

ACHIEVES YOUR OBJECTIVES

KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C. (CLOSED)

ANNUAL REPORT 2004



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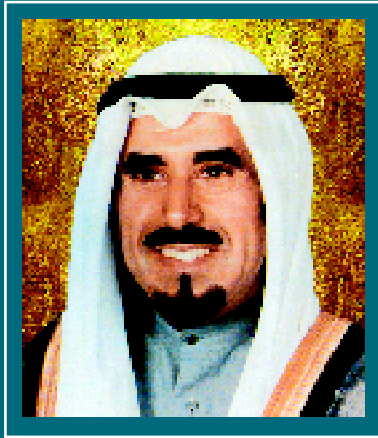
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KUWAIT AND MIDDLE EAST
FINANCIAL INVESTMENT
COMPANY K. S. C. C.

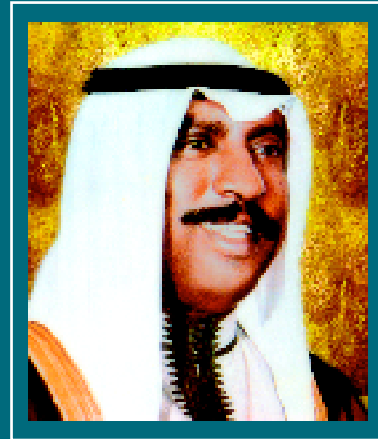
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H. H. Sheikh Jaber Al-Ahmad
Al-Jaber Al-Sabah,
The Amir of the State of
Kuwait



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



H. H. Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah,
The Prime Minister of the State of
Kuwait

BOARD OF DIRECTORS



Hamed S. Al-Saif
Chairman



Nasser B. Al-Mutairi
Vice Chairman



Hamad A. Al-Marzouk
Board Member



Nasser A. Al-Jallal
Board Member



Hasan Y. Behbahani
Board Member



MANAGEMENT



Hamed S. Al-Saif General Manager
Hamed H. Al-Sanee Deputy General Manager



Osama R. Al-Armaly Assistant General Manager, Local and Arabian Investment Division
Adel F. Al-Humaidhi Assistant General Manager, Local Financial Derivatives Division
Abdulmohsin A. Qarooni Assistant General Manager, Information Technology & Online Trading Division
Mohammed A. Al-Marzook Assistant General Manager, International Marketable Securities Division
Mohammed S. Al-Saleh Manager, Treasury Division
Christy I. Kulathooran Financial Controller, Financial Control Division
Rana Y. Al-Tharban Manager, Marketing & Client Relation Division
Dinesh B. Dhume Manager, Corporate Finance Division
Hesham K. Hayat Manager, Brokerage Office
Maha Sabih Mansour Manager, Human Resources & Administration Division

◆ CHAIRMAN'S MESSAGE

Dear Shareholders,

Two thousand and four will go down in history as a good year for most investors and an excellent year for Kuwaiti and GCC investors. This was also a very special and remarkable year for our company as we celebrated its twentieth anniversary, achieved record profits and expanded its business lines.

Over the year, we established two new Divisions (Corporate Finance & Treasury) and successfully spun-off our Real-Estate Division into a new company. Furthermore, we made a strategic acquisition in purchasing a brokerage license (for the Kuwait Stock Exchange) which will complement our Online Trading business as well as our Local & Arabian Investments Division.

For 2004 we generated a net profit of KD 9.5 Million compared to KD 1.8 million for the previous year. These earnings translate to an earnings per share of 70.41 fils compared to 14.02 fils in 2003. The company's revenue for the year amounted to KD 12.9 million compared to KD 4.8 million for the year 2003, a rise of 170%. As for our management fee income, it increased by 8% to KD 2.7 million for the year (after factoring the effect of the Real-Estate Division spin-off). Our commission income also increased over the year by 133% to KD 1.2 Million. Over the year, our assets under management increased by 15% to reach KD 674 Million (US\$ 2.29 billion).

With regards to equity investing, the Kuwaiti stock market once again rewarded its investors handsomely in 2004 with a 34% gain for the KSE Price Index. This was driven by continued growth in corporate profitability, attractive valuations, excessive liquidity, softer interest rates and most importantly the geo-political stability in the region. The local real estate market also had a phenomenal year as the sector continued its boom.

Among the main factors that had a positive impact on the Kuwaiti economy and capital markets was the surge in oil prices to all time record highs. This resulted in a significant budget surplus for the government and a noticeable expansion in economic activity.

With all this growth and expansion in the economy, the Central Bank of Kuwait in a bid to keep inflation under control and to curb excessive liquidity in the monetary system increased interest rates five times starting in July 2004 from 3.25% to 4.75%.



Other regional (GCC) markets and economies also flourished in 2004 for many of the same reasons mentioned earlier. All six regional bourses achieved new highs lead by United Arab Emirates which was the best performing market up by 102% followed by Saudi Arabia up by 85%, Qatar up by 65% and Kuwait up by 34% taking the fourth place, followed by Bahrain up by 29% and Oman up by 22%.

Despite the challenging global economic and geo-political backdrop most international markets fared reasonably well in 2004. The world's two major asset classes; Global Equities and Global Government Bonds, both performed better than was expected at the beginning of the year, however not as well as in the previous year. Collectively, Global Equities were up 13% (MSCI World Index in US\$) and Global Bonds appreciated by 5% (J.P. Morgan Global Government Bond US\$ Hedged Index).

In the United States, the world's largest economy, capital markets remained mixed for most of the year. However, the situation improved towards the end of the year with President Bush's decisive victory in the November elections and the decline in oil prices. For the year, the Dow Jones Industrial Average gained 3%, the broader Standard and Poor's 500 Index and the technology heavy Nasdaq Composite both added almost 9%.

On the currency front, the US\$ depreciated again against the Euro, the Japanese Yen and Great Britain Pound by 8%, 4% and 7% respectively due mainly to the US current account deficit which stood at more than 5% of the GDP. In terms of commodities, oil prices surged to over \$56 a barrel over the year mainly due to the unexpectedly strong demand and higher consumption from Asia's two largest economies; China and India, and supply constraints due to disruption from Iraq, Venezuela, Russia and the Gulf of Mexico.

From an international investing perspective, our stance is cautiously optimistic. Nonetheless we continuously seek and offer our clients products and services that protect capital in uncertain times and produce consistent risk-adjusted returns.

