

الشركة التجارية العقارية ك.س.ع.
The Commercial Real Estate Co. K.S.C.C



**An innovative Real Estate approach...
accordance to Sharia (Islamic Laws)**

Annual Report 2004





**H.H. Sheikh Saad Al-Abdullah
Al-Salem Al-Sabah**
Crown Prince of the State of Kuwait



**H.H. Sheikh Jaber Al-Ahmed
Al-Jaber Al-Sabah**
Amir of the State of Kuwait



**H.H. Sheikh Sabah Al-Ahmed
Al-Jaber Al-Sabah**
Prime Minister of the State of Kuwait

Contents

Company History & Development of its Capital and Investment	6
Company strategy	7
Board of Directors	9
Chairman's Message	10
Financial Ratios	12
Report of Legal Control Authority	14
Our Projects	
Kuwait Trade Center	16
Symphony	17
The Dome Complex	18
Shorouk 2	19
X-Zone Project	20
Green Hills Complex	21
Gardens Complex	22
Hilton Resort & Hotel (Kuwait)	23
Abu Halifa Complex	24
Commercial Villas	25
Al-Bodour Tower	26
Al-Manar Residential Complex	27
Financial Statements	29-59

Company History & Development of its Capital and Investment

The Commercial Real Estate Company (K.S.C.C.) Kuwait Shareholding Closed Company was established in 1968 with a capital of K.D. 540,000. On 31/7/2000 the elected Board of Directors restructured the assets of the company in line with its strategy to dispose of low return investments in favor of more profitable options.

The capital was increased to approximately K.D. 121.9 million by 31/12/2004. The new management has reorganized the senior management structure to enhance performance, and oversee the execution of our business plans. This will further improve the quality of service provided by our real estate services, and our ability to offer the highest standards in all our services and products.

Focus of our business strategies:

- Divesting low performing financial and real estate assets and replacing them with stronger performing assets.
- Focusing on improving the company's land available for private residence.
- Developing commercial and investment property projects based on innovative architectural designs and concepts
- Active participation in high value privatization and B.O.T. projects.
- Participation with Kuwait Municipality in presenting creative projects in accordance with the applicable constructive initiatives systems.

Company strategy

The main objective of the company is to achieve the highest revenues for shareholders through moderate growth rate in the long run. This is achieved through a variety of income resources, and improving the performance of products and services. In addition, the real estate portfolio has been restructured by geographical and operational diversification, as well as by investment and sale of vacant land. To achieve its goals and enhance market performance, the company follows these policies:

- 1- Studying and selecting offers with high potential for new real estate investments in promising areas to add to the current real estate portfolio.
- 2- Buying land and developing investment, commercial and residential complexes with revenues exceeding those currently achieved in the real estate market.
- 3- Working to enhance the necessary skills for the execution of our strategy and achieving its objectives, so that our staff will have the necessary experience to identify real estate investments which can be developed to realize the highest returns.



An innovative Real Estate approach... accordance to Sharia (Islamic Laws)



Board of Directors



Abdul Fatah M. R. Marafie
Chairman & Managing Director



Adwan M. Al-Adwani
Deputy Chairman



Abdullah A. Al-Qandi
Board Member



Saeed Abdullah Al-Awadhi
Board Member



M. Jasim Al-Wazzan
Board Member



Abdul Aziz M. Al-Hassawi
Board Member



Ibrahim M. Al-Ghanim
Board Member



Hussain Abdullah Jowhar
Board Member



Chairman's Message

Dear Shareholders,

On behalf of all Members of the Board of Directors, I would like to welcome you all to our meeting, and I would also like to share the report for the fiscal year 2004 with you. This will give you the opportunity to see the achievements which contributed to the overall performance of the company last year. Also included are the closing financial reports for the fiscal year ended 31/12/2004.

The company continues to follow a strategy which concentrates on identifying projects which will bring the best returns. Today we are here to witness the results of that hard work which is reflected not only in the profits but also in the significant impact of this strategy which has strengthened and reinforced the company's performance.

Firstly, the company increased its market position by proving our ability to focus on our goals and to achieve them. This resulted in us becoming leaders in our field. We continue to reap the rewards of our hard work and patience with the help of your support.

From an abstract idea to creativity, then distinction, our operational methods reflect international standards. Our performance and tangible growth has resulted in our internationally recognized rating being increased. The Commercial Real Estate Company saw its financial ratings raised from (BBB) in February 2003 to (BBB +) in 2004 by Capital Intelligence Agency. We continue our endeavors to enhance performance and to match promising aspirations and goals.

We fulfilled our promises, now your company has been listed on Kuwait Stock Exchange since 21/12/2004 following the decision of the General Assembly held on 26/7/2004. We would like to congratulate our shareholders on this occasion since Commercial Real Estate Company is one of the largest registered companies. Through careful planning and targeting, the company found and created the most suitable regional opportunities after our great successes in the local market. Now we seek participation and cooperation to invest in projects available in other countries of the Gulf Cooperation Council.

We cannot be limited to a fixed country or field as our investment strategy is to widen our scope for using and benefiting from our experience as well as devoting it to our aspirations and goals.

Dear Shareholders,

We lay in your hands the main highlights of a year which can be considered a link in the chain of success

and achievements which we promised. We share with you this success and will strive to constantly improve our results so as to match your hopes and your confidence in us. We are aware of our responsibility.

As a result of the expansion into various projects and the increase in the expenditure volume in the current year, Commercial Real Estate Company has realized interest and net profits amounting K.D. 26.9 million which is an increase of 8.27% in comparison with 2003. Return on shareholders equities was 14.5% (11.93% last year) and profit per share were 22.71 Fils in 2004 in comparison with 20.83 Fils in 2003.

We are looking forward to achieving planned and continuous growth for Commercial Real Estate Company. It is my honor and pleasure to see the good results which reflect our mission and its clarity of purpose which has underpinned the progress of this stable company. We promise you that our current and future projects and investment will match your aspirations. Today, with our experienced team that represents another valuable company asset and our goal to improve the Company's standards, we have all the tools to achieve our aims.

Finally, we renew our commitment to continue exerting all our endeavors and capabilities to sustain our success and progress and to meet all our revenue targets. I would like to thank all our Shareholders for the trust and confidence they have in us as well as their constant support.

I also express my thanks and gratitude for the Board of Directors for exerting all their efforts to meet the company's targets. I would like also to thank the Islamic Guidance Authority represented by its honorable Sheikh members for their vital and effective role in the orientation and guidance of the company's operations and activities along the correct Islamic path.

I would like also to express thanks and gratitude to all Executive management in the company and all staff for the efforts they exerted as one team and family for the enhancement and stability of our honorable company.

We invite you to support and give us your wise advice which will assist our ongoing efforts to achieve success, prosperity and progress.

