

**AL MAL REAL ESTATE COMPANY – KSC (CLOSED)  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS'  
REPORT FOR THE YEAR ENDED 31 DECEMBER 2004**

**AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT**

For the year ended 31 December 2004

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**AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004**

	NOTE	2004 <u>KD</u>	2003 <u>KD</u>
<b>ASSETS</b>			
Cash and cash equivalents	4	1,253,478	1,494,083
Accounts receivable and other assets		888,436	390,224
Available for sale investments	5	10,988,555	11,003,334
Investment properties	6	18,486,658	16,071,457
Interest in joint venture	7	2,072,482	705,170
Investment in associate	8	2,250,000	-
Property under development	9	5,632,915	-
<b>Total assets</b>		<u>41,572,524</u>	<u>29,664,268</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks		544,963	-
Murabaha payable	6	1,564,002	-
Accounts payable and other liabilities		2,385,156	942,099
Bank loans	10	9,941,312	6,251,838
Finance lease	11	1,143,676	1,178,745
		<u>15,579,109</u>	<u>8,372,682</u>
<b>Shareholders' equity</b>			
Issued and fully paid share capital – 180,000,000 shares of Kuwaiti Fils 100 each (2003: 162,000,000 shares)	12	18,000,000	16,200,000
Share premium		169,130	97,130
Legal reserve	13	1,228,158	760,144
Voluntary reserve	13	614,079	380,072
Gain on sale of treasury shares		21,985	-
Foreign currency translation reserves		481,882	540,786
Proposed issue of bonus share	14	2,160,000	1,620,000
Retained earnings		3,318,181	1,693,454
		<u>25,993,415</u>	<u>21,291,586</u>
<b>Total liabilities and shareholders' equity</b>		<u>41,572,524</u>	<u>29,664,268</u>

Hamad Abdulaziz Al-Shaya  
Chairman

Mohammad Ibrahim Al-Farhan  
Managing Director

The notes set out on pages 6 to 13 form an integral part of these consolidated financial statements.

**AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES**

**CONSOLIDATED INCOME STATEMENT**

For the year ended 31 December 2004

	<u>NOTE</u>	<u>2004</u> <u>KD</u>	<u>2003</u> <u>KD</u>
<b>INCOME</b>			
Rental income		1,012,551	921,707
Income from available for sale investments		493,771	325,341
Income from sale of available for sale investment		1,005,804	-
Change in fair value of available for sale investments		(194,922)	191,445
Income from sale of investment properties		-	398,461
Change in fair value of investment properties	6	3,141,236	1,654,836
Share of results of joint venture		287,574	-
Foreign real estate funds and portfolio management fees		295,182	227,408
Interest and other income		23,643	50,584
Foreign exchange gain		144,391	77,877
		<u>6,209,230</u>	<u>3,847,659</u>
<b>EXPENSES</b>			
Real estate operating costs		267,643	309,088
Staff costs		518,199	461,403
General and administrative expenses		151,969	131,937
Consultancy and professional fees		126,330	75,155
Finance costs		464,953	197,790
		<u>1,529,094</u>	<u>1,175,373</u>
<b>Profit from operations</b>		4,680,136	2,672,286
Taxation		-	(53,623)
Contribution to Kuwait Foundation for the Advancement of Sciences		(42,121)	(23,568)
National Labour Support Tax		(101,267)	(56,120)
Board of directors' remuneration		(50,000)	(30,000)
<b>Net profit for the year</b>		<u>4,486,748</u>	<u>2,508,975</u>
<b>EARNINGS PER SHARE</b>	16	<u>25.0 Fils</u>	<u>14.1 Fils</u>

The notes set out on pages 6 to 13 form an integral part of these consolidated financial statements.

**AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended 31 December 2004

	<b>Share capital</b>	<b>Treasury shares</b>	<b>Share premium</b>	<b>Legal reserve</b>	<b>Voluntary reserve</b>	<b>Gain on sale of treasury shares</b>	<b>Foreign currency translation reserve</b>	<b>Proposed issue of bonus shares</b>	<b>Retained earnings</b>	<b>Total</b>
	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>
<b>Balance at 31 December 2002</b>	15,000,000	-	97,130	509,246	254,623	-	110,084	1,200,000	1,180,826	18,351,909
Issue of bonus shares	1,200,000	-	-	-	-	-	-	(1,200,000)	-	-
Net profit for the year	-	-	-	-	-	-	-	-	2,508,975	2,508,975
Foreign exchange translation adjustment	-	-	-	-	-	-	430,702	-	-	430,702
Proposed issue of bonus shares	-	-	-	-	-	-	-	1,620,000	(1,620,000)	-
Transfer to reserves	-	-	-	250,898	125,449	-	-	-	(376,347)	-
<b>Balance at 31 December 2003</b>	16,200,000	-	97,130	760,144	380,072	-	540,786	1,620,000	1,693,454	21,291,586
Issue of bonus shares (Note 12)	1,620,000	-	-	-	-	-	-	(1,620,000)	-	-
Shares issued under employees' share purchase scheme (Note 12)	180,000	-	72,000	-	-	-	-	-	-	252,000
Net profit for the year	-	-	-	-	-	-	-	-	4,486,748	4,486,748
Foreign exchange translation adjustment	-	-	-	-	-	-	(58,904)	-	-	(58,904)
Proposed issue of bonus shares	-	-	-	-	-	-	-	2,160,000	(2,160,000)	-
Purchase of treasury shares	-	(60,870)	-	-	-	-	-	-	-	(60,870)
Sale of treasury shares	-	60,870	-	-	-	21,985	-	-	-	82,855
Transfer to reserves	-	-	-	468,014	234,007	-	-	-	(702,021)	-
<b>Balance at 31 December 2004</b>	18,000,000	-	169,130	1,228,158	614,079	21,985	481,882	2,160,000	3,318,181	25,993,415

The notes set out on pages 6 to 13 form an integral part of these consolidated financial statements.

**AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2004

	<u>NOTE</u>	<u>2004</u> <u>KD</u>	<u>2003</u> <u>KD</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit from operations		4,680,136	2,672,286
Adjustments for:			
Income from available for sale investments		(493,771)	(325,341)
Income from sale of available for sale investments		(1,005,804)	-
Change in fair value of available for sale investments		194,922	(191,445)
Income from sale of investment properties		-	(398,461)
Change in fair value of investment properties		(3,141,236)	(1,654,836)
Foreign exchange gain on non-operating assets and liabilities		(5,763)	(19,145)
Share of results of joint venture		(287,574)	-
Interest income		(23,643)	(39,148)
Finance costs		464,953	197,790
Operating profit before changes in operating assets and liabilities		382,220	241,700
Changes in operating assets and liabilities:			
Accounts receivable and other assets		(498,212)	284,050
Accounts payable and other liabilities		1,467,188	227,715
<b>Cash from operations</b>		<b>1,351,196</b>	<b>753,465</b>
KFAS paid		(23,568)	(16,664)
National Labour support tax paid		(56,120)	(44,723)
Board of directors' remuneration paid		(30,000)	(30,000)
<b>Net cash from operating activities</b>		<b>1,241,508</b>	<b>662,078</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of available for sale investments		(2,704,055)	(3,240,814)
Proceeds from redemption of available for sale investments		771,402	820,778
Proceed from sale of available for sale investments		2,570,624	-
Purchase of investment properties		(3,773,965)	(4,868,560)
Proceeds from sale of investment properties		-	1,899,746
Interests in joint ventures		(1,079,738)	(87,950)
Investment in associate		(2,250,000)	-
Proceeds from disposal of interest in joint venture		-	633,786
Addition to property under development		(1,132,915)	-
Income received from available for sale investments		493,771	325,341
Interest income received		23,643	39,148
<b>Net cash used in investing activities</b>		<b>(7,081,233)</b>	<b>(4,478,525)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of shares		252,000	-
Purchase of treasury shares		(60,870)	-
Sale of treasury shares		82,855	-
Loans obtained		5,625,000	4,436,425
Loans repaid		(1,935,526)	(420,004)
Repayment of finance lease		(29,306)	-
Murabaha payable obtained		1,564,002	-
Finance costs paid		(443,998)	(197,790)
<b>Net cash from financing activities</b>		<b>5,054,157</b>	<b>3,818,631</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(785,568)</b>	<b>2,184</b>
Cash and cash equivalents at beginning of the year		1,494,083	1,491,899
<b>Cash and cash equivalents at end of the year</b>	<b>4</b>	<b>708,515</b>	<b>1,494,083</b>

The notes set out on pages 6 to 13 form an integral part of these consolidated financial statements.

## AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2004

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#### 1. INCORPORATION AND ACTIVITIES

Al Mal Real Estate Company – KSC (Closed), (the parent company) was established in August 1998 and listed on the Kuwait Stock Exchange on 17 June 2002. The group is engaged in various types of real estate investment activities.

At 31 December 2004, the group employed 43 people (34 people at 31 December 2003).

The address of the parent company's registered office is PO Box 970, Safat 1, State of Kuwait.

The board of directors of the parent company approved these consolidated financial statements for issue on 10 January 2005.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of preparation**

The consolidated financial statements of the group have been prepared, in accordance with Standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee.

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of available for sale investments and investment properties.

The accounting policies are consistent with those used in the previous year except for the new accounting policies relating to investment in jointly controlled assets, investment in associate and treasury shares.

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December, and the financial statements of its subsidiaries prepared to that date, or to a date not earlier than three months of the parent's financial year end.

All significant inter-company balances and transactions have been eliminated on consolidation.

##### **Investment properties**

Investment properties are initially recorded at cost, being the purchase price and any directly attributable expenditure for a purchased investment property and cost at the date when construction or development is complete for a self-constructed investment property. Subsequent to initial recognition, investment properties are re-measured at fair value on an individual basis based on a valuation by an independent, registered real estate valuer. Changes in fair value are taken to the consolidated income statement.

##### **Property under development**

Property under development is stated at the lower of cost and net realisable value.

##### **Recognition and de-recognition of financial instruments**

A financial asset or a financial liability is recognized when the group becomes a party to the contractual provisions of the instrument. A financial asset is de-recognized when the group loses control of the contractual rights that compromise the financial asset and a financial liability is de-recognized when the obligation specified in the contract is discharged, cancelled or expired.

##### **Available for sale investments**

Available for sale investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. Subsequent to initial recognition, available for sale investments are re-measured at fair value unless fair value cannot be reliably measured. Changes in fair value are taken to the consolidated income statement.

For the year ended 31 December 2004

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Available for sale investments (continued)**

The fair value of available for sale investments is determined by reference to stock exchange quoted market bid prices at the balance sheet date or by reference to the market value of similar investments or based on the expected discounted cash flows. Investments for which fair value cannot be reliably determined are carried at cost less impairment in value.

**Investment in jointly controlled asset**

Investment in jointly controlled asset is accounted for under the method of proportionate consolidation whereby the group recognises its interest in assets, liabilities, income and expenses relating to the asset.

**Interest in joint venture**

Interests in joint venture is accounted for under the equity method of accounting. Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognise the group's share of profits or losses and other changes in equity of the joint venture. Distributions received from joint ventures reduce the carrying amount of the investment.

**Investment in associate**

The group's investment in associate is accounted for under the equity method of accounting. An associate is an entity in which the group has between 20% to 50% of the voting power or over which it exercises significant influence. Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognise the group's share of profit or loss and other changes in the equity of the associated company. Distributions received from the associated company reduce the carrying amount of the investment.

**Impairment of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows including anticipated recoveries from guarantees and collateral, discounted at original effective interest rates, is recognised in the consolidated income statement.

**Murabaha payable**

Murabaha payable represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payable is stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

**Finance lease**

Amounts payable under finance lease are stated at the aggregate of the minimum lease payments due, net of any deferred finance cost.

**Treasury shares**

The parent company's holding in its own shares is accounted for as treasury shares. Such shares are stated at cost as a deduction within shareholders' equity and no cash dividends are distributed on these shares.

