



التقرير السنوي
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Annual Report
2003 2004



منشات
شركة منشآت للمشاريع العقارية
Munshaat Real Estate Projects CO.

صكوك الإنتفاع
... قيمة متنامية

Sokouk Al - Intifa'a
Increasing Value



منشات
شركة منشآت للمشاريع العقارية
Munshaat Real Estate Projects CO.

Annual report of Fatwa and Sharaia controller on the transactions and operations of Munshaat Real Estate Projects Company for the fiscal year ended 30th September 2004, to be presented to the Company's General Assembly.

Thanks be to Allah and prayer and peace be upon our Prophet Mohammed and all his family members and companions,

To the shareholders of Munshaat Real Estate Projects Company

Peace and Allah's Mercy and Blessings be upon you,

We have audited the principles applied in the contracts related to the transactions and applications released by the company during this period. We have made the necessary audit required for expressing our opinion as to whether the company observed the provisions and principles of the Islamic Sharia, and the Fatwa's, Resolutions and Guidelines issued by us.

It is the responsibility of Management to ensure that the company operates according to the principles of the Islamic Sharia. Our responsibility is merely to express an independent opinion based on our audit of the company's transactions and operations and in presenting a report to you.

We have carried out the audit, which comprises of an examination of the documents and procedures followed by the company, on the basis of selecting different group of operating transactions.

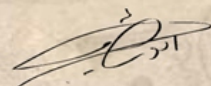
We have planned and carried out the audit for the purpose of obtaining all the information and explanations that we deemed necessary for providing us with such evidence as is sufficient to give a reasonable assurance that Munshaat defines its objectives, which states Munshaat's complete adherence to the Islamic Sharia provisions in business conduct and operations.

In our opinion,

- a) The contracts, operations and transactions made by the company during the year ended 30th September 2004 and which we have perused, were conformant to the provisions and principles of the Islamic Sharia.
- b) The disposal of the profits was made in conformity with the basis that was approved by us according to the provisions and principles of the Islamic Sharia.

In conclusion, we pray to Allah The Great & Almighty to give the management and personnel of the company continuous success and enable them to achieve a lasting progress in furtherance of sound principles of the Islamic Sharia.

And may Allah's Mercy and Blessings be upon you.
Kuwait, 26.10.2004



Dr. Anwar Abdussalam Shuaib
Sharia Controller



Mr. Fuad Hamed Al-Homoud

Chairman

Mr. Meshal Khelifa Al-Ameri

Vice Chairman

Dr. Khaled Rashed Al-Hajeri

Board Member

Mr. Abdul Fatah Mohammed Yousef

Board Member

Mr. Khaled Ahmad Al-Jaser

Board Member

Sokouk Al Intifa'a Increasing Value...

So are your investment with us ...

Believing that integration is the right path to remarkable achievements, our investment solutions come so unique to grow and so fruitful to attract those willing to join the world of real estate investment.



Luxurious residential suites
with direct view to the Holy
Mosque of Mecca

Sokouk



Luxurious residential suites
and chalets at the Beda
seashore in Kuwait

Sokouk Al Intifa'a

Best economic investment
Compatible with the Islamic Shariia



شركة منشآت للمشاريع العقارية (م.م.م.م.)
Munshaat Real Estate Projects CO., K.S.C. (C.M.C.)

P.O.Box: 1323 - Dasmun code: 15464 - State of Kuwait - Chamber Of Commerce & Industry - 5th Floor

Tel: (965)-2467188 Fax: (965)-2467190
info@munshaat.com
www.munshaat.com

Confidence Pillars

Vision

"Believing that integration is the right path to remarkable achievements, our investment solutions comes to be unique to grow and so fruitful to attract those willing to join the world of real estate investments"

Strategy

"Creatively launched, Munshaat keeps innovating and customizing Sharia'a compliant investment tools"

Munshaat

"Once experience integrates with knowledge, Munshaat is there. And once professionalism is employed, Munshaat keeps being the key to real estate investment"

Activities Projects and Product Development

"Developing products and projects in a professional and creative way is a unique specialty in Munshaat"

Network of Systems Relations

"We own the systems and relations infrastructure that is required to support our products and projects"

International Presence

"When it comes to marketing, we go beyond borders to promote our investment worldwide through our network of companies and alliances."