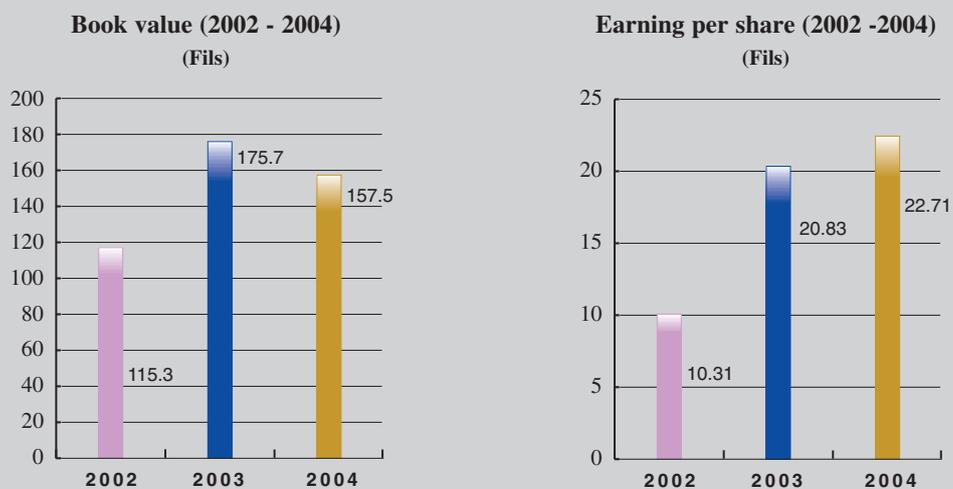


Abdul Fatah Mohammad Rafie Marafie
Chairman of the Board

Assets & Shareholders' Equity

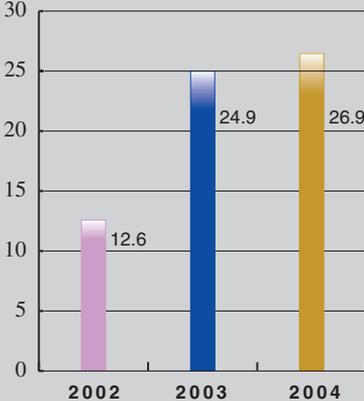


Share Profit & Book Value

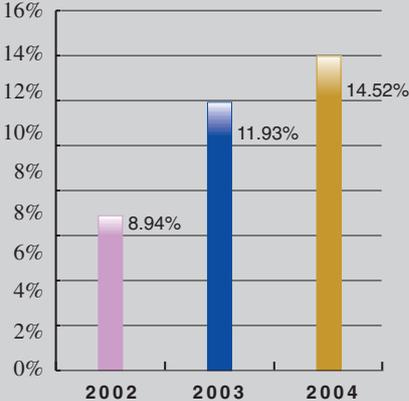


Profitability & Returns

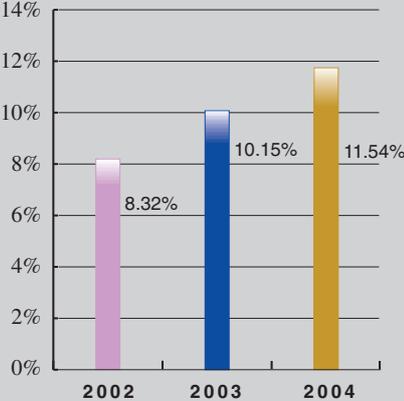
Net profit (2002 - 2004)
(Millions)



Return on Equity (2002 - 2004)



Return on Assets (2002 - 2004)



Report of Legal Control Authority

Thanks be to Allah, peace and blessings on our Messenger, his family and companions.

To: M/s. Commercial Real Estate Shareholders

Peace and blessing be upon you.

According to the contract between us, we have audited contracts and agreements made by the company to give our opinion concerning the extent of the Company's commitment in line with the rules of Islamic jurisdiction (Sharea) as stated in the legal opinions, guidelines and decisions issued from 1/9/2004 to 31/12/2004. The responsibility of executing the contracts and dealings according to the Islamic jurisprudence (Shrea), as we clearly showed, lies with the company's management. Our responsibility is exclusively to give an independent opinion on the scope of the company's compliance with Islamic jurisprudence according to our audit.

We performed our audit in accordance with the standard procedures issued by the Account & Audit Authority for Islamic Financial Establishments, which require planning and executing audit procedures for obtaining all information, explanations and declarations we consider necessary to give us adequate and reasonable proofs that the company is committed to the rules of Islamic jurisprudence as we stated before. The company assures us that it shall study the position of the companies it has shares in to make sure of their compliance with our approved legal standards and then refer to us its final reports.

We carried out our audit on the basis of examining all executed contracts and dealings in the period according to survey samples of the approved operations of the Company. We think the audit and inspections we performed are a good base for our opinion.

We, in the light of the assurances and statements we obtained, think that:

The Company carried out the necessary procedures to guarantee the execution of the contracts and dealings in accordance with Islamic Jurisprudence rules stated clearly in our opinions, guidelines and legal decisions issued in the specified period.

Legal Control Authority

Professor Abdul Razak Khalifa Al-Shaygy Chairman

Dr. Esam Khalaf Al-Anezy Member

Dr. Abdul Bary Mohamed Ali Meshael Executive Member

Our Projects





Kuwait Trade Centre

Kuwait Trade Center (KTC) is a gem in the heart of the city. It brings an added dimension to the business area of the city. The project is situated on Al-Sour Street, and its 41 floors overlook Al-Sour gardens. KTC is a commercial complex consisting of a basement, ground floor, mezzanine, first floor, which includes commercial shops, restaurants, places of entertainment, health club and a swimming pool, and office tower of 35 floors. Every six floors, there is an internal garden. The building is equipped with all the most up to date services and systems.



Symphony

Symphony Hotel and Complex consists of two towers; a tourist hotel with 20 floors and an office tower with 12 floors. The project also includes a commercial complex of four floors containing commercial shops, restaurants, cafes and a health club. The project overlooks Arabian Gulf Street to the north, and Salem Al-Marzouk Street to the south in Salmiya district, with a total area of 11,749 m².



The Dome Complex

The Dome entertainment project is situated on the coast road in Abu Halifa district, and spreads over an area of 9,897.50 m². The project has a very distinctive design. Its proximity to a commercial district made this entertainment project attractive to those wishing to make a different type of investment with a new style. The project consists of two floors; the ground floor with an area of 4,525 m², and the basement with an area of 4,193 m². The huge entrance lobby leads to a big hall under the dome which includes three main restaurants, five fast food restaurants, a series of cafes with a sitting area, and management offices. The basement includes a big area for videogames, bowling area, billiard hall, and cafes overlooking the central area with windows and internal waterfalls so as to add a touch of nature. The project has full utilities and a car park.



Al-Shorouk 2

The Al-Shorouk tower 2 is a commercial office block alongside of Jaber Al-Mubarak street in Sharq area, next to Shorouk Tower 1. Together they form a complex with a distinctive architectural aspect. The project includes 21 floors, offices and mezzanine, ground floor, basement and trade shops, in addition to a floor for mechanical and electrical services. The building will offer with all the most advanced operational services.



X-Zone Project

Fun complex project gives the opportunity to all different ages to get fun and amusement, its location is Abu Halifa area, alongside with the coastal line on an area of 5940 m². It is a fun complex, consisting of a basement, ground floor and the first floor is completely covered including car parks in the basement, restaurant halls, sports hall and bowling amusement toys for children and adults, coffee shops in addition to the aesthetic plants, as well as the surface parks. The project targets all society classes.



Green Hills Complex

Green Hills Complex project located in Al-Mahboula area, opposite Fahaheel expressway directly estimated on an area of 5,373m². It is a residential complex processed with an innovative architectural method. Whence the flats tower is penetrated by internal agricultural squares, that give the sense of the real green hills. It includes different residential flats of different squares and penthouse as well as villas with separated entrances with special gardens in the mid of the project. There are many green areas, parks, swimming pools alongside with the fun services. Not only that, but there is a health club provides the inhabitants with all means of fun and rest.



Garden Complex

The project is located in Al-Mahboula along Fahaheel expressway on an area of 7,950 m² including residential flats of different squares in addition to penthouse and town houses that are characterized with privacy. The project is surrounded with a group of gardens and distinguished plants and in the mid there are swimming pools, entertainment services, games and health club.



Hilton Resort & Hotel (Kuwait)

This is a new concept for leisure facilities which offers unparalleled luxury. Kuwait Hilton Resort has a five star rating. It is situated on one of the best parts of the Kuwaiti coastline and has a long clean sandy beach-front. This resort offers the complete package for the discerning guest who expects the best of everything. There are many luxurious rooms and furnished chalets, 52 residential chalets and 12 Royal chalets in addition to studio rooms, 5 restaurants, a health spa, and sports club.





Abu Halifa Complex

Abu Halifa fun complex in Abu Halifa area, along the coastal road, it consists of 13 units (shops) rented by the leading restaurant companies in Kuwait.