Gains resulting from the parent company trading in treasury shares are taken directly to equity under "gain on sale of treasury shares reserve". Should the reserve fall short of any losses from the sale of treasury shares, the difference is charged to retained profits then reserves. Subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves then retained profits equal to the loss previously charged to these accounts.

## AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2004

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Provision for end of service indemnity**

Provision for end of service indemnity is calculated on the employees' accumulated periods of service at the balance sheet date in accordance with the Kuwait labour law for the private sector and the company's bye-laws.

##### **Recognition of income**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Income from sale of investment properties*

Income from the sale of properties are recognised when the significant risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably.

##### *Interest income*

Interest income is recognised on a time proportion basis, taking in to account the principal outstanding and the rate applicable.

##### *Rental income*

Rental income is recognised on an accrual basis.

##### *Dividend income*

Dividend income is recognised when the right to receive payment is established.

##### **Finance costs**

Finance costs are recognised on a time proportion basis taking into account the outstanding balance payable and applicable interest rate.

##### **Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances and short-term deposits maturing within three months from the date of inception net of balance due to bank.

##### **Foreign currencies**

Transactions denominated in foreign currencies are translated into Kuwaiti Dinars at rates of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at rates of exchange prevailing at the balance sheet date. The resultant exchange differences are taken to the consolidated income statement.

On consolidation, assets and liabilities of foreign subsidiaries are translated into Kuwaiti Dinars at the year end exchange rates and the results of these subsidiaries are translated into Kuwaiti Dinars at the average exchange rates for the year. Exchange differences arising on consolidation are dealt with in shareholders' equity.

##### **Fiduciary assets**

Assets held in trust or in a fiduciary capacity are not treated as assets of the group and accordingly are not included in the these consolidated financial statements.

# AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 3. SUBSIDIARY COMPANIES

The consolidated subsidiaries are as follows:

	<u>Country of incorporation</u>	<u>Percentage ownership</u>
Al-Mal Entertainment Enterprises – K.S.C. (Closed)	Kuwait	100%
Al-Mal Real Estate – France	France	100%
Al-Mal Real Estate – Belgium	Belgium	100%
Dhow Real Estate Company – WLL	Bahrain	100%
Al-Dhow International Real Estate Company K.S.C. (Closed)	Kuwait	100%

### 4. CASH AND CASH EQUIVALENTS

	<u>2004</u>	<u>2003</u>
	<u>KD</u>	<u>KD</u>
Cash and bank balances	1,253,478	705,974
Short-term deposits	-	788,109
Cash and cash equivalents per balance sheet	1,253,478	1,494,083
Less: due to banks	(544,963)	-
Cash and cash equivalents per cash flows statement	<u>708,515</u>	<u>1,494,083</u>

Cash and bank balances include call amounts which yield interest rates ranging from 1% p.a. to 3% p.a.

### 5. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments include investments in real estate entities with a carrying value of KD6,044,484 (31 December 2003: KD7,126,794). These entities represent temporary special purpose entities established to facilitate the group's investments in certain foreign real estate projects. These projects are managed by independent specialist property development managers. As a result investments in these entities have been classified as available for sale investments.

### 6. INVESTMENT PROPERTIES

	<u>2004</u>	<u>2003</u>
	<u>KD</u>	<u>KD</u>
Carrying value at 1 January as previously reported	16,071,457	12,596,218
Reclassified to available for sale investments	-	(1,546,872)
Carrying value at 1 January after reclassification	16,071,457	11,049,346
Additions during the year	3,773,965	4,868,560
Disposals during the year	-	(1,501,285)
Transfer to property under development	(4,500,000)	-
Change in fair value	3,141,236	1,654,836
	<u>18,486,658</u>	<u>16,071,457</u>

# AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 6. INVESTMENT PROPERTIES (continued)

Investment properties with a carrying value of KD10,792,202 (31 December 2003: KD4,644,437) secured against bank loans and a property with a carrying value of KD1,720,402 (31 December 2003 : KD2,142,732) under a finance lease (see Notes 10 and 11).