Executive Management



- 1 -

Fuad Hamed Al-Homoud
Chairman

- 3 -

Ahmad Ghazi Al-Omani
Projects Development

- 5 -

Mohamed Abdul-Waged Hamdy
Finance Department

- 2 -

Meshal Al-Ameri
Vice Chairman

- 4 -

Khalid Yacoub Al-Mutawa
Operations & Projects Management Department

- 6 -

Amani Mohammed Al-Hufiti
Human Resources

Executive Management's Report

Since its establishment in April 2004, Munshaat Real Estate Projects Company was keen upon achieving the objects for which it was established in the field of local and international real estate, product & project development and management, in a professional and non-conventional method by using tools that are convenient to all categories, thereby providing opportunities for entering the world of real estate and investment, along the lines designed by the company to attain the highest standards in this field. The projects managed by the company represent a suitable infra-structure and solid foundation for success in innovation and creating the best investment tools that comply with the provisions of the Islamic Sharia. The company has adopted a strategy that is based on specialization, focusing on what best serves the interests of the shareholders and those who stand to benefit from the company's projects, all of which are characterized by their intense focus on quality.

Munshaat Real Estate Projects Company has certain characteristics which has placed it in a class of its own among real estate companies, in terms of its objects and specialization, for it was entrusted with developing a strategic Islamic financial product (Sokouk Al-Intifa'a) which targets a vital sector, namely the hotel residence sector. Since the development of this product required the development of an infrastructure that can look after the operations, management and sales, hence the Company selected an exceptionally experienced team in these fields, and there was an emphasis, particularly during the first year of operation of the company, on building that infrastructure and acquiring that qualifying experience required to achieve the sought results.

Zamzam Tower project is the company's largest project at the present time. In view of its importance and size, it requires specialized personnel in the said field, in order to achieve the specific investment results set forth. The Sokouk Al-Intifa'a occupies a position of great importance with regards to investment in the Zamzam Tower, in line with the wishes of the targeted segment of investors. Since the concept of Sokouk Al-Intifa'a is new, it was a real challenge and an exceptional strategic plan had to be drawn and implemented in order to increase the awareness in the targeted markets with regards to Sokouk Al-Intifa'a and the mechanism thereof.

With the Grace of Allah, the company achieved excellent results within the first year of the launch of Sokouk Al-Intifa'a, and we are proud of the accomplishments achieved, given the success of this new Islamic financial investment tool, particularly in the Gulf region.

The company faced certain hurdles initially in the handling of its large projects, particularly because it was focusing on a new type of investment that uses a new concept. The challenge called for increased efforts to introduce the concept to the local and regional societies, emphasizing that it is in line with the Islamic Sharia, through participation in seminars and conferences local and international, and presenting many papers that explained the concept of the Sokouk Al-Intifa'a.

Projects Department

Since the start of the new year of Zamzam Tower project, is moving forward at an accelerated pace, progressing accordingly to the drawn up plan. This project was unique in terms of structuring of the investment with regards to the Sokouk Al-Intifa'a which in turn was launched through the Zamzam Tower project.

We may summarize the progress achieved so far in the Zamzam Tower during the year as follows:

First: The provision of cash flows required to meet the huge requirements of the project. This required a huge effort and to be managed by exceptionally qualified personnel.

Second: Large parts of the project has been completed according to the executive plans and 40% of the required level of services have also been completed, representing all the foundation works of the project which is located on the mountains of Ajyad, and which required extensive demolishing and excavation operations. Work is being carried out on completing the habilitation works of the project in order to complete the execution works by mid-2006.

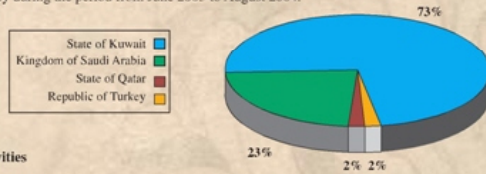
Third: An initial agreement was signed with the international hotel management company, ACCOR, whereby ACCOR would undertake the hotel management of Zamzam Tower according to the levels of a 5-star hotel. Another agreement was signed for providing consulting services for the furnishing of Zamzam Tower. Definitive agreements are expected to be signed by the end of year 2004.