The complex is also supplied with the following services:

- 24 hours maintenance and guard.
- Cleaning company that specialized works around the clock.
- Car parking.
- Administration office for the complex.
- Gardens equipped with children different toys.



Commercial Villas

- Location: Al-Mangaf area.
- One of the projects that is executed by the real estate and commercial company in order to facilitate the housing welfare.
- Al-Tijariya villas are distinctive in their designs, fronts and the different finishes including the Islamic and Kuwaiti styles (the old styles) in addition to the Spanish, Greek and French models.



Al-Bodour Tower

Overlooking on Ahmed Al-Jaber Street in Sharq area that characterized with its modern real estates of the commercial trait.

It consists of 17 floors for offices, basement, ground floor and mezzanine furnished with all necessary and proper services that suit your commercial choice, where the near and distinctive location to all the commercial demands sources.



Al-Manar Residential Complex

A residential complex located in Bneid Al-Gar area, overlooking on the gulf street (occupation rate is full). It consists of 16 floors, each one includes five flats, four of them have 2 rooms (Model 1) and one flat consists of 3 rooms (Model 2). All flats overlook on the gulf, the first modal flats include hall, 2 rooms, two baths, full kitchen, waiter room (Model 3), 6 villas No., as well as the complex is provided with the following services:

- Two floors for underground car parks.
- Swimming pool for adults and children.
- Squash and tennis playgrounds.
- A hall equipped with all sports equipment gym.
- Maintenance & guard around the clock.



An innovative Real Estate approach... accordance to Sharia (Islamic Laws)



The Commercial Real Estate Company K.S.C. (Closed)

Consolidated financial statements and independent auditors' report

for the year ended 31 December 2004

Contents	Page
Independent Auditors' Report	30
Consolidated Balance Sheet	32
Consolidated Statement of Income	34
Consolidated Statement of Changes in Shareholders' Equity	35
Consolidated Statement of Cash Flows	36
Notes to Consolidated Financial Statements	38-59

Auditor's Report



Bader & Co. PricewaterhouseCoopers
P.O. Box 20174, Safat 13062
4th Floor, Kuwait Investment Co. Building
Opp. Al-Ahli Bank H.O. Kuwait
Telephone (965) 2408844
Facsikile (965) 2408855
E-mail: pwc.kwt@kw.pwc.com



KPMG Al Nisf & Partners
Public Accountants
P.O. Box 25578, Safat 13116, Kuwait
Al-Shaheed Tower, 4th floor
Khaled Ben Al Waleed Street, Sharq, Kuwait
Tel +965 - 2426 999
Fax + 965 - 2401 666

Independent auditors' report to the shareholders

We have audited the accompanying consolidated balance sheet of The Commercial Real Estate Company K.S.C. (Closed) ("the Parent Company") and its subsidiary (together referred to as "the Group") as at 31 December 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended.

Respective responsibilities of management and auditors

These consolidated financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

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

As discussed in note 8.1 to the consolidated financial statements, the Group has recorded its shares in joint investment portfolios managed by others by an amount which is less than the amount referred in portfolio manager's report by KD 6,188,937 as at 31 December 2004 (KD 8,449,678 - as at 31 December 2003). As the portfolio manager did not confirm components of the portfolios, basis of valuation and any related obligations and as we could not perform an alternative audit procedures to satisfy ourselves, we were unable to verify validity of the valuation of these portfolios as at 31 December 2004.

Opinion

In our opinion, except for the effect of such adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had we been able to examine evidence regarding matter referred to in the above mentioned paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2004, and of the results of its operations, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion proper books of accounts have been kept by the Parent Company and the financial statements, together with the contents of the report of the Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all the information that is required by the Commercial Companies Law of 1960, as amended, and by the Articles of Association of Parent Company, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Articles of Association of the Parent Company have occurred during the year ended 31 December 2004 that might have had a material effect on the Group's financial position or on its results of operations.



Bader A. Al-Wazzan

Licence No. 62A

Bader & Co. PricewaterhouseCoopers



Qais M. Al-Nisf

Licence No. 38A

KPMG Al-Nisf & Partners

Member firm of KPMG International

Kuwait: 26 March 2005

Consolidated Balance Sheet as at 31 December 2004

(All amounts are in Kuwaiti Dinars)

	Note	2004	2003
Assets			
Non-current assets			
Property, plant and equipment	3	33,927,759	29,452,549
Projects in progress	4	32,269,719	19,156,329
Investment properties	5	45,436,000	46,181,874
Investment in associates	6	17,471,145	10,714,983
Goodwill	7	3,295,138	3,190,017
Investments available for sale	8	46,521,344	82,801,329
		178,921,105	191,497,081
Current assets			
Land and real estate held for trading	9	36,444,126	36,956,563
Inventory		109,768	110,952
Receivables and other debit balances	10	6,530,273	6,137,973
Investments held for trading	11	5,723,447	7,252,295
Cash and cash equivalents	12	5,759,128	3,094,438
		54,566,742	53,552,221
Total assets		233,487,847	245,049,302

Consolidated Balance Sheet as at 31 December 2004 (continued)

(All amounts are in Kuwaiti Dinars)

	Note	2004	2003
Shareholders' equity, minority interest and liabilities			
Shareholders' equity			
Share capital	13	121,882,520	121,882,520
Treasury shares	14	(9,135,490)	(5,555,611)
Profit from sale of treasury shares		12,643	12,643
Statutory reserve	15	8,598,280	5,816,583
Voluntary reserve	16	5,776,938	2,995,241
Change in fair value reserve		21,988,029	55,344,770
Group's share in associate's reserves		3,562,306	-
Retained earnings		32,821,932	28,043,089
		<u>185,507,158</u>	<u>208,539,235</u>
Minority interest		<u>1,324,868</u>	<u>1,254,174</u>
Non-current liabilities			
End of service indemnity		483,901	382,202
Term financing – Non current portion	17	14,287,476	7,459,804
		<u>14,771,377</u>	<u>7,842,006</u>
Current liabilities			
Payables and other credit balances	18	11,512,966	9,175,104
Term financing – Current portion	17	20,371,478	18,238,783
		<u>31,884,444</u>	<u>27,413,887</u>
Total shareholders' equity, minority interest and liabilities		<u>233,487,847</u>	<u>245,049,302</u>



Abdul Fatah M. R. Marafie
Chairman and Managing Director



Adwan M. Al Adwani
Vice Chairman

The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Income for the year ended 31 December 2004

(All amounts are in Kuwaiti Dinars)

	Note	2004	2003
Profit from investment properties	19	7,513,907	13,631,494
Profit from land and real estate held for trading	20	3,893,466	6,910,375
Hotel income	21	5,911,281	5,112,652
Reversal of impairment in value of projects in progress	4	-	161,973
Profit from investments held for trading		1,177,780	1,324,167
Profit from investments available for sale	22	15,452,979	545,097
Administrative expenses and other charges		(1,713,434)	(1,702,905)
Depreciation of property, plant and equipment		(2,771,039)	(2,465,676)
Other operating income		39,573	126,900
Operating profit		29,504,513	23,644,077
Amortization of goodwill	7	(933,310)	(834,402)
Group's share in operating results of associates	6	1,722,844	3,649,029
Profit on sale of investment in associates		-	326,676
Finance charges		(2,297,511)	(1,396,615)
Contribution to Kuwait Foundation for the			
Advancement of Sciences	23	(247,315)	(226,158)
National Labour Support Tax		(575,278)	-
Board of directors' remuneration	24	(102,500)	(72,000)
Net profit before minority interest		27,071,443	25,090,607
Minority interest		(131,074)	(208,440)
Net profit		26,940,369	24,882,167
Earnings per share (Fils)	25	22.71	20.83

The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2004

(All amounts are in Kuwaiti Dinars)