Investment properties include the group's investment in a jointly controlled asset which represents an investment property acquired during the year under the terms of a joint venture agreement. The acquisition was partly financed under a murabaha arrangement agreed with a Bahrain registered Islamic financial institution. The group's share of the jointly controlled asset and related liability is as follows:

	<u>2004</u>	<u>2003</u>
	<u>KD</u>	<u>KD</u>
Investment property	3,745,785	-
Murabaha payable	1,564,002	-

### 7. INTEREST IN JOINT VENTURE

Interest in joint venture represents the group's 50% ownership of Al Oula Real Estate Company W.L.L., Bahrain. The principal activity of the joint venture is real estate development.

The group's interest in the aggregate amounts of assets and liabilities of the joint venture as of 31 December are as follows:

	<u>2004</u>	<u>2003</u>
	<u>KD</u>	<u>KD</u>
Assets	2,151,507	1,046,653
Liabilities	79,025	352,586
Income	305,971	-
Expense	18,333	-

### 8. INVESTMENT IN ASSOCIATE

Investment in associate represents the group's 45% interest in Ikaros Real Estate Company K.S.C. (Closed). The principal activity of the associate is real estate management.

### 9. PROPERTY UNDER DEVELOPMENT

During the year, a property carried at fair value of KD 4,500,000 was transferred to Property Under Development as the group has commenced development. At this stage, it is the intention of the management to sell a significant portion of the property to third parties and the remaining portion of the property will be held primarily as an investment property for rental income. However, at this stage, it is not practicable to split the balance between investment property and property held for sale.

The property under development is secured against bank loans.

### 10. BANK LOANS

	<u>Effective</u>		<u>2004</u>	<u>2003</u>
	<u>interest rates</u>	<u>Security</u>	<u>KD</u>	<u>KD</u>
Local banks – Kuwaiti Dinar	CBK discount	Secured	7,125,000	3,000,000
	rate + 1.5% - 2%			
Local banks – Kuwaiti Dinar		Unsecured	2,000,000	2,000,000
Foreign banks – Bahraini Dinar	BIBOR + 1.25%	Secured	816,312	1,251,838
			<u>9,941,312</u>	<u>6,251,838</u>

## AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2004

#### 10. BANK LOANS (continued)

The loans are due for repayment as follows:

	2004 <u>KD</u>	2003 <u>KD</u>
Within one year	6,035,063	2,418,164
One to five year	3,906,249	3,833,674
	<u>9,941,312</u>	<u>6,251,838</u>

Certain loans from local and foreign banks are secured by investment properties with a carrying value of KD10,792,202 (31 December 2003: KD 4,644,437) (see Note 6), and the property under development (See Note 9).

#### 11. FINANCE LEASE

The amount payable under finance lease is in respect of property leased from a Bahraini financial institution.

The lease expires on 10 October 2009. The balance is payable in equal quarterly instalments, at a rate of 1.5% over 3 month BIBOR, commencing 10 October 2004 with a balloon payment of BD750,000 on 10 October 2009.

The amount payable is subject to changes in the BIBOR rate, which may fluctuate during the lease period.

Details of amounts payable are as follows:

	<u>2004</u> <u>KD</u>	<u>2003</u> <u>KD</u>
Within one year	117,300	29,469
One to five years	1,026,376	471,498
More than five years	-	677,778
	<u>1,143,676</u>	<u>1,178,745</u>

#### 12. SHARE CAPITAL

The annual general assembly of the shareholders' of the parent company held on 23 February 2004 approved an increase in authorised and paid up capital from KD16,200,000 to KD18,000,000 by way of an issue of 10% bonus shares amounting to KD1,620,000 and issue of 1,800,000 shares amounting to KD 252,000 under an employee share purchase scheme as explained in Note 15.

The parent company's board of directors propose to issue 36,000,000 shares at par value of 100 fils per share and premium of 75 fils per share. This proposal is subject to the approval of the annual general assembly of the shareholders of the parent company.