As for Kuwait, our outlook is very positive. The economy is in great shape and is expected to get even better. Our optimism stems from the geo-political stability in the region and the mega infrastructure projects scheduled for the years ahead in Kuwait and in neighboring Iraq. We also believe that should oil prices decline, from their current levels, they would still remain at levels considered very attractive for producing nations.

This optimism also extends to our company as it enters the year 2005 with great strength and confidence. In addition to our sound financial position, we are more diversified in our operations as previously mentioned. We are also in the midst of launching several new and innovative products during the course of the year to come.

We pray to Allah the Almighty to bless our honorable martyrs. We also ask him to inspire us with the proper guidance to serve our beloved country under the leadership of His Highness the Amir Sheikh Jaber Al Ahmed Al Sabah and His Highness the Crown Prince Sheikh Saad Al Abdullah Al Sabah and His Highness the Prime Minister Sheikh Sabah Al Ahmad Al Sabah.

Peace and Mercy of God be upon you.

Yours Sincerely,



Hamed Saleh Al-Saif

Chairman and General Manager

◆ LOCAL AND ARABIAN INVESTMENTS DIVISION

Trading activity at the Kuwait Stock Exchange (KSE) in 2004 was relatively subdued when compared to the activity experienced in 2003. This is apparent in all major market indicators such as stock values, traded volumes and number of transactions all of which incurred declines to their levels of the previous year. Nonetheless, the KSE's weighted index appreciated by 15.3% over the year to close at 335.86. As for the KSE's price index, it rose significantly over the year and closed at 6,409.50 which represents an appreciation of 33.8%. Over the year, the average traded volume at the KSE was KD 61.6 million which represents a decline of 8.0% from 2003.

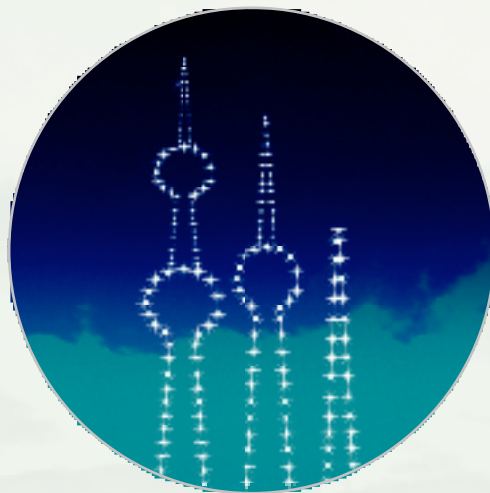
2004 was a year filled with important events, both on the economic as well as political fronts which will undoubtedly have an impact on the performance of the Kuwait Stock Exchange; among such factors are the following:

1. Interest rates rise

The Central Bank of Kuwait raised its discount rate on the Kuwaiti Dinar five times during the year from 3.25% to 4.75%. These increases did not shock the market as they were well within the expected range. Furthermore, despite these increases in the discount rate the returns achieved in the stock market were much more attractive than the yields on bank deposits.

2. The rise in oil prices and its effect on the governments' budget

Despite declining from the record high levels that were reached during the year, oil prices were still at levels high enough to result in a budget surplus for the government for the third year in a row.



This surplus has once again encouraged further government spending and the initiation of major infrastructure projects which will surely have a positive impact on Kuwaiti companies and on the general economic environment.

3. The government's push for economic reform

This push for economic reform came as a result of the East Asian tour taken by the Prime Minister His Highness Sheikh Sabah Al-Ahmed Al-Sabah along with a high level delegation representing most of the sectors of the Kuwaiti economy to promote economic cooperation between Kuwait and these countries. It is expected that this trip will result in new investment opportunities for numerous companies.

4. Enlistment applications increase at the KSE

During the year, the market experienced a surge in the creation of large companies and the launch of major initial public offerings (IPOs) such as Bubyah Bank, Al Oula Local Fuel Marketing Company and Al Qurain Petrochemical Industries Company. There was also a rise in new enlistment applications at the Kuwaiti Stock Exchange over the year.

5. The positive performance of companies during 2004

Kuwaiti companies are expected to achieve excellent financial results for the year as several of them have been awarded lucrative contracts and have won major tenders. Furthermore many of these companies have pursued regional expansion by establishing local branches and subsidiaries in GCC and other Arab markets. Such expansionary efforts should enhance their operational activities and increase their profits and earnings.

Accordingly, as these positive factors continue, companies will continue the realization of additional profits and earnings which should continue to positively influence the Kuwaiti stock market.

Over the year, the assets under the management of the Local and Arabian Investments Division generated an average return of 21.4% outperforming the Kuwait Stock Exchange's weighted index which gained 15.3%. Furthermore, the Division's assets under management increased by 16.0% to reach K.D 426 Million.

As for the Al-Rou'yah Fund, which is a professionally managed fund by the Division, it gained 13.0% for the year and 72.7% since its inception in June 2002.

In October of 2004, KMEFIC made a strategic acquisition in purchasing a brokerage license for the Kuwait Stock Exchange which will complement the activities of the Local & Arabian Investments Division as well as our Online Trading business.

Furthermore, the Division is in the process of launching several new local as well as regional funds in the year to come as we aim on expanding our range of products and services to meet the needs and requirements of our clients and investors by offering them a wider variety of investment vehicles.

◆ LOCAL FINANCIAL DERIVATIVES DIVISION

The Local Financial Derivatives Division's "Waad" portfolio completed its sixth year of operations. The Waad portfolio is a service which allows investors to trade select Kuwait Stock Exchange listed securities on a forward basis of three, six, nine or twelve month maturity dates. Under the "Waad" program, the rights of all parties are secured as buyers deposit an advance payment and sellers deposit contracted shares with the Kuwait Clearing Company. Additionally, buyers have the option of owning the shares outright by settling outstanding payments and charges.

The Waad portfolio consists of a group of companies, that represent most sectors of the Kuwaiti economy including banking, investment, real estate, industry, food and services. Forward Trading commences shortly after the end of the regular market.

The strong performance of the local equity market during 2004, which resulted from the improved political and economic conditions in the region and the continued profitability of listed companies, had a positive impact on the forward market.

The Waad Futures' Trading program was established in June 2004. This resulted in the significant increase in the volume of Futures transactions which is attributable to the program's efficiency in reducing market risk.