Marketing and Sales Activities

With regard to sales and marketing of the Zamzam Tower, the achievements were as follows:

- There has been an increase in the sales of the Sokouk Al-Intifa'a for Zamzam Tower in Kuwait.
- There has been a marked increase in the number of agents of MAS International Company in other countries (Saudi Arabia, Qatar, UAE, Oman, Egypt, Turkey and Iran). It is worth mentioning that the sales agent, MAS International Company, succeeded in marketing more than 25% of the suites in the Zamzam Tower, well in excess of the previously expected rate of 12%, during the year 2004.
- The publicity and advertising campaigns achieved their goals through diversifying the media, including press and TV and through sponsorship and participation in specialized conferences and exhibitions, at the local, regional and international levels. The following pie chart shows the geographical distribution of the Sokouk Al-Intifa'a sales:

Size of the Sokouk Al-Intifa'a issued – in percentages in the markets of Kuwait, Kingdom of Saudi Arabia, State of Qatar and Republic of Turkey during the period from June 2003 to August 2004.



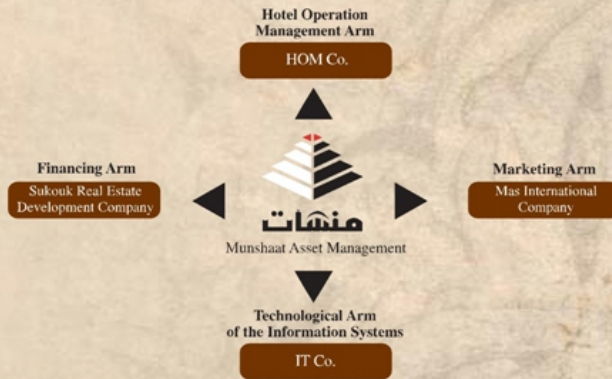
Project Development Activities

SHIK Resort Project

Munshaat Real Estate Projects Company, through an agreement with the owner of the SHIK Hotel and Resort, is developing a program of Sokouk Al-Intifa'a for marketing the project. It is also developing the project services in such a way as to provide specific services and recreational facilities to the holders of Sokouk Al-Intifa'a. The resort has been equipped to provide ultra modern hotel services and facilities so that it will shortly become an attraction point for businessmen and individuals who wish to spend a pleasant time without having to travel or go long distances. SHIK is a high-end luxury resort overlooking the Arabian Gulf waters in the State of Kuwait, where it occupies a prime location on Al-Taawon Street in Al-Bidaa Area. It is vital project in which the concept of the Sokouk Al-Intifa'a is applied most successfully.

Future Projects

The Munshaat team is considering several strategic projects at Al-Madina Al-Munawwara in K.S.A. and several other countries in line with its strategic plan in the hotel sector and in implementation of the Sokouk Al-Intifa'a, in addition to the execution of several other projects that serve this strategy and enable Munshaat to occupy a prominent position in the real estate and investment sector. The company has established several affiliate and subsidiary companies in order to facilitate its fast growing operations with regards to Sokouk Al-Intifa'a concept and achieve total integration of the intended strategic services. The following figure illustrates the formation of the group in this regard:



Support Services Activities

Munshaat has completed building 90% of its infrastructure as a company specialized in real estate investment. It has developed the systems, policies and procedures relating to its activity and provided the specialized personnel to meet the requirements of the operations. Munshaat has laid down the mechanism for implementing the strategic plans in various areas, particularly those relating to the Sokouk Al-Intifa'a and its associated activities as stated earlier. The first year of the company's activity witnessed a strong presence in the media and at conferences and exhibitions in order to increase awareness of the Sokouk Al-Intifa'a concept in particular and the strategic activity of the company in general, thereby achieving its intended objectives.

ISO 9001:2000 Certification

The Company has been keen to achieve a high standard of performance, service and operating systems as well as work procedures, hence Munshaat sought to obtain the ISO 9001:2000 certification in view of the importance of this prestigious norm at the global and local levels, to achieve even higher standards of performance, service, operating systems and work procedures. As a result, Munshaat has been audited by (TUV-Germany) representatives which declared that Munshaat Real Estate Projects Company, has performed the certification audit according to the ISO 9000:2000, and recommended the certification body (TUV-Germany) to issue the certificate in scope of work (control and issuance of Sokouk Al-Intifa'a as an Islamic Financial Product).