#### 13. LEGAL AND VOLUNTARY RESERVES

In accordance with the Commercial Companies Law, 10% of the annual net profit is transferred to the legal reserve until the balance reaches 50% of the company's issued and paid-up capital. Any transfer to the legal reserve thereafter is subject to approval from the general assembly. No transfer is required in a year when losses are made. Subject to the approval of the general assembly, the board of directors propose to transfer 5% of the net profit of the year to the voluntary reserve.

## AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2004

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#### 14. PROPOSED ISSUE OF BONUS SHARES

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the parent company's board of directors propose to issue bonus shares of KD2,160,000 representing 12% of the paid-up share capital as at 31 December 2004 (31 December 2003: KD1,620,000 representing 10% of the paid-up share capital).

#### 15. EMPLOYEES' SHARE PURCHASE SCHEME

At the annual general assembly held on 23 February 2004, the shareholders approved an employees' share purchase scheme. Under this scheme, which has a duration of 9 years, the company may issue shares for cash to eligible employees by increasing its share capital. The total capital increase during the 9 year period to meet the requirements of the scheme may not exceed 9% of the share capital as at 31 December 2004.

During the year, a total of 1,800,000 shares of par value of 100 fils per share were issued and allocated to eligible employees at a price of 140 fils per share.

#### 16. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	<u>2004</u>	<u>2003</u>
Net profit for the year	4,486,748	2,508,975
Weighted average shares outstanding during the year (after excluding treasury shares)	<u>179,506,120</u>	<u>178,200,000</u>
Earnings per share	<u>25.0 Fils</u>	<u>14.1 Fils</u>

The weighted average number of shares outstanding during the year ended 31 December 2003 has been restated due to the issue of bonus shares during the year ended 31 December 2004.

## AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2004

#### 17. SEGMENTAL ANALYSIS

The group primarily operates in one business segment: real estate investments.

Although management of the group is based primarily on one business segment, the group operates in two geographical segments: Domestic and International (Kingdom of Bahrain, France and U.S.A.). The geographical analysis of segment information is as follows:

	<u>Domestic</u>	<u>International</u>	<u>Total</u>
	<u>KD</u>	<u>KD</u>	<u>KD</u>
<b>2004</b>			
Income	4,891,626	1,317,604	6,209,230
Profit from operations	3,697,968	982,168	4,680,136
Total assets	18,306,204	23,266,320	41,572,524
Total liabilities	(11,746,929)	(3,832,180)	(15,579,109)
Net assets	6,559,275	19,434,140	25,993,415
2003			
Income	2,367,553	1,480,106	3,847,659
Profit from operations	1,603,872	1,068,414	2,672,286
Total assets	10,180,409	19,483,859	29,664,268
Total liabilities	(5,729,775)	(2,642,907)	(8,372,682)
Net assets	4,450,634	16,840,952	21,291,586

#### 18. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At the balance sheet date the group had capital commitments of 6,804,733 in respect of available for sale investments and investment properties (31 December 2003: KD1,414,248).

At the balance sheet date, the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD3,236,503 (31 December 2003: KD Nil).

#### 19. FIDUCIARY ASSETS

Fiduciary assets comprise investments managed on behalf of clients amounting to KD414,428 (31 December 2003: KD348,710).

## AL MAL REAL ESTATE COMPANY – KSC (CLOSED) AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2004

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#### 20. RISK MANAGEMENT

##### **Credit risk**

Financial assets, which potentially subject the group to concentrations of credit risk, consist principally of cash and bank balances, short-term deposits and receivables. The group's cash and short-term deposits are placed with high credit quality financial institutions. Receivables are stated net of provision for bad and doubtful debts.

##### **Interest rate risk**

Deposits carry interests at commercial rates and mature within three months from the deposit date.

Interest on certain loans are subject to fluctuations in KIBOR and BIBOR rates

##### **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is a limited risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposure.

##### **Market risk**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

#### 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

In the opinion of the management the carrying amounts of financial assets and liabilities as at 31 December 2004 and 2003 approximated their fair values.

#### 22. RECLASSIFICATION OF COMPARATIVE INFORMATION

During the year, the wakala payable in the amount of KD 3,000,000 was converted into a term loan at the same terms and conditions of the original agreement. Consequently, the balance was reclassified and presented as a bank loan.