

**Albazie & Co.**

Public Accountants

**RSM!**

**SOKOUK REAL ESTATE DEVELOPMENT COMPANY  
KUWAITI SHAREHOLDING COMPANY (CLOSED)  
STATE OF KUWAIT**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
WITH  
AUDITOR'S REPORT**

SOKOUK REAL ESTATE DEVELOPMENT COMPANY  
KUWAITI SHAREHOLDING COMPANY (CLOSED)  
STATE OF KUWAIT

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
WITH  
AUDITOR'S REPORT

CONTENTS

Auditor's report

Balance sheet

Statement of income

Statement of changes in shareholders' equity

Statement of cash flows

Notes to financial statements

Exhibit

A

B

C

D

Pages

1 - 11

**Albazie & Co.**

Public Accountants

**RSM!**

**Auditor's Report**

**Albazie & Co.**

P. O. Box 2115, Safat - 13022

State of Kuwait

T +965 2410010 F +965 2412761

www.albazie.com

The Shareholders  
Sokouk Real Estate Development Company  
Kuwaiti Shareholding Company (Closed)  
State of Kuwait

I have audited the accompanying balance sheet of Sokouk Real Estate Development Company - Kuwaiti Shareholding Company (Closed) as of December 31, 2004, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on the audit. The financial statements for the year ended December 31, 2003 were audited by other auditor, whose report dated March 13, 2004, expressed an unqualified opinion on those financial statements.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sokouk Real Estate Development Company - Kuwaiti Shareholding Company (Closed) as of December 31, 2004, and the results of operations and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Also in my opinion, the statements include the disclosures required by the Commercial Companies Law and the Company's Articles of Association, and I obtained the information I required to perform my audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Directors' Report is in agreement with the company's books. According to the information available to me, there were no contraventions during the year of either the Commercial Companies Law or of the Articles of Association which might have materially affected the Company's financial position or results of its operations.



Dr. Shuaib A. Shuaib

License No. 33-A

Albazie & Co.

Member of RSM International

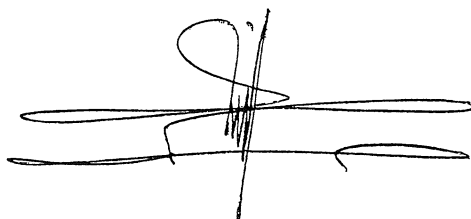
State of Kuwait  
March 29, 2005

SOKOUK REAL ESTATE DEVELOPMENT COMPANY  
 KUWAITI SHAREHOLDING COMPANY (CLOSED)  
 STATE OF KUWAIT  
 BALANCE SHEET  
 December 31, 2004

| <u>ASSETS</u>                                | <u>Note</u> | <u>2004<br/>KD</u> | <u>2003<br/>KD</u> |
|--|-------------|--------------------|--------------------|
| Current assets:                              |             |                    |                    |
| Cash and cash equivalents                    | 3           | 1,735,051          | 185,053            |
| Investments                                  | 4           | -                  | 446,810            |
| Utilization rights                           | 5           | 6,816,988          | -                  |
| Accounts receivable and other debit balances | 6           | 5,561,296          | 22,578             |
| Murabaha Investments                         | 7           | 8,350,000          | -                  |
| Properties held for trading                  |             | -                  | 205,875            |
| Total current assets                         |             | <u>22,463,335</u>  | <u>860,316</u>     |
| Investments                                  | 4           | 1,150,000          | 134,986            |
| Utilization rights                           | 5           | 26,553,986         | -                  |
| Accounts receivable and other debit balances | 6           | 613,027            | -                  |
| Investment properties                        | 8           | -                  | 234,048            |
| Fixed assets                                 | 9           | 70,724             | 7,661              |
| Total assets                                 |             | <u>50,851,072</u>  | <u>1,237,011</u>   |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>  |             |                    |                    |
| Current liabilities:                         |             |                    |                    |
| Accounts payable and other credit balances   | 10          | 10,375,249         | 7,362              |
| Total current liabilities                    |             | <u>10,375,249</u>  | <u>7,362</u>       |
| Accounts payable and other credit balances   | 10          | 9,589,280          | -                  |
| End of service indemnity                     | 11          | 6,497              | 18,433             |
| Shareholders' equity:                        |             |                    |                    |
| Capital                                      | 12          | 30,000,000         | 1,000,000          |
| Statutory reserve                            | 13          | 105,018            | 21,382             |
| Voluntary reserve                            | 14          | 105,018            | 21,382             |
| Retained earnings                            |             | 670,010            | 168,452            |
| Total shareholders' equity                   |             | <u>30,880,046</u>  | <u>1,211,216</u>   |
| Total liabilities and shareholders' equity   |             | <u>50,851,072</u>  | <u>1,237,011</u>   |