The Local Financial Derivatives Division is in the process of launching new products that aim to provide diversification and risk reduction for investors in the Kuwait Stock Exchange.



INTERNATIONAL MARKETABLE SECURITIES DIVISION

Despite the uncertainty with which 2004 started, global equity markets ended the year at their best levels in four years. During the first ten months of the year, international capital markets were narrowly range bound as several concerns and events impeded their advance. These concerns included geo-political issues such as the deadly terrorist bombings in Madrid, the attempt on the Taiwanese President's life, insurgency in Iraq and the uncertainty surrounding the outcome of the US presidential election. Among the main economic concerns that weighed on global markets were the record high oil prices, a softening global economy, the declining US dollar, fears of weakness in the Chinese economy and steadily rising interest rates. However, as oil prices receded from their all-time highs at the end of October, and the US elections were swiftly resolved in November granting President Bush a second term in office, optimism ultimately prevailed and equity markets embarked on a powerful rally. Consequently, the MSCI World Index (local currency) gained 9.49% for the year.

US equity markets posted two consecutive years of gains for the first time since 1999. These gains were largely the result of a powerful year-end rally that took place in the last two months of the year. Prior to this, US markets contended with a myriad of concerns ranging from record high oil prices, fiscal & trade deficits, a falling dollar, rising interest rates and a host of geo-political issues. Nonetheless, by November investors shook off most of these worries as oil prices eased and President Bush's victory was clear. Furthermore, this optimism was reinforced by corporate profits which consistently outpaced expectations, impressive M&A activity and interest rates that remain low despite five increases. For the year, the Dow Jones Industrial Average gained a modest 3.15%, whereas the S&P 500 and Nasdaq Composite performed better gaining 8.99% and 8.59% respectively.



Equity markets in Europe rose for a second year in a row with a gain of 9.43% for the MSCI Europe index (local currency), slightly outperforming their US counterparts. In May, the European Union welcomed 10 new countries, the group's largest expansion ever, bringing the total number of member nations to 25. The Euro also had a good year as it set a new record high against the US dollar appreciating 7.75% for the year. As for the United Kingdom, the blue-chip FTSE 100 index rose 7.54% for the year while the pound reached 12-year highs against the dollar.

With exports growth slowing and concerns of continued economic recovery looming, equity markets in Japan had a volatile yet positive year with a 7.61% advance for the Nikkei 225 index. Elsewhere in the Asia Pacific area, equity markets ended 2004 on a strong note as the region's bourses closed at their best levels since 1997 boosted by robust foreign-capital inflows and healthy economic growth. The devastating Tsunami which struck in the last week of the year took a huge toll on human life and property, however it had a minimal impact on the region's stock markets. Collectively, the MSCI Far East Index (local currency) advanced by 10.49% for the year.

The Division's investment portfolio reacted very well to the year's events and outcomes, as our stance for most of the year was that of cautious optimism. During challenging periods, our conservative absolute return investments protected capital and provided reasonable returns. Furthermore, as the investment landscape improved our more aggressive investments were well positioned to take advantage of these advances. Additionally, in our continuous search for product diversity and return enhancement, the division explored investment opportunities beyond traditional markets, such as emerging Asia. We intend to take advantage of these promising markets while not exposing our portfolios or our clients' to excessive risk.

We look to 2005 with continued cautious optimism. For the year to come, the Division aspires to grow its assets under management, expand its investment reach, enhance and broaden its range of products and services to offer a more complete and comprehensive investment platform to its clients.

◆ INFORMATION TECHNOLOGY & ONLINE TRADING DIVISION

The Information Technology & Online Trading Division (ITD) at KMEFIC has created and developed innovative and unique solutions that have distinguished KMEFIC from other investment companies. Furthermore, the ITD created new and specialized investment programs such as alawsat.com. This is the first online trading platform introduced and managed in Kuwait by KMEFIC, where investors can trade on the Kuwait Stock Exchange (KSE) as well as on U.S stock exchanges through one account.

During 2004, the division added new tools to its alawsat.com trading platform, such as the Islamic filter for U.S companies, and truly mobile trading capabilities through cellular phones. Furthermore, the division significantly increased its number of subscribers and trading volumes both locally as well as regionally. Additionally, several local banks have approached KMEFIC to offer the alawsat.com service to their clients.

Looking ahead into 2005, the Division will pursue its expansionary plans of adding new markets to its online trading platform. In this respect, we have reached advanced stages in marketing the alawsat.com service in two new markets namely Egypt and Saudi Arabia. Consequently our efforts will continue to cover as many markets as possible in the Gulf and Arab countries, enhance our information technology systems and develop a variety of new investment tools. Moreover, KMEFIC seeks to be the first to offer online trading on the Arab Stock Exchange where it is a main partner.



TREASURY DIVISION

With a continuous commitment towards its clients, KMEFIC established its Treasury Division during 2004 to complement and broaden the range of products and services it offers its clients and shareholders.

The main objective of the newly established division is to closely monitor and manage KMEFIC's foreign exchange exposure and interest rate risk extending to its entire range of investment funds and managed portfolios. This process will also include improved cash flow and cost of fund management.

This objective will be achieved by daily funding management, asset and liability management, forecasting and budgeting.

Furthermore, the Division will be actively engaged in the following activities;

- Foreign exchange sector (including spot, forward, swap and options)
- Money market sector (including deposits, murabaha, loans, interest rate swap and forward rates agreement)
- Fixed income sector (including treasury bills, treasury bonds, corporate bonds, repo transaction and Islamic sukuk)



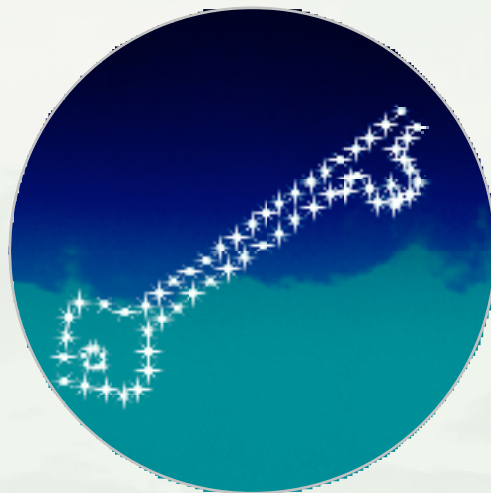
RESEARCH DIVISION

During 2004 Kuwait & Middle East Financial Investment Company "KMEFIC" restructured the Research Unit into a whole division in charge of providing research and consultancy to KMEFIC's clients and portfolio managers alike. As such, the division has prepared a specialized research report on the commercial banking sector and other sectors linked to the performance of the Kuwaiti economy.

