

**AL MAZAYA HOLDING CO. K.S.C.P
HOLDING AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENT

31 December 2004



MAZAYA

**Al Mazaya Holding Company K.S.C. (Closed)
and Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2004

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED)**

We have audited the accompanying consolidated balance sheet of Al Mazaya Holding Company K.S.C. (Closed) and subsidiaries (the Group) as of 31 December 2004, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the International Standard 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and 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 account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, 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, nor of the articles of association have occurred that might have had a material effect on the business of the Group or on its financial position.


WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

3 January 2005

Kuwait

Al Mazaya Holding Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2004

	<i>Notes</i>	<i>2004 KD</i>	<i>2003 KD</i>
INCOME			
Management fees and consultancy income	24	340,590	-
Profit from held for sale properties	24	6,573,738	-
Realised gain on money market fund		37,348	-
Unrealised gain on money market fund		-	337
Other income		34,951	-
OPERATING INCOME		<u>6,986,627</u>	<u>337</u>
EXPENSES			
Marketing expenses		141,509	-
Administration expenses		507,029	750
Depreciation		11,755	-
OPERATING EXPENSES		<u>660,293</u>	<u>750</u>
PROFIT (LOSS) FROM OPERATIONS		<u>6,326,334</u>	(413)
Interest income		68,273	7,000
Finance cost	24	(102,672)	-
Contribution to Kuwait Foundation for the Advancement of Sciences		(56,627)	(59)
Directors' fees	3	(50,000)	-
NET PROFIT FOR THE YEAR	4	<u>6,185,308</u>	<u>6,528</u>

The attached notes 1 to 27 form part of these consolidated financial statements.

Al Mazaya Holding Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	<i>Notes</i>	<i>2004</i> <i>KD</i>	<i>2003</i> <i>KD</i>
ASSETS			
Cash and cash equivalents	5	4,077,724	117,838
Term deposit	6	903,000	-
Accounts receivable, prepayments and other assets	7	368,182	6,898
Available for sale investments	8	8,126,000	-
Property held for sale	9	5,326,064	-
Properties under development	10	5,677,693	-
Advance payments	11	4,589,333	-
Investment property	12	181,855	-
Property and equipment	13	8,416,347	-
TOTAL ASSETS		37,666,198	124,736
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	15,000,000	100,000
Statutory reserve	15	631,612	2,418
Voluntary reserve	16	631,612	2,418
Retained earnings		4,932,130	5,210
Total equity		21,195,354	110,046
Liabilities			
Accounts payable and accruals	18	7,012,170	14,690
Murabaha payable	19	4,548,250	-
Deferred consideration on acquisition of properties	20	4,910,424	-
		16,470,844	14,690
TOTAL EQUITY AND LIABILITIES		37,666,198	124,736


Rashid Y. Al-Nafisi
Chairman


Khalid S. Esbaitah
Vice Chairman and Managing Director

Al Mazaya Holding Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2004

	<i>Note</i>	<i>2004</i> <i>KD</i>	<i>2003</i> <i>KD</i>
OPERATING ACTIVITIES			
Net profit for the year		6,185,308	6,528
Adjustment for:			
Depreciation		11,755	-
Finance cost		102,672	-
Interest income		(68,273)	(7,000)
Operating profit (loss) before changes in operating assets and liabilities:		6,231,462	(472)
Receivables		(361,284)	-
Purchase of property held for sale		(5,326,064)	-
Advance payments		(4,589,333)	-
Payables		6,997,480	809
Deferred consideration on acquisition of properties		4,910,424	-
Net cash from operating activities		7,862,685	337
INVESTING ACTIVITIES			
Purchase of property and equipment		(8,428,102)	-
Purchase and expenditure of properties under development		(5,677,693)	-
Purchase of investment property		(181,855)	-
Purchase of available for sale investment		(8,126,000)	-
Term deposits		(903,000)	-
Interest received		68,273	7,000
Interest paid		(102,672)	-
Receivable from related party		-	100,000
Net cash (used in) from investing activities		(23,351,049)	107,000
FINANCING ACTIVITIES			
Issue of share capital		14,900,000	-
Murabaha received		4,548,250	-
Net cash from financing activities		19,448,250	-
INCREASE IN CASH AND CASH EQUIVALENTS		3,959,886	107,337
Cash and cash equivalents at the beginning of the year		117,838	10,501
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	4,077,724	117,838

The attached notes 1 to 27 form part of these consolidated financial statements.