Pursuant to the guidelines issued by the Board of Directors and the strategic programs laid down for it, Munshaat is making every possible effort to maintain the standard of its achievements made during the short period since its establishment, to develop its activities in order to achieve further progress and success with The Grace of Allah.

MUNSHAAT REAL ESTATE PROJECTS COMPANY
KUWAITI SHAREHOLDING COMPANY (CLOSED)
STATE OF KUWAIT

FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 9, 2003 (DATE OF INCEPTION)
TO SEPTEMBER 30, 2004
WITH
AUDITOR'S REPORT

Albazie & Co.
 Member of RSM International

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Auditor's Report

The Shareholders
Munshaat Real Estate Projects Company
Kuwaiti Shareholding Company (Closed) - State of Kuwait

I have audited the accompanying balance sheet of Munshaat Real Estate Projects Company - Kuwaiti Shareholding Company (Closed) as of September 30, 2004, and the related statements of income, changes in shareholders' equity and cash flows for the period from April 9, 2003 (date of inception) to September 30, 2004. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on the audit.

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

The Company's share in results of associate up to September 30, 2004 amounting to KD 1,182,731 was calculated based on shareholder's equity according to management accounts of the associate.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary in respect to the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Munshaat Real Estate Projects Company - Kuwaiti Shareholding Company (Closed) as of September 30, 2004, and the results of operations and cash flows for the period from April 9, 2003 (date of inception) to September 30, 2004, in conformity with International Financial Reporting Standards.

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

State of Kuwait
October 19, 2004

Dr. Shuaib A. Shuaib
License No. 33-A
Albazie & Co.
Member of RSM International

	Note	September 30, 2004 KD
ASSETS		
Current assets:		
Cash and cash equivalents	3	1,113,244
Accounts receivable and other debit balances	4	42,086
Due from related parties	5	1,878,916
Total current assets		3,034,246
Investment in an associate	6	952,731
Investments available for sale	7	5,700,000
Fixed assets	8	42,198
Total assets		9,729,175
Liabilities And Shareholders' Equity		
Current liabilities:		
Accounts payable and other credit balances	9	674,277
Due to related party	5	972,914
Total current liabilities		1,647,191
Provision for end of service benefits	10	7,509
Shareholders' equity:		
Capital (authorized KD 15,000,000, paid-up KD 6,500,000)	11	6,500,000
Statutory reserve	12	160,391
Voluntary reserve	13	80,196
Retained earnings		1,333,888
Total shareholders' equity		8,074,475
Total liabilities and shareholders' equity		9,729,175

The accompanying notes are an integral part of the financial statements

Mr. Fuad Hamed Al-Homoud
Chairman

Mr. Meshal Khalifa Al-Ameri
Vice Chairman

	Note	For the period from April 9, 2003 (date of inception) to September 30, 2004 KD
Operating revenue	14	1,727,291
Operating cost	14	(1,260,934)
Gross profit	14	466,357
Company's share in results of associate	6	1,182,731
Investment income from real estate portfolio		407,650
Other projects income		13,600
General and administrative expenses	15	(478,033)
Depreciation		(20,675)
Operating profit		1,571,630
Placement fee of Company's share commission		30,000
Murabaha income		2,280
Profit for the period before contribution to Kuwait Foundation of the Advancement of Sciences and Board of Directors' remuneration		1,603,910
Contribution to Kuwait Foundation of the Advancement of Sciences		(14,435)
Board of Directors' remuneration		(15,000)
Net profit for the period		1,574,475

The accompanying notes are an integral part of the financial statements

	Capital KD	Statutory reserve KD	Voluntary reserve KD	Retained earnings KD	Total KD
Paid from authorized capital (Note 11)	6,500,000	-	-	-	6,500,000
Net profit for the period	-	-	-	1,574,475	1,574,475
Transfer to reserves	-	160,391	80,196	(240,587)	-
Balance at September 30, 2004	6,500,000	160,391	80,196	1,333,888	8,074,475