Over the year, the division published 22 volumes of KMEFIC "Market Pulse". This bi-monthly newsletter analyzing the Kuwait Stock Exchange's performance, is designed to provide investors with the latest and most significant developments.

Furthermore, the division looks forward to playing a significant role in providing consultancy services and research to foreign investors as Kuwait is in the process of economic liberalization, which will lead to attracting foreign capital for investment in various economic sectors including the Kuwait Stock Exchange.

The Division seeks to expand its activity in 2005 to include other regional markets in order to assist its clients in taking sound investment decisions in those markets.



CORPORATE FINANCE DIVISION

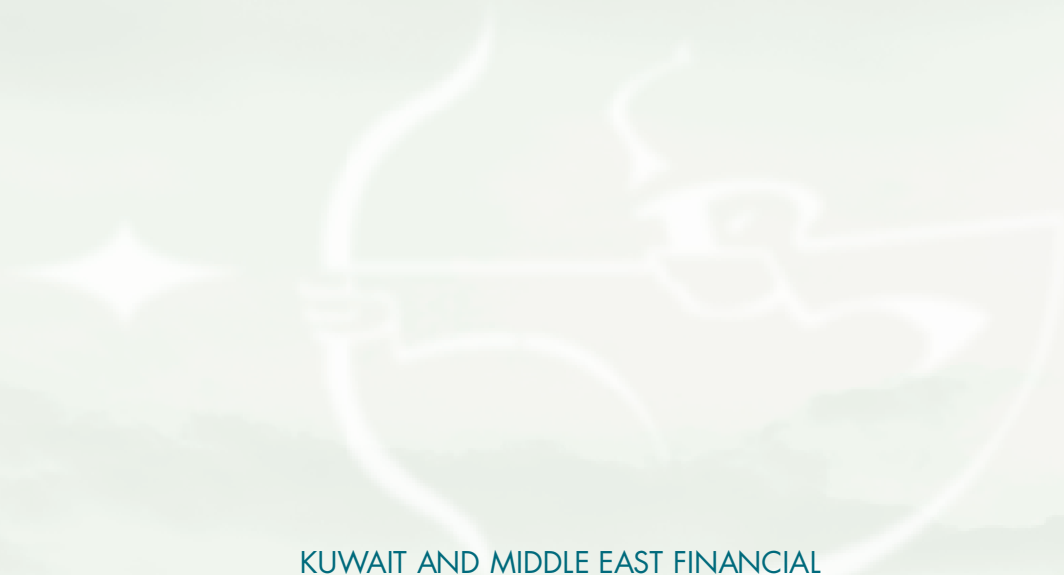
The Corporate Finance Division (CFD) was formally established in mid 2004 to capitalize on KMEFIC's brand image and the immense opportunities in the GCC region for providing Corporate Finance services. Despite our involvement in this field since inception, KMEFIC's executive management recently decided to restructure these activities within an independent and specialized division.

KMEFIC's CFD is a fully integrated financial and investment advisor, experienced and equipped to lead and advise clients in mergers & acquisitions, private equity & direct investments, public or private placements of debt & equity, corporate restructuring, exchange listing requirements and valuations.

During the year, KMEFIC successfully completed two private placements. The first was Alawsat Real Estate Company (later known as Strategia) which was a KD 10.5 million transaction and the second was Noor Financial Investment Company, a KD 16.4 million transaction.

Currently, the Division is working on transactions in the sectors of logistics, education, media, hotel & real estate, and we hope to launch these transactions in the year to come.





KUWAIT AND MIDDLE EAST FINANCIAL
INVESTMENT COMPANY K.S.C. (CLOSED)
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2004





INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

For the year ended 31 december 2004

We have audited the accompanying balance sheet of Kuwait and Middle East Financial Investment Company K.S.C. (Closed) ("the Company") as at 31 December 2004, and the related income statement changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2004 and of the result of the 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 company and 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 all the information and explanations that we required the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2004 that might have had a material effect on the business of the Company or on its financial position.

We further report that, during the course of our examination, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the year ended 31 December 2004.

Bader A. Al Wazzan
License No.62- A
PricewaterhouseCoopers

Kuwait
31 January 2005

Qais M. Al-Nisf
License No. 38-A
of KPMG Al Nisf & Partners
Member firm of KPMG International

BALANCE SHEET

As of 31 December 2004

	Note	2004 KD	2003 KD
ASSETS			
Cash and cash equivalents	3	1,267,580	2,577,823
Investments held for trading	4	9,556,697	7,809,258
Investments available for sale	5	9,366,720	4,277,434
Loans and receivables	6	4,361,325	3,009,134
Investment in associate	7	2,610,025	-
Investment in unconsolidated subsidiaries	8	112,691	293,974
Other assets	9	1,625,804	1,298,395
Intangible asset	10	12,500,000	-
Property and equipment	11	598,025	660,586
Total assets		<u>41,998,867</u>	<u>19,926,604</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Loans from banks and financial institutions	12	8,860,386	1,059,959
Accounts payable and other liabilities		1,494,754	1,095,210
Total liabilities		<u>10,355,140</u>	<u>2,155,169</u>
Shareholders' equity			
Share capital	13	13,946,625	12,965,171
Share premium		206,585	101,407
Statutory reserve		2,948,792	1,959,057
General reserve		2,516,686	1,526,951
Retained earnings		8,570,377	2,308,361
Fair valuation reserve		1,888,889	(32,109)
Foreign currency translation reserve		14,078	13,965
Treasury shares		(182,988)	(1,230,316)
Treasury shares reserve		1,734,683	158,948
Total shareholders' equity		<u>31,643,727</u>	<u>17,771,435</u>
Total Liabilities and Shareholders' equity		<u>41,998,867</u>	<u>19,926,604</u>

The attached notes form an integral part of the financial statements.