	Share capital	Treasury shares	Profit from sale of treasury shares	Statutory reserve	Voluntary reserve	Change in fair value	Group's share in associates' reserves	Retained earnings	Total
Balance as at 31 December 2002	121,882,520	-	-	3,306,032	484,690	(596,459)	-	15,494,975	140,571,758
Dividends for year 2002	-	-	-	-	-	-	-	(7,312,951)	(7,312,951)
Change in fair value of investments available for sale	-	-	-	-	-	55,941,229	-	-	55,941,229
Purchase of treasury shares	-	(5,635,362)	-	-	-	-	-	-	(5,635,362)
Sale of treasury shares	-	79,751	12,643	-	-	-	-	-	92,394
Net profit for the year	-	-	-	-	-	-	-	24,882,167	24,882,167
Transferred to reserves	-	-	-	2,510,551	2,510,551	-	-	(5,021,102)	-
Balance as at 31 December 2003	121,882,520	(5,555,611)	12,643	5,816,583	2,995,241	55,344,770	-	28,043,089	208,539,235
Dividends for year 2003 (Note 27)	-	-	-	-	-	-	-	(16,598,132)	(16,598,132)
Change in fair value of investments available for sale	-	-	-	-	-	(17,760,060)	-	-	(17,760,060)
Transferred to statement of income from sale of investments available for sale	-	-	-	-	-	(15,596,681)	-	-	(15,596,681)
Group's share in associates reserves	-	-	-	-	-	-	3,562,306	-	3,562,306
Purchase of treasury shares	-	(3,579,879)	-	-	-	-	-	-	(3,579,879)
Net profit for the year	-	-	-	-	-	-	-	26,940,369	26,940,369
Transferred to reserves	-	-	-	2,781,697	2,781,697	-	-	(5,563,394)	-
Balance as at 31 December 2004	121,882,520	(9,135,490)	12,643	8,598,280	5,776,938	21,988,029	3,562,306	32,821,932	185,507,158

The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows for the year ended 31 December 2004

(All amounts are in Kuwaiti Dinars)

	2004	2003
Cash flows from operating activities		
Net profit before minority interest	27,071,443	25,090,607
Adjustments:		
Depreciation of property, plant and equipment	2,771,039	2,465,676
(Gain)/ loss on sale of property, plant and equipment	(1,270)	513
Reversal of impairment in value of projects in progress	-	(161,973)
Change in fair value of investment properties	(5,180,994)	(9,756,152)
Profit from sale of investment properties	-	(1,702,056)
Group's share in operating results of associates	(1,722,844)	(3,649,029)
Profit from sale of investment in associates	-	(326,680)
Amortization of goodwill	933,310	834,402
Profit from sale of investments available for sale	(14,337,569)	(57,679)
Doubtful debts	104,935	145,354
Impairment/ (write back of impairment)		
in value of land and real estate held for trading	807,844	(120,258)
Change in fair value of investments held for trading	102,935	(897,460)
Cash dividends	(1,522,691)	(491,185)
Finance charges	2,297,511	1,396,615
Employees' end of service indemnity	101,699	138,760
Operating profit before changes in working capital	11,425,348	12,909,458
Land and real estate held for trading	(3,710,736)	2,743,955
Inventory	1,184	(110,952)
Receivables and other debit balances	(458,985)	(5,568,954)
Investments held for trading	1,425,913	(3,884,614)
Payables and other credit balances	1,671,839	5,534,634
Net cash from operating activities	10,354,563	11,623,527

Consolidated Statement of Cash Flows for the year ended 31 December 2004 (continued)

(All amounts are in Kuwaiti Dinars)

Note	2004	2003
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	(246,658)	(10,952,547)
Proceeds from sale of property, plant and equipment	1,679	1,600
Payments for projects in progress	(10,724,206)	(4,782,074)
Payments for purchase of investments properties	(46,987)	(4,658,996)
Proceeds from sale of investments properties	-	10,988,089
Investment in associates	(3,213,264)	(5,868,025)
Proceeds from sale of investments in associates	-	2,933,489
Proceeds from dividends of associate	703,821	-
Payments for purchase of investments available for sale	-	(6,561,297)
Proceeds from sale of investments available for sale	8,974,088	214,008
	<u>1,522,691</u>	<u>491,185</u>
Cash dividends received		
Net cash used in investing activities	(3,028,836)	(18,194,568)
Cash flows from financing activities		
Proceeds from term financing	8,960,367	18,740,124
Purchase of treasury share	(3,579,879)	(5,635,362)
Proceeds from sale of treasury share	-	92,394
Dividends paid	(8,265,731)	(7,047,821)
Finance charges paid	(1,775,794)	(1,396,615)
Minority's share in subsidiary capital	-	1,045,734
Net cash (used in)/ from financing activities	(4,661,037)	5,798,454
Net increase /(decrease) in cash and cash equivalents	2,664,690	(772,587)
Cash and cash equivalents at beginning of the year	<u>3,094,438</u>	<u>3,867,025</u>
Cash and cash equivalents at end of the year	12 <u>5,759,128</u>	<u>3,094,438</u>

The accompanying notes form an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

1. Incorporation and activities

The Commercial Real Estate Company - Kuwaiti Shareholding Company - Closed (“the parent Company”) was incorporated in Kuwait in 1968 according to Commercial Companies Law. The main objectives of the parent Company comprise of performing various real estate, agricultural, industrial and commercial activities, carrying out contracting, road and building construction, including sale, purchase and lease of land and real estate property, construction of buildings, utilizing of the financial surplus available to the parent Company by investing it in financial portfolios managed by specialized companies and financial institutions; and establishing real estate funds and portfolio including management of these funds for its own and for third parties. The parent Company’s management shall carry out all its objectives for which it have been established in accordance with the Islamic Sharia doctrines.

The parent Company owns 90% of shares of Kuwait Resorts Company (KSCC), which mainly engaged in managing and operating Kuwait Hilton Resort. 0.02% of these shares is registered in the name of a related party and there are letters of assignment of these shares, in favour of the parent Company.

The head office of the parent Company is located at Jaber Al-Mubarak Street, Commercial Real Estate Company’s Building, Sharq, P.O. Box. 4119 Safat, 13042 Kuwait.

The parent Company has been registered in the Kuwait Stock Exchange on 21 December 2004.

The consolidated financial statements were approved for issue by the board of directors on 26 March 2005. The shareholders’ general assembly meeting has the right to amend these consolidated financial statements after their issuance.

2. Basis of financial statements’ preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board and interpretations issued by International Financial Reporting Interpretations Committee, the requirements of the Kuwaiti Commercial Companies Law as amended and parent Company’s articles and memorandum of association.

The consolidated financial statements are prepared under the historical cost basis adjusted by fair value of certain assets as shown below.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

The preparation of consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that may affect the reported amounts of assets and liabilities and values disclosed as contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

2.1 Basis of consolidation

The consolidated financial statements of the Group includes the financial statements of The Commercial Real Estate Company - Kuwaiti Shareholding Company (Closed) ("the parent company") and its 90% subsidiary, Kuwait Resorts Company – KSCC. The parent company and its subsidiary are referred to as ("the Group") in these consolidated financial statements.

Subsidiaries are those enterprises controlled by the parent Company. Control exists when the parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements effective from the date of control commences until the date of effective cease that control. Inter-group balances and transactions, including inter-group profits and unrealised gains (losses), are eliminated in preparing the consolidated financial statements. The consolidated financial statements are prepared by using unified accounting policies for the like transactions.

2.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy 2-6). Depreciation is charged to statement of income on straight line basis over the estimated useful lives of property, plant and equipment as follows:

	Years
Buildings	17 - 20
Vehicles	5
Decoration	5
Stationery & computers	3 - 6
Furniture & fixtures	5 - 6
Uniform and Carpets	2
Pots and tools	2
Equipment and machinery	5

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

The initial cost of property, plant and equipment includes cost of purchase and any directly related cost necessary in bringing these assets to their current location and condition.

The estimated useful lives of the property, plant and equipment are reviewed periodically. If there is a change in the estimated useful lives, this change took place starting from the year of change with no retroactive effect.