The accompanying notes are an integral part of the financial statements



	For the period from April 9, 2003 (date of inception) to September 30, 2004 KD
Cash flows from operating activities	
Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences and Board of Directors' remuneration	1,603,910
Adjustments for:	
Depreciation	20,675
Murabaha income	(2,280)
Company's share in results of associate	(1,182,731)
Investment income from real estate portfolio	(407,650)
Provision for end of service benefits	7,509
Operating profit before changes in working capital	39,433
Increase in accounts receivable and other debit balances	(41,568)
Increase in due from related parties	(1,471,266)
Increase in accounts payable and other credit balances	644,842
Increase in due to related party	972,914
Net cash from operating activities	144,355
Cash flows from investing activities	
Purchase of fixed assets	(62,873)
Purchase of investment in associate	(50,000)
Purchase of investments available for sale	(5,700,000)
Dividends received from associate	280,000
Murabaha income received	1,762
Net cash used in investing activities	(5,531,111)
Cash flows from financing activities	
Proceeds from authorized capital (Note 11)	6,500,000
Net cash from financing activities	6,500,000
Cash and cash equivalents at the end of the period (Note 3)	1,113,244

The accompanying notes are an integral part of the financial statements

1- Incorporation and activities

The Company was established in April 8, 2003 in accordance with Articles of Association authenticated at the Real Estate Registration and Authentication Department in the Ministry of Justice under No. 1416/Vol.1.

The main objectives of the Company are as follows:

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

The Company shall conduct the above mentioned operations inside and outside the State of Kuwait by itself or through agency.

Moreover, the Company shall have the right to have an interest or to take part in any manner with the authorities that practice similar operations, or that may help the Company to achieve its objectives inside and outside Kuwait. The Company shall also establish these authorities or participate therewith, or merge them to the Company. The objectives for the which the Company was established shall be practiced according to Islamic Shari'a, and the Company shall not directly or indirectly perform any operations that include dealing through usury or any other work that may contradict the Islamic Shari'a.

According to the Company's Articles of Association, the first fiscal year of the Company started from April 9, 2003 (date of inception) and ended on December 31, 2004; and based on the decision of the Extraordinary General Assembly meeting held on September 22, 2004, the Company's fiscal year had been amended to start on October 1 and end on September 30 of each year, except for the first year which commenced from the date of inception of the Company and end on September 30, 2004.

The Company's registered address is P.O. Box 1393 Dasman - 15464 - State of Kuwait. The financial statements were authorized for issue by the Board of Directors on October 19, 2004. The total number of employees of the Company as of September 30, 2004 is 17.

2- Significant accounting policies

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

a- Basis of preparation

The financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention except for investments available-for-sale that are stated at fair value.

b- Investments

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

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

c- Receivables

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

d- Associates

Associates are companies in which the Company has significant influence, but not control, over the financial and operating policies. The financial statements include the Company's share of the total recognized gains and losses of associates, under the equity method of accounting, from the date that significant influence effectively commences until the date that significant influence effectively ceases. Unrealized gains arising from transactions with associates are eliminated, against the investment in the associate, to the extent of the Company's interest in the associate. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

e- Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. When fixed assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income. The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets.

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

	Depreciation rate %
Furniture and fixtures	%20
Computer equipment	%33.333
Office equipment	%33.333

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

f- Impairment of assets

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

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

g- Payables

Accounts payable are stated at their cost.

g- End of service benefits

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

i- Income recognition

Portfolio management commission and fees and other revenue are recognized on accrual basis. Dividend are recognized when the Company's right to receive payment is established.

j- Foreign currencies

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

k- Financial instruments

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

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

l- Contingencies

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

m- Cash equivalents

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

3- Cash and cash equivalents

	September 30, 2004 KD
Cash on hand and at banks	63,244
Murabaha investment	1,050,000
	<u>1,113,244</u>

Murabaha investment represents deposit with one of the Kuwaiti financial institutions - related party, which have experience and awareness in management of investment funds in the local and international market. This investment earns an average income at 1.8% per annum.