Hamed Saleh Al-Saif
Chairman & General Manager



Nasser Barak Al Mutair
Vice Chairman

INCOME STATEMENT

For the year ended 31 December 2004

	Note	2004 KD	2003 KD
INCOME			
Management fees		2,712,080	2,834,043
Performance fees		136,248	274,437
Net interest and similar income	14	394,924	93,394
Commission income		1,151,946	493,105
Placement fees		1,047,665	18,171
Gain on investments held for trading		512,292	643,275
Gain on disposal of investments available for sale		54,182	19,448
Gain on disposal of investment property		-	1,919
Dividends		207,196	81,098
Rental income earned by subsidiaries		-	287,766
Share of income from associate		65,843	-
(Loss)/income from unconsolidated subsidiaries		(12,980)	38,272
Gain on sale of interest in subsidiary	7	3,688,460	-
Gain on sale of real estate division	15	2,790,663	-
Foreign exchange gains		175,004	(12,776)
Other income		20,326	26,057
Total Income		<u>12,943,849</u>	<u>4,798,209</u>
EXPENSES AND OTHER CHARGES			
Staff expenses		1,713,215	1,739,030
Operating expenses relating to investment property		-	99,726
Other operating expenses		746,753	623,502
Management fees		24,618	142,729
Depreciation		220,743	272,769
Provision for loans and receivables		27,596	41,559
Impairment loss on investments available for sale		313,574	-
Contribution to Kuwait Foundation for the Advancement of Sciences		89,076	16,831
National Labour Support Tax		218,863	41,658
Directors' remuneration		64,000	35,000
Total Expenses and Other Charges		<u>3,418,438</u>	<u>3,012,804</u>
Net income before minority interest		9,525,411	1,785,405
Minority interest		-	(8,744)
Net Profit for the year		<u>9,525,411</u>	<u>1,776,661</u>
EARNINGS PER SHARE (Fils)	16	<u>70.41</u>	<u>14.02</u>

The attached notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2004

	Share capital	Share premium	Statutory reserve	General reserve	Retained earnings	Fair valuation reserve	Foreign currency translation reserve	Treasury shares	Treasury shares reserve	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2003	12,920,250	89,355	1,772,042	1,339,936	905,730	(379,539)	12,789	(1,431,939)	7,765	15,236,389
Net profit for the year	-	-	-	-	1,776,661	-	-	-	-	1,776,661
Transfer to statutory reserve	-	-	187,015	-	(187,015)	-	-	-	-	-
Transfer to general reserve	-	-	-	187,015	(187,015)	-	-	-	-	-
Issue of share capital - share options	44,921	12,052	-	-	-	-	-	-	-	56,973
Changes in fair value of investments available for sale	-	-	-	-	-	347,430	-	-	-	347,430
Foreign currency translation reserve	-	-	-	-	-	-	1,176	-	-	1,176
Purchase of treasury shares	-	-	-	-	-	-	-	(192,212)	-	(192,212)
Sale of treasury shares	-	-	-	-	-	-	-	393,835	151,183	545,018
Balance at 31 December 2003	12,965,171	101,407	1,959,057	1,526,951	2,308,361	(32,109)	13,965	(1,230,316)	158,948	17,771,435
Net profit for the year	-	-	-	-	9,525,411	-	-	-	-	9,525,411
Dividends paid for 2003	-	-	-	-	(619,800)	-	-	-	-	(619,800)
Transfer to statutory reserve	-	-	989,735	-	(989,735)	-	-	-	-	-
Transfer to general reserve	-	-	-	989,735	(989,735)	-	-	-	-	-
Issue of bonus shares for 2003	664,125	-	-	-	(664,125)	-	-	-	-	-
Issue of share capital - share options	317,329	105,178	-	-	-	-	-	-	-	422,507
Changes in fair value of investments available for sale	-	-	-	-	-	1,607,424	-	-	-	1,607,424
Impairment loss on investments available for sale	-	-	-	-	-	313,574	-	-	-	313,574
Foreign currency translation reserve	-	-	-	-	-	-	113	-	-	113
Sale of treasury shares	-	-	-	-	-	-	-	1,047,328	1,575,735	2,623,063
Balance at 31 December 2004	13,946,625	206,585	2,948,792	2,516,686	8,570,377	1,888,889	14,078	(182,988)	1,734,683	31,643,727

The attached notes form an integral part of the financial statements

CASH FLOW STATEMENT

For the year ended 31 December 2004

	Note	2004 KD	2003 KD
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		9,525,411	1,776,661
Adjustments:			
Unrealized gains on investments held for trading		(875,724)	(203,673)
Gain on disposal of investments available for sale		(54,182)	(19,448)
Impairment loss on investments available for sale		313,574	-
Gain on disposal of investment property		-	(1,919)
Share of income from associate		(65,843)	-
Share of loss/(income) from unconsolidated subsidiaries		12,980	(38,272)
Gain on sale of interest in subsidiary		(3,688,460)	-
Realised gain on sale of real estate division		(2,790,663)	-
Depreciation		220,743	272,769
Provision for loans and receivables		27,596	41,559
Change in minority interest		-	(86,978)
Operating profit before changes in operating assets and liabilities		<u>2,625,432</u>	<u>1,740,699</u>
Investments held for trading		(871,715)	924,509
Loans and receivables		(1,379,787)	(2,077,957)
Other assets		(318,704)	83,103
Accounts payable and other liabilities		399,544	260,520
Net cash from operating activities		<u>454,770</u>	<u>930,874</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments available for sale		(3,971,907)	(2,462,598)
Proceeds from disposal of investments available for sale		544,227	537,229
Proceeds from disposal of investment property		-	1,426,741
Acquisition of investment in associate		(1,273,387)	-
Investment in subsidiaries		(9,875,000)	-
Capital distribution from unconsolidated subsidiaries		168,416	52,625
Acquisition of intangible asset		(12,500,000)	-
Acquisition of property and equipment		(158,182)	(59,939)
Sale proceeds of interest in subsidiary		11,708,600	-
Sale proceeds of real estate division		3,559,610	-
Net cash used in investing activities		<u>(11,797,623)</u>	<u>(505,942)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans from banks and financial institutions		7,800,427	(8,028)
Loan from subsidiary		(125,000)	-
Dividends paid		(619,800)	-
Sale of treasury shares		2,623,063	545,018
Purchase of treasury shares		-	(192,212)
Proceeds from employee share option plan		353,920	205,364
Net cash from financing activities		<u>10,032,610</u>	<u>550,142</u>
Net (decrease)/increase in cash and cash equivalents		<u>(1,310,243)</u>	<u>975,074</u>
Cash and cash equivalents at beginning of year		2,577,823	1,602,749
Cash and cash equivalents at end of year	3	<u>1,267,580</u>	<u>2,577,823</u>

The attached notes form an integral part of the financial statements

For the year ended 31 December 2004

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Kuwait and Middle East Financial Investment Company KSC (the "Company") is a Kuwaiti Shareholding Company incorporated on 1 January 1984. The Company is engaged in carrying out investment and portfolio management activities for its own account and for clients.