2.3 Investment properties

Land and real estate held by the Group for the purpose of capital appreciation or for leasing it to others are included in investment properties. Land and real estate are initially stated on acquisition at cost and subsequently remeasured at fair value that is being determined based on market value annually by independent valuers. Profit and losses arising from valuation are included in the consolidated statement of income.

2.4 Investment in associates

Associates are those enterprises in which the Group owns 20% to 50% of voting rights, or generally has significant influence on their financial, operating, and administrative policies but does not extend to a direct or indirect control by the Group over those companies. Investment in associates are accounted for under equity method taking into consideration impairment in value. (see accounting policy 2.6). In accordance with equity method, the group's share in operating results of associates are reported in the consolidated statement of income. Investment in associates are presented in the consolidated balance sheet at a value that reflects the Group's share in net assets of associates.

2.5 Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share in the fair value of the net assets of the acquired subsidiary or the associate at the date of acquisition. Goodwill resulting from the acquisition of subsidiaries or associates before 31 March 2004, the goodwill is stated at cost less accumulated amortization and accumulated impairment in value (see accounting policy 2.6). Goodwill is amortized on straight line basis over its estimated useful life.

Goodwill resulting from the acquisition of subsidiary or associates after 31 March 2004, the goodwill is stated at cost less accumulated impairment in value which reconsidered annually.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.6 Impairment

Property, plant and equipment, project in progress, goodwill, investment in subsidiary and investment in associates, are reviewed as at the date of preparing the consolidated financial statements in order to determine whether there is impairment in value when events and changes in circumstances do exist that indicate the book value of any of these assets is not recoverable. In the event of the carrying amount is in excess of the recoverable amount, the impairment loss is recognized in the consolidated statement of income. If there is an evidence that the previously recognised impairment loss no longer exists, or has been reduced, it is reversed as income during the period in which it is identified provided that the net book value of the item should not exceed its value had the loss from impairment not been initially recognised. Recoverable amounts are estimated for each item of the assets on an individual basis or, if this is impracticable, the recoverable amounts are estimated for the assets group of cash flow generating to which this item belongs.

2.7 Financial investments

Starting from 1 January 2003, the Group has adopted the early application of the amendments issued over IAS 39 “Financial Instruments” (Recognition and Measurement) and IAS 32 “Financial Instruments” (Presentation and Disclosure). The effect of adopting these, two standards has been presented in the consolidated financial statements for the year ended 31 December 2003.

The management of the Group determines the classification of its investments on the date of acquisition as follows:

Investments held for trading

Investments that are acquired principally for the purpose of selling them in the near future or generating a profit from short-term fluctuations in prices are classified as investments held for trading, and included in current assets.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Investments available for sale

Investments which are held for unlimited period and which are sold on needs for liquidity or as due to price changes are classified as investments available for sale and are included in non-current assets, Unless management has an express intention of holding such investments for less than twelve months period from the balance sheet date, in which case they are included in current assets.

Purchase and sale of the investments are recorded in the settlement date. Investments available for sale are initially recognised at cost, including transaction costs. Subsequently investments available for sale and investments held for trading remeasured at fair value.

Realised and unrealised gains and losses of trading investments are recognised in the income statement in the same period in which they arise.

Realised and unrealised gains and losses resulting from change in fair value of investments available for sale are recognised in the shareholders' equity.

When investments available for sale are derecognised or when there is an impairment in value takes place, the cumulative gains and losses in the shareholders' equity is transferred to the income statement.

The fair value of the quoted investments is determined based on the last quoted bid price in the financial markets at date of the consolidated financial statements. For unquoted investments, the fair value of investments is determined using accepted valuation methods such as discounted cash flow techniques, net asset value or market price of similar investments after adjusting these methods to reflect circumstances related to the company issued the financial instrument. When it is impracticable to determine the fair value, investments are carried at cost less impairment in value.

Impairment in available for sale investment

At the balance sheet date the Group determine if there is any elements for impairment. For the equity instruments which are classified as available for sale investments the prolonged decline in fair value of the security below its cost is considered when determining whether the assets are impaired. When such evidence of impairment exists, the cumulative balance of the fair value charge for such investments measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement as equity instruments are not reversed.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.8 Land and real estate held for trading

Land and real estate held for trading are stated at cost when acquired. Cost is determined on an individual basis for such land or real estate, cost represents the fair value of the consideration given, plus ownership transfer fee and brokerage expenses. Land and real estate held for trading are classified under current assets and are valued at the lower of cost or realisable value on an individual basis. Realisable value is determined on the basis of estimated sale value, less the estimated expenses necessary to complete the sale. Gains and losses from the sale of land and real estate held for trading are reported in the consolidated statement of income by the difference between sale value and its book value.

2.9 Inventory

Inventory is carried at cost net realisable value whichever is lower. The net realisable value is determined based on the selling price less cost to complete the sale.

2.10 Receivables

Receivables are initially recognised at fair value, subsequently, receivables are stated at amortised cost by using the effective rate less impairment in value which the impairment is determined by the difference between book value of these debts at the financial statements date and recoverable amount for these debts which is determined by the present value of expected future cash flows taking into account the guarantee and collaterals related to such receivables.

2.11 Cash and cash equivalents

Cash and cash equivalents represent cash on hand and at banks and with financial institutions that mature within 3 months from the placement date.

2.12 Treasury share

Treasury shares represent the company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or cancelled. Treasury shares are accounted for using the cost method. Under the cost method, the total cost of the shares acquired is reported as a contra account within shareholders' equity. When the treasury shares reissued, gains are credited to a separate undistributable account in shareholders' equity "gain on sale of treasury shares". Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings and then to reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and the gain on sale of treasury shares account respectively. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.13 Employees' end of service indemnity

The Group is liable under its by-laws to make payments to the employees at their end of service through a defined benefit plan. Such settlements are made by one payment at the end of an employees' service.

This liability is unfunded and has been accounted for on the basis of amount payable as a result of involuntary termination of employees' contracts at the consolidated balance sheet date. The management believes that this method results in an adequate approximation of the present value of the Group's obligation thereof.

2.14 Term financing

Finance by others acquired by the Group is recognized at fair value less transaction costs. Subsequently such financing is stated at amortised cost. The difference between the amount collected (less any transaction cost) and value to be paid is recognised over the contract term in the consolidated statement of income using effective cost rate.

2.15 Provisions

Provisions are recognized in the consolidated balance sheet when the Group has a legal or constructive obligations as a result of past events, and it is probable that an outflow of economic benefits will be required to settle these obligations. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

2.16 Payables

Payables are stated at cost, and represented in the amounts due to the Group against supplying goods and services whether invoiced or not.

2.17 Operating lease – In case the Group is the lessor

Revenues of leased assets under operating leases are recorded on straight-line basis over the lease contract period.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.18 Revenue recognition

Gains and losses resulted from the sale of financial investments, investment property and land and real estate held for trading are recognised in consolidated statement of income when sale is completed.

Rental income from investment properties are recorded as mentioned in note (2.17).

Hotel income is reported on accrual basis and according to the management contracts signed with the management companies.

Dividends income is recognized when the right to receive it is established.

2.19 Foreign currencies

Transactions in foreign currencies are translated to Kuwaiti Dinars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Kuwaiti Dinars at the foreign exchange rate ruling at the consolidated balance sheet date. Gains or losses on exchange are recorded in the consolidated statement of income.