The accompanying notes are an integral part of the financial statements

Fawaz S. Al-Ahmed  
 Chairman



SOKOUK REAL ESTATE DEVELOPMENT COMPANY  
 KUWAITI SHAREHOLDING COMPANY (CLOSED)  
 STATE OF KUWAIT  
 STATEMENT OF INCOME  
 For the year ended December 31, 2004

|   | Note | 2004<br>KD  | 2003<br>KD |
|---|------|-------------|------------|
| Operating revenue   | 15   | 6,090,612   | 46,900     |
| Operating cost  | 15   | (5,344,075) | (16,267)   |
| Gross profit  |      | 746,537     | 30,633     |
| Other operating income  | 16   | 111,164     | 57,442     |
| Expenses and charges:   |      |             |            |
| Staff cost  | 17   | 95,589      | 16,711     |
| General and administrative  |      | 27,208      | 31,782     |
| Depreciation  |      | 2,770       | 6,065      |
| Operating profit  |      | 732,134     | 33,517     |
| Murabaha income   | 7    | 92,776      | -          |
| Net investment income   | 18   | -           | 62,899     |
| Foreign exchange gain   |      | 11,447      | -          |
| Profit for the year before contribution to Kuwait Foundation of the Advancement of Sciences |      | 836,357     | 96,416     |
| Contribution to Kuwait Foundation of the Advancement of Sciences                            |      | (7,527)     | (868)      |
| Net profit for the year   |      | 828,830     | 95,548     |

The accompanying notes are an integral part of the financial statements

## EXHIBIT C

SOKOUK REAL ESTATE DEVELOPMENT COMPANY  
 KUWAITI SHAREHOLDING COMPANY (CLOSED)  
 STATE OF KUWAIT  
 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
 For the year ended December 31, 2004

|                                     | Capital<br>KD     | Statutory<br>reserve<br>KD | Voluntary<br>reserve<br>KD | Retained<br>earnings<br>KD | Total<br>KD       |
|-------------------------------------|-------------------|----------------------------|----------------------------|----------------------------|-------------------|
| Balance at December 31, 2002        | 1,000,000         | 11,740                     | 11,740                     | 92,188                     | 1,115,668         |
| Net profit for the year             | -                 | -                          | -                          | 95,548                     | 95,548            |
| Transfer to reserves                | -                 | 9,642                      | 9,642                      | (19,284)                   | -                 |
| Balance at December 31, 2003        | 1,000,000         | 21,382                     | 21,382                     | 168,452                    | 1,211,216         |
| Increase in capital (Note 12)       | 29,000,000        | -                          | -                          | -                          | 29,000,000        |
| Cash dividends paid (2003 – 16%)    | -                 | -                          | -                          | (160,000)                  | (160,000)         |
| Net profit for the year             | -                 | -                          | -                          | 828,830                    | 828,830           |
| Transfer to reserves                | -                 | 83,636                     | 83,636                     | (167,272)                  | -                 |
| <b>Balance at December 31, 2004</b> | <b>30,000,000</b> | <b>105,018</b>             | <b>105,018</b>             | <b>670,010</b>             | <b>30,880,046</b> |