The Company's registered head office is at 13th floor, Kuwait Real Estate Bank Building, Joint Banking Center, Kuwait city, Kuwait. The number of employees as at 31 December 2004 was 77 (31 December 2003: 70).

The Company's shares are listed on the Kuwait Stock Exchange. The Company is a subsidiary of Bank of Kuwait and the Middle East (parent company), which is listed on the Kuwait Stock Exchange.

These financial statements were approved for issue by the Board of Directors on 31 January 2005 and will be submitted to the shareholders of the Company for approval at the forthcoming Annual General Assembly.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified for revaluation of financial assets 'held for trading' and 'available for sale'.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the amounts reported in these financial statements.

The Company owns 21.60% of Strategia Investment Company ("SIC") KSCC (formerly Al Awsat Real Estate Company KSCC - "Awsat") after it sold 79.72% during the year. The Company's interest in SIC, which is an associate, is equity accounted (note 7).

During the year ended 31 December 2003, the Company sold its interest in Missouri Centers (Joplin) Ltd, a California Limited partnership in which the Company had 90% holding.

In the previous year, financial statements of the subsidiaries described above were consolidated on a line by line basis. Hence the prior year figures are not comparable.

b) Cash and cash equivalents

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



For the year ended 31 December 2004

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Investments

The Company maintains two separate investment portfolios; investments held for trading and investments available for sale. Investments that are acquired for the purpose of generating a profit from short-term fluctuations in price are classified as investments held for trading. Investments, which are intended to be held for indefinite period of time, are classified as investments available for sale.

An investment is recognised when the Company becomes a party to the contractual provisions of the instrument. An investment is de-recognised when the Company loses control of the contractual rights that comprise the financial asset.

All 'regular way' purchase and sale of investments are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of investments that require delivery of investments within the time frame generally established by regulations or conventions in the market place.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. After initial recognition, investments, which are classified as held for trading and those classified as available for sale, are carried at fair value. Provision is made for any impairment in value of available for sale investments. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specified asset, or a group of similar assets, may be impaired. An investment is impaired if its carrying amount is greater than its estimated recoverable amount.

For investments traded in organised financial markets, fair value is determined by reference to quoted bid market prices. The fair value of interest bearing financial instruments is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. For unquoted equity investments, fair value is determined by reference to market value of a similar investment, or is based on the expected discounted cash flows or other appropriate models.

Gains or losses arising from changes in fair value of investments held for trading are included in the income statement in the period in which they arise. Gains or losses arising from changes in fair value of investments available for sale are recognised directly in equity. When the available for sale investment is disposed of or impaired, the related accumulated fair value adjustments in equity are transferred to the income statement as gains or losses.

d) Loans and receivables

Loans and receivables originated by the Company are recognised on the settlement date and are carried at amortised cost less impairment losses. Specific provisions are made to reduce impaired loans and receivables to their estimated recoverable amount. Loans and receivables are impaired if the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the original effective interest rate and current interest rate for fixed and floating rate loans respectively, exceed its carrying value. General provision for loans is made in accordance with the Central Bank of Kuwait regulations.

e) Investments in associates

Associated companies are those entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for by equity method of accounting. Any impairment in value is recognised in income statement.

f) Investments in subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the 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 subsidiaries, other than those which are held with a view to disposal in the near future and subsidiaries which are considered as not material to the financial statements, are consolidated from the date that control effectively commences until the date that control effectively ceases.

Investment in subsidiaries which are not considered material to the financial statements of the Company are equity accounted.



For the year ended 31 December 2004

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Intangible assets

Identifiable non-monetary assets acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets are amortised on a straight line basis over a period of up to twenty years.

h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses if any. Property and equipment are impaired if the carrying amount of the asset or its cash generating unit exceeds its recoverable amount. The impairment loss are recognised in the income statement.

Depreciation is calculated based on the estimated useful lives of the applicable assets using the straight-line method. The estimated useful lives of property and equipment are 4 to 7 years.

i) Employees' end of service indemnity

Provision is made for employees' end of service indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of involuntary termination of staff at the balance sheet date. This basis is considered to be an approximation of the present value of final obligation.

j) Treasury shares

When the Company's own shares are purchased, the amount of consideration paid, including directly attributable costs, is classified as a reduction from shareholders' equity. Gains/losses on sale of treasury shares are included in shareholders' equity.

Treasury shares are not entitled to any cash dividend that the Company may propose. In accordance with the instructions of the Central Bank of Kuwait dated 15 December 1999, dividend earned in prior years on the Company's own shares are transferred to the general reserve and are not available for distribution.

k) Revenue recognition

Fee and commission income are recognised when earned in accordance with the substance of the agreement. Interest income is recognised on accrual basis taking account of the principal outstanding and the rate applicable. Interest income includes the difference between the initial amount of investment in money market instruments and its fair value at the balance sheet date. Dividend income is recognised when the right to receive payment is established. Rental income is recognised on a straight-line basis over the term of the lease.

l) Foreign currency translation

The functional currency of the Company is Kuwaiti Dinars ("KD"). Foreign currency transactions are recorded at rates of exchange ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies, outstanding at the year end are translated into Kuwaiti Dinars at rates of exchange ruling at the balance sheet date. Any resultant gains or losses are taken to the income statement. Translation difference on held for trading equities are reported as part of the fair value gain or loss and available for sale equities are included in the revaluation reserve in equity. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at dates that the values were determined.

m) Fiduciary assets

Third party assets managed by the Company and assets held in trust or in a fiduciary capacity are not treated as assets of the Company and accordingly are not included in these financial statements.