As for non-monetary assets which carried by fair value, foreign exchange difference is considered part from the change in the fair value.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

3. Property, plant and equipment

	Land	Buildings	Vehicles	Decorations	Stationery and Computers	Furniture and Fixtures	Uniforms and Carpets	Pots and tools	Equipment and machinery	2003	
										Total	Total
Cost											
As at 1 January	-	28,456,636	66,489	62,983	448,649	2,187,541	313,134	418,034	240,318	32,193,784	528,177
Additions	-	15,093	17,431	-	68,145	49,574	-	13,572	82,843	246,658	31,669,047
Transfers	5,360,000	1,640,000	-	-	-	-	-	-	-	7,000,000	-
Disposals	-	-	(9,410)	-	-	-	-	-	-	(9,410)	(3,440)
As at 31 December	5,360,000	30,111,729	74,510	62,983	516,794	2,237,115	313,134	431,606	323,161	39,431,032	32,193,784
Accumulated depreciation and impairment losses											
As at 1 January	-	1,657,571	14,977	56,594	232,316	486,748	112,511	140,702	39,816	2,741,235	276,886
Charge for the year	-	1,757,545	15,387	1,925	117,925	451,341	155,161	215,723	56,032	2,771,039	2,465,676
Related to disposals	-	-	(9,001)	-	-	-	-	-	-	(9,001)	(1,327)
As at 31 December	-	3,415,116	21,363	58,519	350,241	938,089	267,672	356,425	95,848	5,503,273	2,741,235
Net book value											
As at 31 December	5,360,000	26,696,613	53,147	4,464	166,553	1,299,026	45,462	75,181	227,313	33,927,759	29,452,549

Buildings represent the value of Kuwait Hilton Resort building owned by the subsidiary. This item is depreciated at lower of the useful live of the buildings or utilization contract term of the location occupied by the resort, which is signed with Kuwait Touristic Enterprises Company. As per the aforesaid utilization contract, all resort's property, plant and equipment will be transferred to Kuwait Touristic Enterprises without any consideration or compensation. The net assets of Kuwait Hilton Resort included in property, plant and equipment amounts to KD 26,859,309 as at 31 December 2004. Utilization contract will expire on 2019.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

4. Projects in progress

Analysis of movement over projects in progress is as follows:

	<u>2004</u>	<u>2003</u>
Balance as at 1 January	19,156,329	1,943,069
Additions during the year	10,724,206	4,782,074
Transferred from land and real estate held for trading (Note 9)	6,994,220	12,269,213
Transferred to land and real estate held for trading (Note 9)	(3,578,891)	-
Transferred to investment properties (Note 5)	(2,186,553)	-
Transferred from investment property (Note 5)	1,160,408	-
Write back of impairment in value of projects in progress	-	161,973
Balance as at 31 December	<u>32,269,719</u>	<u>19,156,329</u>

- 4.1 Projects in progress include land amounted to KD 1,761,795 owned by the Group through a special power of attorney as at 31 December 2004 (Nil as at 31 December 2003).
- 4.2 Projects in progress include land amounted to KD 7,025,990 as at 31 December 2004 (Nil as at 31 December 2003) mortgaged in favour of local financial institutions against the finance obtained by the Group (Note 17).

5. Investment properties

Analysis of movement over investment properties is as follows:

	<u>2004</u>	<u>2003</u>
Balance as at 1 January	46,181,874	41,052,759
Additions during the year	46,987	4,658,996
Sales during the year	-	(9,286,033)
Transferred to property, plant and equipment (Note 3)	(7,000,000)	-
Transferred from projects in progress (Note 4)	2,186,553	-
Transferred to projects in progress (Note 4)	(1,160,408)	-
Change in fair value of investment properties (Note 19)	5,180,994	9,756,152
Balance as at 31 December	<u>45,436,000</u>	<u>46,181,874</u>

Investment properties include properties amounted to KD 44,730,000 as at 31 December 2004 (KD 33,391,974 - as at 31 December 2003) mortgaged in favor of local financial institutions against the finance obtained by the Group (Note 17).

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

6. Investment in associates

	2004		2003	
	Ownership	Balance	Ownership	Balance
	%	KD	%	KD
Arab Ready-Mix Concrete Center (K.S.C.C.)	23.15	75,407	23.15	75,407
Industrial and Financial Investment Company (K.S.C.C.)	18.22	11,395,782	17.47	7,990,134
Markets Complex Co. (K.S.C.C.)	18.66	5,999,956	17.84	2,649,442
		<u>17,471,145</u>		<u>10,714,983</u>

Analysis of movement on investment in associates is as follows:

	2004	2003
Balance as at 1 January	10,714,983	75,407
Additions	3,213,264	5,868,025
Investments sold during the year	-	(2,606,812)
Transferred from investments held for trading	-	7,034,844
Goodwill	(1,038,431)	(3,305,510)
	<u>12,889,816</u>	<u>7,065,954</u>
Group's share in operating results of associates	1,722,844	3,649,029
Group's share in associates reserves	3,562,306	-
Dividends	(703,821)	-
Balance as at 31 December	<u>17,471,145</u>	<u>10,714,983</u>

7. Goodwill

	2004	2003
Cost		
As at 1 January	4,174,390	868,880
Additions	1,038,431	3,305,510
	<u>5,212,821</u>	<u>4,174,390</u>
Accumulated amortization		
As at 1 January	984,373	149,971
Charge for the year	933,310	834,402
	<u>1,917,683</u>	<u>984,373</u>
Net book value	<u>3,295,138</u>	<u>3,190,017</u>

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

8. Investments available for sale

	<u>2004</u>	<u>2003</u>
Investment in quoted shares	34,912,152	75,815,349
Investment in unquoted shares	4,777,763	811,846
Investment in quoted real estate funds	6,514,780	6,174,134
Investment in unquoted real estate funds	316,649	-
	<u>46,521,344</u>	<u>82,801,329</u>

- 8.1 The Group has investments in joint investment portfolios managed by others as per portfolio manager's report (local investment company) amounting KD 6,188,937 as at 31 December 2004 (KD 8,449,678 as at 31 December 2003). Due to the nature of joint investment portfolio agreement managed by others and lack of detailed reports from the manager of these portfolios that indicate portfolios components, basis of valuation and any related liabilities, the Company recognised these portfolios at cost less impairment in value which is estimated by the management at the total value of all shares.
- 8.2 Net book value of listed shares which was suspended by Kuwait Stock Exchange amounting to KD 581,929 as at 31 December 2004 (KD 581,929 as at 31 December 2003). These shares are re-traded in the market on 10/1/2005.
- 8.3 Investments in quoted shares include, shares in a local company quoted in Kuwait Stock Exchange with a total amount of KD 25,030,576 as at 31 December 2004 (KD 49,353,075 as at 31 December 2003). These shares had been abstained from voting based on Kuwait Stock Exchange decision.
- 8.4 This item includes investment in shares managed by external portfolio managers with net book value of KD 2,244,249 as at 31 December 2004 (KD 753,397 as at 31 December 2003). This include an amount of KD 1,098,806 as at 31 December 2004 (KD 208,567 as at 31 December 2003) managed by related party. (Note 28).
- 8.5 This item also includes investments registered in the name of third party with a net book value of KD 1 as at 31 December 2004 (KD 128,136 as at 31 December 2003).

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

9. Land and real estate held for trading

Analysis of movement on land and real estate held for trading is as follows:

	2004	2003
Balance as at 1 January	36,956,563	52,496,293
Additions during the year	8,874,924	3,237,466
Sales during the year	(5,164,188)	(6,628,241)
Transferred to projects in progress (Note 4)	(6,994,220)	(12,269,213)
Transferred from projects in progress (Note 4)	3,578,891	-
	<u>37,251,970</u>	<u>36,836,305</u>
(Impairment)/ reversal of impairment in value (Note 20)	(807,844)	120,258
Balance as at 31 December	<u>36,444,126</u>	<u>36,956,563</u>

- 9.1 Land and real estate held for trading include land with a net book value of KD 11,783,773 as at 31 December 2004 (KD 5,484,807 as at 31 December 2003) registered in the name of a third party and there are letters of assignment in favour of the Group.
- 9.2 Land and real estate held for trading includes land with a net book value of KD 1,590,215 as at 31 December 2004 (KD 3,171,815 as at 31 December 2003) owned by the Group through a special power of attorney.
- 9.3 Land and real estate held for trading includes land with value of KD 1,594,878 as at 31 December 2004 (KD 1,594,878 as at 31 December 2003) represents the Group's share from real estate portfolio managed by Kuwait Finance House.
- 9.4 Land and real estate held for trading includes land with net book value of KD 8,009,230 as at 31 December 2004 (Nil as at 31 December 2003) mortgaged in favour of financial institutions against the finance obtained by the Group (Note 17).