The accompanying notes are an integral part of the financial statements

SOKOUK REAL ESTATE DEVELOPMENT COMPANY  
 KUWAITI SHAREHOLDING COMPANY (CLOSED)  
 STATE OF KUWAIT  
 STATEMENT OF CASH FLOWS  
 For the year ended December 31, 2004

|  | 2004<br>KD          | 2003<br>KD      |
|--|---------------------|-----------------|
| <b>Cash flows from operating activities</b>  |                     |                 |
| Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences | 836,357             | 96,416          |
| Adjustments for:   |                     |                 |
| Depreciation   | 2,770               | 19,832          |
| Murabaha income  | (92,776)            | -               |
| Gain on sale of utilization rights   | (746,537)           | -               |
| End of service indemnity   | 6,497               | 4,092           |
| Operating profit before changes in working capital   | 6,311               | 120,340         |
| Paid for purchase of utilization rights  | (19,357,525)        | -               |
| Proceeds from sale of utilization rights   | 349,716             | -               |
| Increase in accounts receivable and other debit balances                                     | (354,033)           | (9,554)         |
| Increase (decrease) in accounts payable and other credit balances                            | 599,478             | (121)           |
| Net cash (used in) generated from operating activities                                       | <u>(18,756,053)</u> | <u>110,665</u>  |
| <b>Cash flows from investing activities</b>  |                     |                 |
| Purchase of fixed assets   | (73,494)            | (8,845)         |
| Purchase of investments available for sale   | (1,150,000)         | -               |
| Paid for Murabaha investments  | (8,350,000)         | -               |
| Murabaha income received   | 39,545              | -               |
| Purchase of investments held for trading   | -                   | (39,184)        |
| Proceeds from sale of properties held for trading  | -                   | 30,447          |
| Purchase of managed portfolios available for sale  | -                   | (21,477)        |
| Net cash used in investing activities  | <u>(9,533,949)</u>  | <u>(39,059)</u> |
| <b>Cash flows from financing activities</b>  |                     |                 |
| Increase in capital  | 30,000,000          | -               |
| Dividends paid   | (160,000)           | -               |
| Net cash generated from financing activities   | <u>29,840,000</u>   | <u>-</u>        |
| Net increase in cash and cash equivalents  | 1,549,998           | 71,606          |
| Cash and cash equivalents at the beginning of the year                                       | 185,053             | 113,447         |
| Cash and cash equivalents at the end of the year (Note 3)                                    | <u>1,735,051</u>    | <u>185,053</u>  |

The accompanying notes are an integral part of the financial statements

SOKOUK REAL ESTATE DEVELOPMENT COMPANY  
KUWAITI SHAREHOLDING COMPANY (CLOSED)  
STATE OF KUWAIT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

1. Incorporation and activities

Sokouk Real Estate Development Company - Kuwaiti Shareholding Company Closed, (previously known as Al-Wasta Real Estate Development Company- Kuwaiti Shareholding Company Closed), is registered in the State of Kuwait and was incorporated and authenticated on August 23, 1998 at the Ministry of Justice – Real Estate Registration and Authentication Department under Ref. No. 1909/Volume 1.

According to the memorandum issued by the Ministry of Commerce and Industry under Ref. No. 726/2004 dated July 26, 2004 and based on the extraordinary General Assembly held on July 17, 2004, the company's name was amended to become "Sokouk Real Estate Development Company - Kuwaiti Shareholding Company Closed".

Also, according to the memorandum issued by the Ministry of Commerce and Industry under Ref. No. 778/2004 dated August 17, 2004 and based on the extraordinary General Assembly held on August 17, 2004, the Company's capital was increased from KD 1,000,000 to KD 30,000,000 and the objectives of the Company were adjusted to become:

1. Owning, selling and purchasing real estates and lands, in addition to developing them for the benefit of the Company inside and outside the State of Kuwait, in addition to managing the properties of others, with no violation of the set forth regulations, and the kind of trading in private residence buildings that has been prohibited by these regulations.
2. Owning, selling and purchasing the shares of real estate companies for the interest of the Company inside and outside Kuwait.
3. Conducting all kinds of studies and providing consultations in the field of real estates, provided the required conditions are met by the person delivering this kind of service.
4. Owning and managing hotels, health clubs and touristic facilities in addition to renting and leasing them.
5. Performing maintenance works for buildings and real estates owned by the Company, including maintenance works and performing civil, mechanical, electricity, elevators and airconditioning works in order to maintain the building condition and safety.
6. Managing, operating, investing, renting and leasing hotels, clubs, motels, hosting houses, leisure, parks, gardens, exhibitions, restaurants, cafeterias, housing complexes, touristic and health resorts, entertainment and sports projects and shops, on all levels and grades including all essential services and affiliated facilities as well as other necessary services.
7. Organizing real estate exhibitions for the Company's real estate projects, pursuant to the Ministry regulations.
8. Conducting real estate auctions, pursuant to the Ministry regulations.
9. Owning and managing commercial markets and housing complexes.
10. Establishment and managing of the real estate investment funds after to the approval of the Central Bank of Kuwait.
11. Utilizing the Company's financial surpluses through investing them in financial and real estate portfolios that are managed by specialized companies and bodies.
12. Direct investment in creating the basis of real estate, commercial and industrial projects and areas through the Building and Operating and Transferring System (BOT) and managing real estate ports through BOT.



The Company shall have the right to have an interest or to take part in any manner with the authorities that practice similar operations, or that may help the Company to achieve its objectives inside and outside Kuwait. The Company shall also acquire these authorities or merge them to the Company. The objectives for which the Company was established shall be practiced according to Islamic Shari'a, and the Company shall not analyze the above objectives as it allows the Company directly or indirectly to deal in usury in the form of interest or any other form.

The Company's registered address is P.O. Box 29110 Safat – 13152 - State of Kuwait.

The total number of employees of the Company as of December 31, 2004 was 16 employees (2003 – 3 employees).

The financial statements were authorized for issue by the Board of Directors on March 29, 2005. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

## 2. Significant accounting policies

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

### a) Basis of preparation

The financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention except for investments available-for-sale that are stated at fair value. The accounting policies applied by the company are consistent with those used in the previous year.

### b) Cash equivalents

Cash equivalents for the purpose of preparing the statement of cash flows, comprise murabaha investment with maturity date not exceeding three months from the date of deposit.

### c) Investments

Investments are initially recognized at cost, being the fair value of the consideration given, which is measured using settlement date, including all acquisition costs associated with the investment.

After initial recognition, investments available-for-sale are measured at fair value. The fair value of investments traded in recognized financial markets is their quoted market price based on the current bid price. For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis or option pricing models. Investments, whose fair value cannot be reliably measured, are carried at cost less impairment losses.

Realized or unrealized gains or losses resulting from changes in fair value of investments available-for-sale are recognized in the income statement in the period in which it arises, also impairment in value for investment carried at cost is charged to income statement.

### d) Utilization rights

The current portion of the utilization rights represents the value of Sokouk stated at cost and are held for trading purposes. The non-current portion of the utilization rights stated at cost and are held to generate rental revenue.

e) Receivables

Receivables are stated at face value, after provision for doubtful debts.

f) Murabaha

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis.

g) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. When fixed assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income.

The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets.

Depreciation is computed on a straight-line method over the estimated useful lives of these assets as follows:

|                               | <u>Years</u> |
|-------------------------------|--------------|
| Furniture and fixtures        | 5            |
| Computer equipment & software | 3            |
| Office equipment              | 5            |
| Key Money                     | 5            |

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of fixed assets.

h) Impairment of assets

The carrying amounts of the Company's assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income. The recoverable amounts of the Company's investments available for sale is their fair value. The recoverable amount of other assets is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in income.

i) Payables

Accounts payable are stated at their cost.

j) End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

k) Income recognition

Sokouk trading revenue is recognized on accrual basis when the significant risks and rewards of ownership are transferred from the seller to the buyer.

For Sokouk sold on credit in installments, revenue attributable to the sales price, exclusive of financing income, is recognised at the date of sale. The sale price is the present value of the consideration, determined by discounting the installments receivable at the imputed rate of income. The income element is recognised as revenue as it is earned, using the effective interest method.

