec. '06

Source: KAMCO Research

Ratio Analysis

	2002	2003	2004	2005	2006
Liquidity Ratios					
Current Ratio (X)	0.47	0.43	0.60	0.33	1.69
Quick Ratio (X)	0.46	0.42	0.58	0.32	1.67
Cash Ratio (X)	0.19	0.18	0.22	0.08	1.21
Asset Structure Ratios					
Total Liabilities / Total Assets *(%)*	56.71	58.84	53.67	52.59	40.57
Total Debt / Total Assets *(%)*	52.20	52.62	49.45	47.63	35.80
Total Debt / Equity *(%)*	120.86	128.25	107.72	101.40	64.72
Operating Eciency Ratios					
Inventory Turnover (X)	47.78	76.63	51.19	32.57	36.26
Receivables Turnover (X)	5.20	5.98	5.89	4.89	4.72
Payables Turnover (X)	9.72	5.82	5.60	5.91	9.38
Fixed Assets Turnover Ratio (X)	0.27	0.25	0.34	0.34	0.35
Total Assets Turnover Ratio (X)	0.13	0.13	0.16	0.16	0.15
Profitability Ratios					
Return on Average Assets *(%)*	4.58	5.54	4.98	8.04	21.34
Return on Average Equity *(%)*	10.34	13.19	11.42	17.30	41.54
ROA *(%)*	4.34	4.97	4.67	8.08	20.22
ROE *(%)*	10.06	12.12	10.17	17.21	36.56
ROIC *(%)*	4.55	5.31	4.90	8.54	22.19
Rental Income / Total Income *(%)*	79.99	85.23	81.00	64.82	41.22
Gross Profit Margin *(%)*	56.93	59.22	59.54	59.54	55.68
Operating Profit Margin *(%)*	17.85	20.94	15.45	21.22	139.54
Net Profit Margin *(%)*	32.30	36.94	30.01	51.94	134.32
Average Cost of Debt *(%)*	4.39	4.04	4.91	6.74	9.30
Interest Coverage Ratio (X)	3.17	3.19	3.18	3.61	6.86

Source: Salhia Financial Statements & KAMCO Research

Financial Statements

Balance Sheet *(KD ’000)*	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Assets							
Cash & Bank Balances	273	5,270	2,646	3,624	4,259	2,540	2,458
Fixed Deposits	-	-	-	-	-	-	20,000
Inventories	191	226	144	131	409	430	462
A/R & Other Assets	2,095	4,147	3,758	4,883	6,711	7,108	8,370
Available for Sale Inv.	21,786	16,530	15,780	20,860	23,066	28,099	36,819
Inv. In Unconsolidated Subsid.	3,409	-	-	-	-	-	-
Investments in JV	4,500	4,714	11,514	13,960	17,188	15,447	18,575
Investment Properties	49,674	48,857	44,086	44,142	67,311	64,159	51,812
Property, Plant, & Equipment	24,748	57,170	74,796	104,382	100,625	99,281	103,956
Total Assets	**106,677**	**136,915**	**152,724**	**191,982**	**219,570**	**217,063**	**242,453**
Liabilities							
Due to Banks	3,556	5,424	7,037	8,307	9,770	19,477	6,925
Short-Term Loans	2,775	618	-	-	-	-	-
A/P & Other Liabilities	3,041	5,030	6,886	11,948	9,269	10,770	11,560
Long-Term Loans	39,009	63,323	72,686	92,714	98,802	83,911	79,875
Total Liabilities	**48,381**	**74,396**	**86,610**	**112,968**	**117,841**	**114,158**	**98,360**
Deferred Gain	-	-	-	-	-	-	**9,057**
Minority Interest	-	**126**	**153**	**247**	**935**	**940**	**926**
Shareholders’ Equity							
Share Capital	23,841	23,841	23,841	23,841	31,492	31,492	31,492
Share Premium	14,457	14,457	14,457	14,457	27,525	27,525	27,525
Treasury Shares	(1,942)	(1,268)	-	-	(2,779)	(8,746)	(9,440)
Treasury Share Reserve	93	-	-	-	-	994	994
Statutory Reserve	4,753	5,375	6,067	7,054	8,121	9,943	15,035
Voluntary Reserve	4,753	5,375	6,067	7,054	8,121	9,943	15,035
General Reserve	4,250	4,250	4,250	4,250	4,250	4,250	4,250
FX Translation Reserve	-	1	439	2,874	4,637	1,898	3,376
Fair Valuation Reserve	-	1,284	927	6,520	978	(66)	(2,696)
Retained Earnings	8,091	9,078	9,913	12,715	18,451	24,733	48,538
Total Equity	**58,296**	**62,394**	**65,962**	**78,766**	**100,794**	**101,965**	**134,110**
Total Liabilities & Equity	**106,677**	**136,915**	**152,724**	**191,982**	**219,570**	**217,063**	**242,453**

Source: Salhia Financial Statements & KAMCO Research

Income Statement	2004	2005	2006	2007F	2008F	2009F	2010F	2011F
(KD '000)								
Revenues	34,165	33,778	36,503	39,170	41,306	47,466	50,507	53,732
Operating Costs	13,822	13,667	16,180	17,151	17,862	20,266	21,284	22,343
Gross Profit	**20,343**	**20,110**	**20,324**	**22,019**	**23,444**	**27,201**	**29,223**	**31,389**
Share in JV Profits	2,094	1,498	1,668	2,659	1,549	1,497	1,444	1,391
Share in Profits of Assoc.	-	-	-	0	0	0	17,336	6,135
G & A Expenses	4,904	5,204	5,323	5,678	5,987	6,880	7,321	7,789
Depreciation Expense	4,410	5,198	5,200	5,362	5,399	7,284	7,304	7,363
Sales & Mktg Expenses	2,439	2,140	987	1,059	1,117	1,283	1,366	1,453
Inv. Income	5,923	11,467	885	7,417	7,442	8,186	9,005	9,905
Gain on Sale of Prop. & FA	-	4,912	49,057	0	0	0	0	0
FX Gain/(Loss)	(118)	286	30	66	128	75	89	97
Interest Income	28	69	131	76	92	100	89	94
Other Income	88	102	285	158	182	208	183	191
Provision for Impairment	254	123	200	199	219	240	264	291
Finance Costs	5,150	7,145	8,846	6,766	5,560	4,714	3,777	3,028
Profit Before Taxes	**11,202**	**18,634**	**51,823**	**12,173**	**12,174**	**12,175**	**12,176**	**12,177**
Foreign Tax	604	456	972	996	1,003	1,100	1,118	1,136
Minority Interest	(63)	(43)	(74)	(75)	(75)	(82)	(82)	(83)
KFAS	96	164	458	124	136	158	363	282
NLST	236	403	1,271	307	337	392	898	699
Director's Fees	77	110	165	165	165	165	165	165
Net Income	**10,252**	**17,543**	**49,031**	**11,816**	**12,988**	**15,131**	**34,875**	**27,081**
EPS (KD)*	***0.034***	***0.058***	***0.163***	***0.033***	***0.036***	***0.042***	***0.096***	***0.075***

**: EPS over the forecasted period is calculated based on new share capital of 362.16 million*
f: KAMCO forecast
Source: Salhia Financial Statements & KAMCO Research

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