4- Accounts receivable and other debit balances

	September 30, 2004 KD
Accrued commission of placement fees	30,000
Staff receivables	6,242
Prepaid expenses and refundable deposits	5,326
Accrued income	518
	<u>42,086</u>

5- Due from (to) related parties

Certain of the Company's commercial transactions are made with parties related to the shareholders.
Prices and terms of payment relating to these transactions are approved by the Board of Directors.
Due from (to) related parties balance is summarized as follows:

	September 30, 2004 KD
a- Due from related parties	
Due from real estate portfolio	1,858,232
Due from Sokouk Real Estate Development Co	20,684
	<u>1,878,916</u>
	September 30, 2004 KD
b- Due to related party	
Due to Mas International for General Trading and Contracting Co	<u>972,914</u>

6- Investment in an associate

Investment in an associate represents as follows:

	Percentage of holding %	September 30, 2004 KD
Mas International for General Trading and Contracting Co. W.L.L. - Kuwait	50	<u>952,731</u>

The movement of investment during the period is as follows:

	September 30, 2004 KD
Paid for investment in associate	50,000
Company's share in results of associate	1,182,731
Dividend received	(280,000)
	<u>952,731</u>

The Company's share in results of associate for the period ended September 30, 2004 was calculated based on shareholders' equity according to management accounts of the associate.

7- Investments available-for-sale

	September 30, 2004 KD
Investment in real estate portfolio	4,200,000
Investment in unquoted securities	1,500,000
	<u>5,700,000</u>

Investment in real estate portfolio represent the Company's share paid in ZamZam tower project portfolio.

8- Fixed assets

	Furniture and fixtures KD	Computer equipment KD	Office equipment KD	Total KD
Cost:				
Additions during the period	21,559	27,999	13,315	62,873
At September 30, 2004	<u>21,559</u>	<u>27,999</u>	<u>13,315</u>	<u>62,873</u>
Accumulated depreciation:				
Charge for the period	6,047	9,961	4,667	20,675
At September 30, 2004	<u>6,047</u>	<u>9,961</u>	<u>4,667</u>	<u>20,675</u>
Net book value				
At September 30, 2004	<u>15,512</u>	<u>18,038</u>	<u>8,648</u>	<u>42,198</u>

9- Accounts payable and other credit balances

	September 30, 2004 KD
Accounts payable	28,673
Accrued expenses and leave pay	122,849
Board of Directors remuneration	15,000
Kuwait Foundation for the Advancement of Sciences	14,435
Other accruals	493,320
	<u>674,277</u>

Other accruals represent amounts credited to the shareholders' accounts and is related to the incentives of the working team on ZamZam tower project portfolio, based on the Board of Directors decision dated August 10, 2003 - No. 5.

10- Provision for end of service benefits

	September 30, 2004 KD
Balance at beginning of the period	-
Charge for the period	7,509
Balance at end of the period	7,509

11- Capital

Authorized capital amounting to KD 15,000,000 consist of 150,000,000 shares of 100 fils each, paid-up capital is as follows:

	September 30, 2004 KD
Authorized capital	15,000,000
Unpaid capital	(8,500,000)
Paid-up capital	6,500,000

12- Statutory reserve

As required by the Commercial Companies Law and the Company's Articles of Association, 10% profits has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Company's Articles of Association.

13- Voluntary reserve

As required by the Company's Articles of Association, a percentage of the profit for the period has been transferred to the voluntary reserve and this proposed by the Board of Directors and approved by General Assembly. The Company may resolve to discontinue such transfers in accordance with a resolution at the General Assembly upon recommendation from Management. Based on meeting of the Board of Directors held on August 28, 2004, No. 12 it was decided to transfer 5% from net profit for the period to voluntary reserve.

14- Operating revenue and cost

	For the period from April 9, 2003 (date of inception) to September 30, 2004			
	Real estate portfolio management fees KD	Real estate portfolio commission KD	Projects management commission KD	Total KD
Operating revenue	564,795	1,059,620	102,876	1,727,291
Operating cost	-	(986,640)	(274,294)	(1,260,934)
Gross profit (loss)	564,795	72,980	(171,418)	466,357

15- General and administrative expenses

General and administrative expenses include staff cost amounting to KD 335,171.

16- Proposed dividend

The Board of Director's proposes to distribute an amount of KD 1,000,000 from profits which equal to 6.667% from the authorized capital to the shareholders' that are recorded in the company's records on the date of the Ordinary General Assembly meeting, and these distributions of profits will be transferred to settle the part of unpaid capital. This proposal is subject to the approval of the shareholders' General Assembly.

17- Financial instruments

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

Interest rate risk:

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

Credit risk:

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

Foreign currency risk:

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

Liquidity risk:

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

Cash flow risk:

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

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. At September 30, the fair values of financial instruments approximate their carrying amounts due to its short maturity.