Dividend is recognized when the Company's right to receive payment is established.

l) Foreign currencies

Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Exchange differences are reported as part of the results for the year.

m) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, receivables, investments available for sale, and payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

n) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. Cash and cash equivalents

|                           | 2004<br>KD | 2003<br>KD |
|---------------------------|------------|------------|
| Cash on hand and at banks | 47,190     | 185,053    |
| Murabaha investment       | 1,687,861  | -          |
|                           | 1,735,051  | 185,053    |

Murabaha investment represents deposit with a Kuwaiti Bank, which has experience in management of investment funds in the local and international market. This investment has a maturity date not exceeding three months from the date of deposit. This investment earns an average income at 2.625% per annum.

4. Investments

|   | 2004<br>KD | 2003<br>KD |
|---|------------|------------|
| Current investments:                        |            |            |
| Unquoted equity securities held for trading | -          | 446,810    |
| Non-current investments:                    |            |            |
| Managed fund available-for-sale             | 1,150,000  | -          |
| Managed portfolios available-for-sale       | -          | 134,986    |
|   | 1,150,000  | 134,986    |

Investment in managed fund available-for-sale is placed with one of the Kuwaiti financial institutions, which has experience in management of investment funds in the local and international market.

It was not possible to reliably measure the fair value of the available-for-sale investments for which no quoted market price in an active market is available, accordingly, the investments are stated at their original cost less impairment losses, if any.

5. Utilization rights

Utilization rights represent the Company's ownership of the Sokouk of the Zamzam Tower. Sokouk are a certificate or deed that entitles the holder the right to utilize a specific real estate property for a specific duration of time per year over a determined number of years. This right is wholly owned by the Sokouk investor who is entitled to sell, grant, inherit or invest the Sokouk. The current portion of the utilization rights represents Sokouk that are held by the Company for trading purposes. While the non-current portion represent the Sokouk that the Company have the intention to keep as a long term investment.

6. Accounts receivable and other debit balances

|                        | 2004<br>KD | 2003<br>KD |
|------------------------|------------|------------|
| Current portion:       |            |            |
| Trade receivables      | 286,916    | 22,578     |
| Due from related party | 4,840,953  | -          |
| Other receivables      | 433,427    | -          |
|                        | 5,561,296  | 22,578     |
| Non-current portion:   |            |            |
| Trade receivables      | 613,027    | -          |

Trade receivables represent installment sales, where the current portion are installments with due date not exceeding one year from the date of the balance sheet.

The due from related party represent the amount due from Mas International for General Trading and Contracting Co, resulting from certain commercial transactions. Prices and terms of payment relating to these transactions are approved by the Board of Directors.

Other receivables include an amount of KD 216,000 relating to financing the employees participation in the capital increase of the company.

7. Murabaha Investments

Murabaha investments represents deposit with a number of Kuwaiti financial institutions – related parties, which has experience in management of investment funds in the local and international markets. These investments earn an average income ranging from 3.375% to 10% per annum.

8. Investment properties

|                                  | Land<br>KD | Building<br>KD | Total<br>KD |
|----------------------------------|------------|----------------|-------------|
| <b>Cost:</b>                     |            |                |             |
| At December 31, 2003             | 76,800     | 212,316        | 289,116     |
| Written-off                      | (76,800)   | (212,316)      | (289,116)   |
| <b>At December 31, 2004</b>      | -          | -              | -           |
| <b>Accumulated depreciation:</b> |            |                |             |
| At December 31, 2003             | -          | 55,068         | 55,068      |
| Relating to write-offs           | -          | (55,068)       | (55,068)    |
| <b>At December 31, 2004</b>      | -          | -              | -           |
| <b>Net book value:</b>           |            |                |             |
| <b>At December 31, 2004</b>      | -          | -              | -           |
| At December 31, 2003             | 76,800     | 157,248        | 234,048     |