10. Receivables and other debit balances

	2004	2003
Trade receivables	2,024,629	2,381,077
Non-trade receivable	1,950,000	1,950,000
Impairment in value	(2,381,398)	(2,276,463)
	<u>1,593,231</u>	<u>2,054,614</u>
Prepaid expenses	157,053	169,866
Projects under study	106,856	194,927
Subscription in shares under allocation	2,580,000	2,180,434
Refundable deposits	172,145	152,019
Other debit balances	1,219,576	1,386,113
Down payments for purchased lands	701,412	-
	<u>6,530,273</u>	<u>6,137,973</u>

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

11. Investments held for trading

	<u>2004</u>	<u>2003</u>
Investments in portfolios	5,723,447	7,247,059
Investments in forward purchase contracts of shares	-	5,236
	<u>5,723,447</u>	<u>7,252,295</u>

Included in investment in portfolios shares amounting KD 5,545,260 as at 31 December 2004 (KD 5,285,099 as at 31 December 2003) managed by a related party (Note 28).

12. Cash and cash equivalents

	<u>2004</u>	<u>2003</u>
Cash on hand	23,347	21,892
Current accounts and call deposits with banks and financial institutions	4,874,698	2,370,508
Murabaha	861,083	702,038
	<u>5,759,128</u>	<u>3,094,438</u>

Current accounts with banks and financial institutions include an amount of KD 2,090,370 as at 31 December 2004 (KD 135,207 as at 31 December 2003) which represents cash within a portfolio managed by a related party (Note 28).

13. Share capital

Authorized, issued and fully paid up share capital amounted to KD 121,882,520 divided into 1,218,825,200 shares of 100 fils par value each.

14. Treasury shares

	<u>2004</u>	<u>2003</u>
Number of shares – share	40,956,254	31,819,277
Proportion to issued share	3.36%	2.61%
Cost – Kuwaiti Dinar	9,135,490	5,555,611
Market value – Kuwaiti Dinar	13,925,126	-

This item includes 32,756,254 shares from the parent company's shares which purchased by the subsidiary. These shares stated as treasury shares only for the consolidation purpose.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

15. Statutory reserve

In accordance with the provisions of the Commercial Companies' Law 1960 as amended and the parent Company's Articles of Association, 10% of the net profit for the year before Kuwait Foundation for the Advancement of Sciences contribution, Kuwait National Labour Support Tax and directors remuneration should be transferred to statutory reserve. The Company may resolve to discontinue the transfer when the reserve exceeds 50% of paid up share capital. Distribution of this reserve is undistributable except for the cases stipulated by the law and the Company's articles of association.

16. Voluntary reserve

In accordance with the parent Company's Articles of Association, it is allowed to transfer part of the profits as determined by the General Assembly to voluntary reserve based on a proposal put forward by the board of directors.

17. Term financing

	<u>2004</u>	<u>2003</u>
Estisna contract	7,376,756	7,618,614
Murabaha and Ijara contract	9,875,800	1,180,000
Short tem finance	7,200,000	8,700,000
Banking facilities	10,206,398	8,199,973
Total	<u>34,658,954</u>	<u>25,698,587</u>
Finance from others – current portion	<u>(20,371,478)</u>	<u>(18,238,783)</u>
Finance from others – non current portion	<u>14,287,476</u>	<u>7,459,804</u>

Non current portion balance matures within a period ranges from 1 to 5 years (2003 – From 1 to 6 years).

17.1 Estisna contract

The Group has signed an Estisna contract with one of the local financial institutions for total amount of KD 13,594,022 as at 31 December 2004 (KD 13,594,022 as at 31 December 2003) to provide part of the finance required to construct Hilton Resort. The effective cost rate is 9.5% as at 31 December 2004 (9.46% as at 31 December 2003) per annum. The Group's debt in respect of Estisna contract is secured by mortgage of investment properties (Note 5).

17.2 Murabaha and Ijara contract

The effective cost rate on Murabaha and Ijara contract is 5.5% as at 31 December 2004 (5.5% as at 31 December 2003). This contract is secured by mortgage of investment properties and land and real estate held for trading (Note 5,9).

17.3 Short term finance

This represents finance granted by a local financial institution to the Group. The average effective cost rate was 6.75% as at 31 December 2004 (4.75% as at 31 December 2003).

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

17.4 Banking facilities

Banking facilities granted by a local financial institution to the subsidiary against mortgage of investment properties (Note 5) amounting to KD 22,373,000 and project in progress amounting to KD 1,100,000 (Note 4) as at 31 December 2004 (KD 14,143,974 as at 31 December 2003). Effective cost rate is 5.88% as at 31 December 2004 (4.63% as at 31 December 2003).

18. Payables and other credit balances

	<u>2004</u>	<u>2003</u>
Trade payables	5,947,552	5,230,132
Due to related parties (Note 28)	427,150	434,250
Kuwait Foundation for the Advancement of Sciences	247,315	226,158
National Labour Support Tax	575,278	-
Revenues received in advance	195,528	96,806
Dividends payable	371,186	265,130
Retention	1,060,137	791,063
Accruals and other credit balances	2,688,820	2,131,565
	<u>11,512,966</u>	<u>9,175,104</u>

19. Profit from investment properties

	<u>2004</u>	<u>2003</u>
Real estates rental income	3,335,838	3,098,239
Operating expenses	(1,002,925)	(924,953)
Net real estate rental income	2,332,913	2,173,286
Profit from sale of investment properties	-	1,702,056
Change in fair value of investment properties (Note 5)	5,180,994	9,756,152
	<u>7,513,907</u>	<u>13,631,494</u>

20. Profit from land and real estate held for trading

	<u>2004</u>	<u>2003</u>
Sales of land and real estate	10,862,847	14,322,372
Cost of sale of land and real estate	(5,164,188)	(6,628,241)
Profit from sale of land and real estate	5,698,659	7,694,131
Other costs	(997,349)	(904,014)
(Impairment)/ reversal of impairment loss	(807,844)	120,258
	<u>3,893,466</u>	<u>6,910,375</u>

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

21. Hotel income

This item represents the Group's share in revenue from Kuwait Hilton Resort and Safir Al Dana Hotel owned by the Group.

22. Profit from investments available for sale

	2004	2003
Cash dividends	1,115,410	487,417
Profit from sale of investments available for sale	14,337,569	57,680
	<u>15,452,979</u>	<u>545,097</u>

Profit from investments available for sale include an amount of KD 5,534,187 represents the transferred amount from fair value reserve to the income statement during the year which represents the share of Kuwait Real Estate shares in the fair value reserve which have been distributed to the shareholders according to the General Assembly decision (Note 27).

23. Kuwait Foundation for the Advancement of Sciences contribution

	2004	2003
Kuwait Foundation for the Advancement of Sciences contribution from net profit of the parent Company	221,328	170,700
Kuwait Foundation for the Advancement of Sciences contribution from the subsidiary	25,987	55,458
	<u>247,315</u>	<u>226,158</u>

24. Board of Director's remuneration

This item include an amount of KD 22,500 (KD 32,000 as at 31 December 2003) representing the Board of directors' remuneration related to the subsidiary company. The Board of directors' remuneration is subject to the approval of the general assembly of shareholders.