Al Mazaya Holding Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	<i>Share capital KD</i>	<i>Statutory reserve KD</i>	<i>Voluntary reserve KD</i>	<i>Retained earnings KD</i>	<i>Total KD</i>
Balance at 31 December 2002	100,000	1,759	1,759	13,814	117,332
Net profit for the year	-	-	-	6,528	6,528
Transfer to reserves	-	659	659	(1,318)	-
Dividends paid	-	-	-	(13,814)	(13,814)
Balance at 31 December 2003	100,000	2,418	2,418	5,210	110,046
Issue of share capital	14,900,000	-	-	-	14,900,000
Net profit for the year	-	-	-	6,185,308	6,185,308
Transfer to reserves	-	629,194	629,194	(1,258,388)	-
Balance at 31 December 2004	<u>15,000,000</u>	<u>631,612</u>	<u>631,612</u>	<u>4,932,130</u>	<u>21,195,354</u>

Al Mazaya Holding Company K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

1 ACTIVITIES

The consolidated financial statements of Al Mazaya Holding Company K.S.C. (Closed) (the parent company) and subsidiaries (the group) for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the directors on 3 January 2005.

Al Mazaya Holding Company K.S.C. (Closed) was incorporated on 7 November 1998 under the Commercial Companies Law No. 15 of 1960 and amendments thereto as Global Telecom Consultancy Company K.S.C. (Closed). The name was changed through an extraordinary general meeting held on 20 December 2003.

During the year the parent company has amended its objectives and as per the new objectives the company, it is engaged in investment in local and foreign companies, real estate properties and consultancy services. The registered office of the company is at Salhia complex, Fahad Al Salem Street, P.O. Box 3546, Safat 13036, Kuwait.

The group's wholly owned subsidiary companies are engaged in selling, managing and developing real estate properties and offering consultancy services.

The group had employed 26 employees as of 31 December 2004 (31 December 2003: Nil).

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

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 (IASB), interpretations issued by the International Financial Reporting Interpretations Committee and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements have been presented in Kuwaiti Dinars.

Accounting convention

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading and available for sale investment securities.

The accounting policies are consistent with those used in the previous year.

Basis of consolidation

These consolidated financial statements include the financial statements of Al Mazaya Holding Company K.S.C. (Closed) and its subsidiaries which were incorporated during the year as detailed below:

	Place of incorporation	Ownership %
Al Mazaya Real Estate Development company K.S.C. (Closed)	Kuwait	100
Al Mazaya Real Estate FZ/LLC	UAE	100

The legal owners of Al Mazaya Real Estate FZ/LLC are two board members of the parent company who act as nominees on behalf of the parent company. The nominees have confirmed in writing that the parent company is the beneficial owner Al Mazaya Real Estate FZ/LLC.

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. Companies acquired (or disposed of during the year) are included in the consolidated financial statements from the date of acquisition (or until the date of disposal).

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

2 BASIS OF PRESENTATION (continued)

Revenue recognition

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

Consultancy fees and management fees are recognised when earned.

Interest income is recognised as the interest accrues.

Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances, money market fund and short-term deposits with an original maturity of three months or less.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Available-for-sale investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition cost associated with the investment. After initial recognition, investments are remeasured at fair value. Valuation gains and losses arising on remeasurement to fair value are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Properties held for sale

Properties held for sale in the ordinary course of business are stated at the lower of cost and net realisable value on an individual basis.

Net realisable value is based on estimated selling price in the ordinary course of business less any further costs expected to be incurred on completion and disposal.

Properties under development

Properties in the process of construction or development for sale in the ordinary course of business are stated at the lower of cost and net realisable value. Cost comprises the purchase cost of the property and other costs incurred in association with the construction or development of property to bring it to the condition necessary to make the sale.

Net realisable value is based on estimated selling price in the ordinary course of business less any further costs expected to be incurred on completion and disposal.

Investment properties

Investment properties are initially recorded at cost being its purchase price and any directly attributable acquisition costs. After initial recognition, investment properties are remeasured at fair value. Unrealised gain or loss arising from a change in the fair value of investment properties are reported in the income statement for the year in which it arises.

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.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land and property under development are not depreciated.

Depreciation is calculated on a straight line basis over the estimated useful lives as follows:

Furniture and equipment	5 years
Computers	3 years
Motor vehicles	5 years

2 BASIS OF PRESENTATION (continued)

Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the consolidated income statement.

Fair values

For securities actively traded in organised financial markets fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For securities where there is no market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected discounted cash flows.