For the year ended 31 December 2004

3. CASH AND CASH EQUIVALENTS	<u>2004</u>	<u>2003</u>
	KD	KD
Cash and bank balances	767,580	2,063,310
Fixed deposits	<u>500,000</u>	<u>514,513</u>
	<u>1,267,580</u>	<u>2,577,823</u>

4. INVESTMENTS HELD FOR TRADING	<u>2004</u>	<u>2003</u>
	KD	KD
Quoted equities	1,855,885	302,125
Quoted funds	<u>7,700,812</u>	<u>7,507,133</u>
	<u>9,556,697</u>	<u>7,809,258</u>

5. INVESTMENTS AVAILABLE FOR SALE	<u>2004</u>	<u>2003</u>
	KD	KD
Quoted equities	5,258,593	2,637,066
Unquoted equities and funds	4,421,701	1,640,368
Impairment	<u>(313,574)</u>	<u>-</u>
	<u>9,366,720</u>	<u>4,277,434</u>

Investments available for sale include unquoted equities with original cost of KD 1,535,088 (2003: KD 833,041) carried at cost less impairment since it was not possible to reliably estimate its fair value using other bases of measurements.

6. LOANS AND RECEIVABLES	<u>2004</u>	<u>2003</u>
	KD	KD
Loans to staff	41,340	25,681
Loans to others	<u>4,408,991</u>	<u>3,044,864</u>
	4,450,331	3,070,545
General provision	<u>(89,006)</u>	<u>(61,411)</u>
	<u>4,361,325</u>	<u>3,009,134</u>

For the year ended 31 December 2004

7. INVESTMENT IN ASSOCIATE

In February 2004, the Company's wholly owned subsidiary, Al Awsat Real Estate Company ("Awsat") increased its issued share capital from KD 125,000 to KD 10,000,000 which was fully subscribed to in cash by the Company at par value.

In April 2004, the Company sold 79,724,000 shares of Awsat of which 74,724,000 shares were sold through private placement at a premium of 50 fils per shares and 5 million shares were sold to staff at par value. The realized gain on sale of shares in Awsat amounting to KD 3,688,460 is recognized in the income statement.

As a result of the above, Awsat has become an associate with a holding of 20.28%. The name of the associate has been changed to Strategia Investment Company K.S.C.C. (SIC) in August 2004.

Subsequently SIC increased the capital to KD 15,000,000 and the Company acquired 12,127,500 shares of SIC and raised its stake to 21.60%.

	<u>2004</u> KD	<u>2003</u> KD
Share of equity on conversion as associate	1,270,795	-
Acquisition of additional shares	1,273,387	-
Share of income for the year	65,843	-
	<u>2,610,025</u>	<u>-</u>

8. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

	<u>Country of incorporation</u>	<u>Ownership</u>	<u>2004</u> KD	<u>2003</u> KD
Safat Ltd.	Antigua & Barbuda	100%	99,327	267,821
KME Investors Services Ltd.	Antigua & Barbuda	100%	324	324
KME Fund Managers Ltd.	Guernsey	100%	13,040	9,915
KME Investment Services Ltd.	U.K.	100%	-	525
KME Management Services Ltd.	U.S.A.	100%	-	15,389
			<u>112,691</u>	<u>293,974</u>

For the year ended 31 December 2004

9. OTHER ASSETS

	<u>2004</u>	<u>2003</u>
	KD	KD
Accrued management fee - local	746,203	786,217
Accrued management fee - international	116,044	267,841
Employee share option plan receivables	69,065	-
Due from unsettled trades	294,700	-
Other	399,792	244,337
	<u>1,625,804</u>	<u>1,298,395</u>

10. INTANGIBLE ASSETS

In October 2004, the Company acquired a broking licence from the Kuwait Stock Exchange for KD 12,500,000 and started broking operations during December 2004. This licence has an indefinite useful life and is amortised over twenty years.

11. PROPERTY AND EQUIPMENT

	<u>Furniture and Equipment</u>	<u>Computers</u>	<u>Software</u>	<u>Total</u>
	KD	KD	KD	KD
Cost				
At 1 January 2004	563,922	285,211	357,363	1,206,496
Additions	19,511	66,880	71,791	158,182
Disposals	(5,306)	-	-	(5,306)
At 31 December 2004	<u>578,127</u>	<u>352,091</u>	<u>429,154</u>	<u>1,359,372</u>
Accumulated depreciation				
At 1 January 2004	330,965	148,345	66,600	545,910
Depreciation	103,825	61,802	55,116	220,743
Disposals	(5,306)	-	-	(5,306)
At 31 December 2004	<u>429,484</u>	<u>210,147</u>	<u>121,716</u>	<u>761,347</u>
Net book value				
At 31 December 2004	<u>148,643</u>	<u>141,944</u>	<u>307,438</u>	<u>598,025</u>
At 31 December 2003	<u>232,957</u>	<u>136,866</u>	<u>290,763</u>	<u>660,586</u>

12. LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

	<u>2004</u>	<u>2003</u>
	KD	KD
Bank loans	8,252,475	974,776
Other loans	607,911	85,183
	<u>8,860,386</u>	<u>1,059,959</u>

For the year ended 31 December 2004

13. SHAREHOLDER'S EQUITY

- a) The authorised share capital consists of 139,466,250 shares of 100 fils each (2003: 132,825,000 shares of 100 fils each). Issued and fully paid up share capital consists of 139,466,250 shares of 100 fils each (2003: 129,651,707 shares of 100 fils each) which includes 6,037,500 shares (2003: 2,864,207 shares) on account of share option plan for employees (see note 17).
- b) In accordance with the Commercial Company Law and the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of up to 5% of share capital in years when retained earnings are not sufficient for payment of a dividend of that amount.
- c) In accordance with the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to the general reserve. The transfer to this reserve can be discontinued by a resolution adopted by the Board of Directors.
The general reserve includes dividends received on the Treasury shares amounting to KD 36,500 (2003: KD 36,500) which are non-distributable.
- d) As at 31 December 2004 the Company held 1,009,872 shares (2003: 6,466,545 shares) of its own shares, equivalent to 0.72% (2003: 4.99%) of the total issued share capital at that date. The market value of the Company's own shares as at 31 December 2004 was KD 459,492 (2003: KD 1,551,971).
- e) Reserves equivalent to the cost of treasury share reserves amounting to KD 182,988 (2003: KD 1,230,316) are non-distributable.