25. Earnings per share

Earnings per share is accounted for by dividing net profit over the weighted average of the number of common shares issued and outstanding during the year taking into consideration the treasury shares. Earnings per share is calculated as follows:

	2004	2003
Net profit	26,940,369	24,882,167
Weighted average of the number of shares outstanding	1,186,364,269	1,194,401,754
Earnings per share (fils)	<u>22.71</u>	<u>20.83</u>

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

26. Staff costs

Staff costs charged to statement of income are as follows:

	<u>2004</u>	<u>2003</u>
Staff costs (operation)	163,683	177,925
Staff costs (management)	<u>3,177,085</u>	<u>3,603,859</u>
	<u>3,340,768</u>	<u>3,781,784</u>
Number of employees as at 31 December (employee)	<u>542</u>	<u>533</u>

27. Proposed dividends

27.1 The board of directors of the parent company proposed the following dividends for the year 2004:

- Cash dividends equal 8%.
- Share in kind dividends equal 4 shares of Kuwait Real Estate Company non-voting shares for each 100 shares of the Commercial Real State shares and transferring shares and rounding up fractions of shares for each shareholder. As for small shareholders (those who own less than 25 shares), they will have one share from Kuwait Real Estate Company, non-voting shares.

27.2 On 23 June 2004, the general assembly of shareholders of the parent company approved the following dividends for year 2003.

- Cash dividends equal 7%.
- Share in kind dividends equal 2 shares as at 31 December 2003 of Kuwait Real Estate Company non-voting shares for each 100 shares of the Commercial Real State shares and transferring shares and rounding up fractions of shares for each shareholder. As for small shareholders (those who own less than 50 shares of the Commercial Real Estate Company shares), they will have one share from Kuwait Real Estate Company, non-voting shares.

An amount of KD 8,289,090 from the dividends has been eliminated from the statement of cash flows. This amount represents the value of Kuwait Real Estate's share distributed to the shareholders. This transaction is a non-cash transaction.

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

28. Related parties transactions

Related parties comprise of the Group's shareholders who have representation in the board of directors, senior management personnel, associates and companies in which the Group companies have representation in its board of directors. Significant transactions with related parties are as follows:-

	2004	2003
Investments held for trading –		
investment portfolios managed by related party (Note 11)	5,545,260	5,285,099
Investments available for sale –		
investment portfolios managed by related party (Note 8.4)	1,098,806	208,567
Cash and cash equivalents –		
cash in investment portfolios managed by related parties (Note 12)	2,090,370	135,207
Due to related party (Note 18)	427,150	434,250
Directors' remuneration (Note 24)	102,500	72,000

Transaction with related parties are subject to approval of the general assembly of the shareholders.

29. Capital commitments

	2004	2003
Uncalled capital – investments	5,500,911	4,693,605
Land purchasing	682,660	-
Stock option contract	-	15,200
	<u>6,183,571</u>	<u>4,708,805</u>

30. Contingent liabilities

	2004	2003
Letters of guarantee	<u>5,485,840</u>	<u>5,966,565</u>

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

31. Parent Company's balance sheet

	<u>2004</u>	<u>2003</u>
Assets		
Non-current assets		
Property, plant and equipment	7,068,450	200,346
Projects in progress	32,269,719	19,156,329
Investment properties	45,436,000	46,181,874
Investment in subsidiary	12,133,908	11,274,918
Investment in associates	17,471,146	10,714,983
Goodwill	3,295,138	3,190,017
Due from subsidiary	11,210,140	11,474,279
Investments available for sale	45,478,195	82,781,328
	<u>174,362,696</u>	<u>184,974,074</u>
Current assets		
Land and real estate held for trading	36,444,126	36,956,563
Receivables and other debit balances	5,018,615	4,096,342
Investments held for trading	672,922	2,275,610
Cash and cash equivalents	1,912,522	1,374,238
	<u>44,048,185</u>	<u>44,702,753</u>
Total assets	<u>218,410,881</u>	<u>229,676,827</u>
Shareholders' equity and liabilities		
Shareholders' equity		
Share capital	121,882,520	121,882,520
Treasury shares	(3,270,355)	-
Statutory reserve	8,598,280	5,816,583
Voluntary reserve	5,776,938	2,995,241
Change in fair value reserve	21,988,029	55,344,770
Group's share from associate's reserves	3,562,306	-
Retained earnings	32,821,932	28,043,089
	<u>191,359,650</u>	<u>214,082,203</u>
Non-current liabilities		
End of service indemnity	387,367	319,347
Term financing – Non current portion	14,287,477	7,459,804
	<u>14,674,844</u>	<u>7,779,151</u>
Current liabilities		
Payables and other credit balances	9,411,307	6,476,663
Term financing – Current portion	2,965,080	1,338,810
	<u>12,376,387</u>	<u>7,815,473</u>
Total shareholders' equity and liabilities	<u>218,410,881</u>	<u>229,676,827</u>

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

32. Parent Company's statement of income

	2004	2003
Profit from investment properties	7,513,907	13,631,494
Profit from land and real estate held for trading	3,893,466	6,910,375
Hotel income	213,158	357,510
Write back of impairment in value of projects in progress	-	161,973
Profit from investments held for trading	1,157,780	172,260
Profit from investments available for sale	15,452,979	373,825
Administrative expenses and other charges	(1,510,791)	(1,356,944)
Depreciation of property, plant and equipment	(175,942)	(120,089)
Other operating income	39,272	124,642
Operating profit	26,583,829	20,255,046
Amortization of goodwill	(933,310)	(834,402)
Group's share of subsidiaries' results	1,179,664	1,863,316
Finance income from subsidiary	660,934	674,039
Group's share of associates' results	1,722,844	3,649,029
Profit on sale of investment in associates	-	326,676
Finance charges	(1,396,986)	(840,837)
Contribution to Kuwait Foundation for the Advancement of Sciences	(221,328)	(170,700)
National Labour Support Tax	(575,278)	-
Board of directors' remuneration	(80,000)	(40,000)
Net profit	26,940,369	24,882,167
Earnings per share (Fils)	20.83	22.71

33. Financial instruments

The Group in the normal course of business, uses various types of financial instruments. Information on financial risks and fair value of these financial instruments is set out below:

Risks related to financial instrumentsCredit risk

The group is exposed to credit risk in respect of loss that would have to be incurred if counterparty fail to

Notes to the Consolidated Financial Statements 31 December 2004

(All amounts are in Kuwaiti Dinars unless otherwise stated)

fulfil his obligations.

The Group's exposure to credit risk is primarily in respect of cash and cash equivalents, receivables and due from related parties. As at the consolidated balance sheet date, the Group's maximum exposure to credit risk is equal to the book value of the above assets as disclosed in the consolidated balance sheet date. The Group minimizes its credit risks by dealing with high credit quality financial institutions and setting prudent credit terms for instalment sale of its properties held for trading.

Foreign currency risk

Represents the risk of variation in exchange rate which may affect adversely the Group's cash flows or assets and liabilities dominated in foreign currencies. The Group's transactions are mainly in local currency, as its activities is based in the local market of State of Kuwait.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in liquidating its assets by amounts equal its fair value to meet the financial obligations of the Group. The management attempts to minimize this risk balancing assets and liabilities' maturities and provide the required financing to meet its liabilities maturities.

Return rate

Represents the risk of return rate fluctuations with respect to the financial instrument. The Group doesn't have any assets related to the interest rate. The Group obtains its credit facilities in favourable rates to fulfil its financing requirement.

Fair value of financial assets and liabilities

The estimated fair value of financial assets and liabilities that are not carried at fair value (receivables and other debit balances, cash and cash equivalents, payables and other credit balances) at the consolidated balance sheet date are not materially different from their book values.

The fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the group is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

34. Comparative figures

Where necessary, comparative figures have been reclassified to conform with the presentation in the current year.



الشركة التجارية العقارية (ش.م.ك.م.)
The Commercial Real Estate Co. K.S.C.C.

Tel.: 80 52 52 - Fax: 2426 848

www.altijaria.com

E-mail: crc@altijaria.com
Al-Sharq, Jaber Al-Mubarak Street,
CRC Building.

P.O.Box: 9144 Safat 24031 Kuwait