Fair value cannot be reliably measured for certain investments. Such investments are measured at cost.

For investment properties fair value is determined on the basis of a valuation undertaken by independent real estate assessors at the end of each reporting period.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Murabaha payable

Murabaha payable represents amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking into account the profit rate attributable and the balance outstanding.

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 these consolidated financial statements.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All differences are taken to the consolidated income statement.

3 DIRECTORS' FEES

The directors' fees amounting to KD 50,000 (2003: Nil) are subject to approval by the shareholders' at the annual general meeting.

Al Mazaya Holding Company K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

4 NET PROFIT FOR THE YEAR

The net profit for the year is stated after charging:

	2004 KD	2003 KD
Staff costs	<u>353,014</u>	<u>-</u>

5 CASH AND CASH EQUIVALENTS

	2004 KD	2003 KD
Bank balances and cash	4,077,724	107,000
Money market fund	-	10,838
	<u>4,077,724</u>	<u>117,838</u>

Bank balances and cash include fixed deposits of KD 3,227,601 placed with local banks carrying an average interest of 3.167% per annum and maturing on February 2005.

6 TERM DEPOSIT

Term deposit placed with local banks carrying an average interest of 2.083% per annum maturing on February 2005 and is pledged as security against letters of guarantee.

7 ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

	2004 KD	2003 KD
Amounts due from related parties (Note 24)	71,840	-
Other assets	296,342	6,898
	<u>368,182</u>	<u>6,898</u>

8 AVAILABLE FOR SALE INVESTMENTS

	2004 KD	2003 KD
Al Tameer Real Estate Investment Company. KSC (Closed)	326,000	-
First Dubai Real Estate Development Company K.S.C. (Closed)	2,750,000	-
Kuwait Business Town K.S.C. (Closed)	5,050,000	-
	<u>8,126,000</u>	<u>-</u>

These investments relates to recently incorporated unlisted entities, consequently cost is considered to be fair value at this stage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

9 PROPERTY HELD FOR SALE

Property held for sale represents the company's share in the land located in Dubai, UAE and is jointly owned with a third party and is pledged under the term of the murabaha agreement (Note 19). Each party bears even share of expenses incurred in association with the property and has control over its share of the property. The fair value of the land at 31 December 2004 is not significantly different from the carrying value.

10 PROPERTIES UNDER DEVELOPMENT

Properties under development are located in Kuwait and Dubai, UAE which are in the process of construction or development for sale in the ordinary course of business. Certain properties are registered in the name of certain board members as nominees on behalf of the group. The nominees have executed power of attorney transferring all rights and obligations to the group.

11 ADVANCE PAYMENTS

This represents group's share of advance payments made to acquire real estate in Dubai, UAE.

12 INVESTMENT PROPERTY

Investment property represents land located in Kuwait and held for either long term capital appreciation or undetermined future use. The land is registered in the name of certain board members of the parent company as nominees on behalf of the group. Nominees have executed power of attorney transferring all rights and obligations to the parent company. As the property was relatively recently acquired during the current year, independent valuation has not been obtained as the management believe that the fair value of this property will not be significantly different from the carrying value.

13 PROPERTY AND EQUIPMENT

	<i>Freehold land KD</i>	<i>Furniture and equipment KD</i>	<i>Computers KD</i>	<i>Motor Vehicles KD</i>	<i>Capital Work in progress KD</i>	<i>Total KD</i>
Cost						
Additions	8,159,736	37,448	11,532	22,754	196,632	8,428,102
At 31 December 2004	8,159,736	37,448	11,532	22,754	196,632	8,428,102
Depreciation						
Depreciation charge for the year	-	6,762	3,800	1,193	-	11,755
At 31 December 2004	-	6,762	3,800	1,193	-	11,755
Net carrying amount						
At 31 December 2004	8,159,736	30,686	7,732	21,561	196,632	8,416,347
At 31 December 2003	-	-	-	-	-	-

Freehold land and substantially capital work in progress aggregates to KD 8,347,367 represents costs incurred in the process of construction or development for future use as investment properties.

Certain properties are registered in the name of certain board members as nominees on behalf of the group. The nominees have executed power of attorney transferring all rights and obligations to the group.

Al Mazaya Holding Company K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

14 SHARE CAPITAL

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Shares of KD 0.100 each	<u>15,000,000</u>	<u>100,000</u>	<u>15,000,000</u>	<u>100,000</u>

At the Extraordinary General Meeting held on 20 December 2003, the shareholders of the parent company approved the increase in the authorised share capital from KD 100,000 to KD 15,000,000. The increase comprise of 149,000,000 shares at a par value of 100 fils per share.