9. Fixed assets

|                                  | Furniture and fixtures and KD | Computer equipment & software KD | Office equipment KD | Vehicles KD | Key Money KD  | Total KD      |
|----------------------------------|-------------------------------|----------------------------------|---------------------|-------------|---------------|---------------|
| <b>Cost:</b>                     |                               |                                  |                     |             |               |               |
| At December 31, 2003             | 5,450                         | -                                | 1,500               | 26,300      | -             | 33,250        |
| Written-off                      | (5,450)                       | -                                | (1,500)             | (26,300)    | -             | (33,250)      |
| Additions during the year        | 26,089                        | 13,460                           | 3,945               | -           | 30,000        | 73,494        |
| <b>At December 31, 2004</b>      | <b>26,089</b>                 | <b>13,460</b>                    | <b>3,945</b>        | <b>-</b>    | <b>30,000</b> | <b>73,494</b> |
| <b>Accumulated depreciation:</b> |                               |                                  |                     |             |               |               |
| At December 31, 2003             | 5,449                         | -                                | 1,207               | 18,933      | -             | 25,589        |
| Relating to write-offs           | (5,449)                       | -                                | (1,207)             | (18,933)    | -             | (25,589)      |
| Charge for the year              | 729                           | 335                              | 206                 | -           | 1,500         | 2,770         |
| <b>At December 31, 2004</b>      | <b>729</b>                    | <b>335</b>                       | <b>206</b>          | <b>-</b>    | <b>1,500</b>  | <b>2,770</b>  |
| <b>Net book value:</b>           |                               |                                  |                     |             |               |               |
| At December 31, 2004             | 25,360                        | 13,125                           | 3,739               | -           | 28,500        | 70,724        |
| At December 31, 2003             | 1                             | -                                | 293                 | 7,367       | -             | 7,661         |

10. Accounts payable and other credit balances

|   | 2004<br>KD        | 2003<br>KD   |
|---|-------------------|--------------|
| Current portion:                                  |                   |              |
| Trade payables                                    | 9,660             | 2,784        |
| Due to related party                              | 10,348,529        | -            |
| Accrued expenses and leave pay                    | 9,533             | 4,578        |
| Kuwait Foundation for the Advancement of Sciences | 7,527             | -            |
|   | <u>10,375,249</u> | <u>7,362</u> |
| Non-current portion:                              |                   |              |
| Due to related party                              | 9,589,280         | -            |
|   | <u>9,589,280</u>  | <u>-</u>     |

The due to related party represent the amount due to Munshaat Real Estate Projects Company K.S.C.C., resulting from certain commercial transactions. Prices and terms of payment relating to these transactions are approved by the Board of Directors.

11. End of service indemnity

|                                  | 2004<br>KD   | 2003<br>KD    |
|----------------------------------|--------------|---------------|
| Balance at beginning of the year | 18,433       | 14,341        |
| Written-off                      | (18,433)     | -             |
| Charge for the year              | 6,497        | 4,092         |
| Balance at end of the year       | <u>6,497</u> | <u>18,433</u> |

12. Capital

The ownership of the Company was transferred to new shareholders' during the year, and according to the memorandum issued by the Ministry of Commerce and Industry under Ref. No. 778/2004 dated August 17, 2004 and based on the extraordinary General Assembly held on August 17, 2004, the authorized, issued and fully paid-up capital consist of 300,000,000 shares of 100 fils each (2003 - 10,000,000 shares of 100 fils each).

13. Statutory reserve

As required by the Commercial Companies Law and the parent company's Articles of Association; 10% of the profit for the year is transferred to statutory reserve. The company may resolve to discontinue such annual transfers when the reserve totals 50% of paid-up share capital. Distribution of the reserve is limited to the amount required to enable the payment of a dividend up to 5% of paid-up share capital in years when accumulated profits are not sufficient to secure the payment of such a dividend.

14. Voluntary reserve

As required by the Company's Articles of Association, a percentage of the profit for the year has been transferred to the voluntary reserve and this proposed by the Board of Directors and approved by General Assembly. The Company may resolve to discontinue such transfers in accordance with a resolution at the General Assembly.