15 STATUTORY RESERVE

In accordance with the Commercial Companies Law and the parent company's articles of association, 10% of the profit has been transferred to the statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital.

Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

16 VOLUNTARY RESERVE

In accordance with the parent company's Articles of Association, 10% of the net profit for the year has been transferred to the voluntary reserve.

The group may discontinue such transfer based on a recommendation by the board of directors and the approval of the general assembly. The reserve is freely distributable.

17 PROPOSED DIVIDENDS

The Board of Directors has proposed a cash dividend of 20 fils per share totalling KD 3,000,000, which is subject to the approval of the shareholders at the Annual General Meeting.

18 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2004</i>	<i>2003</i>
	<i>KD</i>	<i>KD</i>
Advances received from customers	4,080,234	-
Amounts due to related parties (Note 24)	2,317,747	-
Trade payable	199,272	-
Other payables and accrued expenses	414,917	14,690
	<u>7,012,170</u>	<u>14,690</u>

19 MURABAHA PAYABLE

On 10 November 2004, the group entered into short-term murabaha agreement with the National Bank of Sharjah, UAE along with a third party. The company's share of the contract amount and related murabaha profit payable of KD 4,821,145 are secured by the property held for sale and is repayable on November 2005. The group also requires permission of the lender to sell or pledge other assets of the group.

The effective rate of profit payable approximates 6% per annum.

Al Mazaya Holding Company K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

20 DEFERRED CONSIDERATION ON ACQUISITION OF PROPERTIES

Deferred consideration on acquisition of properties includes KD 2,775,715 due for payment in one to three years from the balance sheet date and does not carry interest.

21 COMMITMENTS

The group has capital commitments in respect of construction of real estate for KD 2,300,000 (2003: KD Nil) and of purchase commitments in respect of properties for KD 14,153,616 (2003: Nil).

The group has commitments in respect of sale of properties of KD 31,356,000 (2003: Nil).

22 FIDUCIARY ACCOUNTS

The group manages projects on behalf of others, and maintains cash balances and notes receivable in fiduciary accounts, which are not reflected in the group's balance sheet. Assets under management at 31 December 2004 amounted to KD 1,643,745 (31 December 2003: Nil).

23 CONTINGENCIES

At 31 December 2004 the group had contingent liabilities in respect of bank and other guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 903,000 (2003: Nil).

24 RELATED PARTY TRANSACTIONS

These represent transactions with related parties i.e. shareholders, directors and executive officers of the group and entities of which they are principal owners. The group's management approves pricing policies and terms of these transactions. Significant transactions with group's related parties included are as follows:

	2004 KD	2003 KD
Management fee and consultancy income	328,597	-
Interest income	-	7,000
Finance cost	44,293	-
Profit from held for sale properties	6,573,738	-
Purchase of property under development	210,000	-

Profit from held for sale properties represent the company's share in profit on sale of land jointly owned with certain related parties that was sold to a newly established entity in which the parent company has an equity interest of 10% in the ordinary course of business during the year. The company's share in the cost of the land and net proceeds from the sale of the land were KD 12,333,287 and KD 18,907,025 respectively.

Amounts due from and due to related parties are disclosed in Note 7 and 18 respectively.

25 EMPLOYEES SHARE OPTION SCHEME

The board of directors have granted the right to 1,500,000 shares to certain members of the management and staff at the book value of the company at 31 December 2007, the date of the exercise of that right. These grants are considered to have vested at 31 December 2004. The right to shares will be approved at the annual general meeting.

26 RISK MANAGEMENT

Interest rate risk

The group is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits and short term loan).

Credit risk

During the year and at 31 December 2004, the credit risk for the group related mainly to cash and cash equivalents and for deposit, which are mainly with reputable recognised banks, notes receivable from a counterparty for sale of a project under development and advance payments made to a foreign entity.

Liquidity risk

The group limits its liquidity risk by ensuring adequate bank facilities are available.

Currency risk

The group is not exposed to significant currency risk.

Accounts payable, murabaha payable, deferred consideration on acquisition of properties and accounts receivable include an amount of KD 2,980,858 and KD 4,548,250, KD 4,910,424 and KD 5,631,686 respectively which is due in foreign currencies, mainly United Arab Emirates Dirham.

27 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances and receivables. Financial liabilities consist of murabaha payable, payables, and accrued expenses.

The fair values of financial instruments are not materially different from their carrying values