15. Operating revenue and cost

|                   | 2004  |                         |                |
|-------------------|---|-------------------------|----------------|
|                   | Income from<br>sale of<br>utilization<br>rights<br>KD | Rental<br>revenue<br>KD | Total<br>KD    |
| Operating revenue | 6,090,612   | -                       | 6,090,612      |
| Operating cost    | (5,344,075)   | -                       | (5,344,075)    |
| Gross profit      | <u>746,537</u>  | <u>-</u>                | <u>746,537</u> |

|                   | 2003  |                         |               |
|-------------------|---|-------------------------|---------------|
|                   | Income from<br>sale of<br>utilization<br>rights<br>KD | Rental<br>revenue<br>KD | Total<br>KD   |
| Operating revenue | -   | 46,900                  | 46,900        |
| Operating cost    | -   | (16,267)                | (16,267)      |
| Gross profit      | <u>-</u>  | <u>30,633</u>           | <u>30,633</u> |

16. Other operating income

|   | 2004<br>KD     | 2003<br>KD    |
|---|----------------|---------------|
| Gain on sale of properties held for trading | 110,000        | 45,279        |
| Income from financing activities            | 1,164          | -             |
| Commission on sale of properties            | -              | 12,163        |
|   | <u>111,164</u> | <u>57,442</u> |

17. Staff cost

|                          | 2004<br>KD    | 2003<br>KD    |
|--------------------------|---------------|---------------|
| Salaries                 | 69,869        | 12,619        |
| Allowances               | 1,766         | -             |
| Bonus                    | 6,000         | -             |
| Social security expenses | 3,174         | -             |
| End of service indemnity | 6,497         | 4,092         |
| Leave                    | 8,283         | -             |
|                          | <u>95,589</u> | <u>16,711</u> |



18. Net investment income

|   | 2004<br>KD | 2003<br>KD    |
|---|------------|---------------|
| Dividend income                                       | -          | 14,528        |
| Changes in fair value of investments held for trading | -          | 24,026        |
| Gain on sale of investments held for trading          | -          | 24,345        |
|   | <u>-</u>   | <u>62,899</u> |

19. Related party transactions

In the ordinary course of business, the Company conducts commercial transactions with parties related to the shareholders. Prices and terms of payment relating to these transactions are approved by the Board of Directors.

|                                    | 2004<br>KD        | 2003<br>KD |
|------------------------------------|-------------------|------------|
| <b><u>Assets:</u></b>              |                   |            |
| Other debit balances               | 50,269            | -          |
| Murabaha investment                | 8,250,000         | -          |
| Due from related party             | 4,840,953         | -          |
|                                    | <u>13,141,222</u> | <u>-</u>   |
| <b><u>Liabilities:</u></b>         |                   |            |
| Due to related party               | 19,937,809        | -          |
|                                    | <u>19,937,809</u> | <u>-</u>   |
| <b><u>Statement of income:</u></b> |                   |            |
| Operating revenue                  | 4,000,000         | -          |
| Operating cost                     | 3,600,000         | -          |
| Other income                       | 50,269            | -          |

20. Financial instruments

In the normal course of business, the Company uses primary financial instruments such as cash and cash equivalents, receivables, investments available for sale and payables and as a result, is exposed to the risks indicated below. The Company currently does not use derivative financial instruments to manage its exposure to these risks.

**Interest rate risk:**

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. The effective interest rates and the periods in which interest bearing financial assets are repriced or mature are indicated in the respective notes.

**Credit risk:**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the company to credit risk consist principally of cash and cash equivalents at banks and financial institutions. The Company's cash is placed with high credit rating banks and financial institutions.

**Foreign currency risk:**

The Company incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Company may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Company ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

**Liquidity risk:**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Company periodically assesses the financial viability of customers and invest in murabaha investments.

**Cash flow risk:**

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. At present, the Company has no significant exposure to such risk.

**Fair value of financial instruments:**

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. At December 31, the fair values of financial instruments approximate their carrying amounts except available for sale investments as mentioned in Note 4 and due from (to) related parties.

21. Comparative figures

Certain of the prior year amounts have been reclassified to conform with the current year presentation.