14. NET INTEREST AND SIMILAR INCOME

	2004	2003
	KD	KD
Interest income:		
Term deposits	734,260	15,083
Loans and advances	254,808	100,236
Others	64,269	22,483
Total interest income	<u>1,053,337</u>	<u>137,802</u>
Interest expenses:		
Bank borrowings	652,540	38,920
Others	5,873	5,488
Total interest expenses	<u>658,413</u>	<u>44,408</u>
Net interest and similar income	<u>394,924</u>	<u>93,394</u>

15. DISPOSAL OF A DIVISION

In March 2004, the Company sold its real estate division, which had net tangible assets of nil to Al Awsat Real Estate Company for KD 3,559,610. An unrealised gain amounting to KD 768,947 was set off against the Company's residual investment in Awsat.

Total revenues and expenses attributable to the real estate division for the period ended 31 December 2004 is KD 206,397 and KD 95,968 respectively. (31 December 2003: KD 762,178 and KD 498,597).

For the year ended 31 December 2004

16. EARNINGS PER SHARE

	<u>2004</u>	<u>2003</u>
Net income for the year (KD)	<u>9,525,411</u>	<u>1,776,661</u>
Weighted average number of shares in issue	129,651,707	129,202,500
Issue of Bonus shares for 2003	6,641,250	6,641,250
Weighted average number of company's own shares	(3,672,222)	(9,305,783)
Weighted average number of shares issued - employee share option plan	<u>2,666,542</u>	<u>150,661</u>
Adjusted weighted average number of shares	<u>135,287,277</u>	<u>126,688,628</u>
Earnings per share (Fils)	<u>70.41</u>	<u>14.02</u>

17. EMPLOYEE SHARE OPTION PLAN

The Annual General Assembly of the shareholders held on 12 March 2001 approved a stock option plan for employees. In accordance with the plan, the Board of Directors of the Company are authorised to issue up to 6,037,500 shares as stock options to the employees. The options vest over a four-year period starting from 13 March 2001, and can be exercised starting from 13 March 2002, as follows:

Not more than 40% after the expiry of first year from the option grant;
 Not more than 80% after the expiry of second year from the option grant;
 100% after the expiry of third year from the option grant.

The option price was fixed at 252 fils per share and was determined based on the average market price for the three months prior to 31 December 2000, less a discount of 25%. The Annual General Assembly of the shareholders held on 10 April 2002 approved a revision of the option price for 2,415,000 shares issued in 2001, from 252 fils to 137 fils and also approved the revision of option price for the remaining unissued shares, from 252 fils to a price to be determined, based on the book value per share as per the last published quarterly or annual financial statements of the Company when the option is exercised. The Board of Directors are authorised to allocate unexercised share options relating to employees who resign or are terminated from services, to new employees of the Company.

The General Assembly held on 1 March 2004 decided to extend the option plan expiry from March 2005 to March 2010.

During the year, the Company issued 3,173,293 shares related to employee share option plan as follows:-

Description	Number of shares
Out of first tranche	238,668
Out of second and third tranche	2,934,625

During the year, the Board of Directors allocated KD 65,965 worth of unvested stock options to new employees.

For the year ended 31 December 2004

18. PROPOSED DIVIDEND AND ISSUE OF BONUS SHARES

The Board of Directors have proposed a cash dividend of 10% amounting to 10 fils per share (2003: 5% amounting to 5 fils per share).

The Board of Directors have also proposed an issue of 5 bonus shares for every 100 shares held (2003: 5 bonus shares for every 100 shares held). The financial statements have not been adjusted to reflect the dividend or the issue of bonus shares as they are subject to the approval of the shareholders in the Annual General Assembly meeting.

19. RELATED PARTY TRANSACTIONS

Related parties primarily comprise subsidiaries, associates, significant shareholders, directors and executive officers of the Company, their families and companies of which they are principal owners. All related party transactions are carried at terms approved by the Company's management.

Transactions and balances with related parties not disclosed elsewhere in the financial statements are as follows:

Transactions	<u>2004</u> KD	<u>2003</u> KD
Board of directors remuneration	64,000	35,000
Management and placement fees earned	307,707	670,284
Loans to directors and senior management	11,710	4,177
Balances	<u>2004</u> KD	<u>2003</u> KD
Deposits placed with parent company	1,241,347	786,051
Loans from parent company	8,252,475	-
Investments and funds managed in a fiduciary capacity	44,171,998	37,018,369
Outstanding foreign exchange commitments	201,125	185,219

20. COMMITMENTS AND CONTINGENCIES

	<u>2004</u> KD	<u>2003</u> KD
Bank guarantees	200,000	100,000
Uncalled capital contributions relating to investments available for sale	438,968	627,541
Outstanding foreign exchange commitments	7,585,525	10,236,884

21. FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the Company on behalf of clients. These are not assets of the Company and accordingly are not included in the financial statements. As at the balance sheet date total fiduciary assets managed by the Company amounted to KD 674 million equivalent to US\$ 2,287 million (2003: KD 585 million equivalent to US\$ 1,983 million).

For the year ended 31 December 2004

22. FINANCIAL INSTRUMENTS

The Company 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.

Credit risk

The Company is exposed to credit risk if counterparties fail to perform as contracted. Financial assets which potentially subject the Company to credit risk consist principally of cash equivalents and loans and receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of the above assets disclosed in the balance sheet. Credit risk inherent in outstanding foreign exchange commitments disclosed in note 20, if the counterparty is unable to settle, is limited to the difference between the contracted value of the transaction and the cost of completing it with another party.

The Company seeks to manage its credit risk by monitoring credit exposures and assessing the creditworthiness of counterparties. The Company also obtains security when appropriate.

The geographical concentration of assets and liabilities is given in note 23.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Financial instruments, which potentially subject the Company to interest rate risk consist principally of cash equivalents, loans and receivables and loans from banks and financial institutions. The Company manages this risk by matching the repricing of related assets and liabilities.

The maturities and effective interest rates of assets and liabilities is given in note 24.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Financial instruments, which potentially subject the Company to market risk consist principally of investments held for trading and investments available for sale. The Company manages this risk by diversifying its investments and monitoring market movements.

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's exposure to currency risk is equal to the carrying amount of net assets denominated in foreign currencies (note 26). A significant portion of exposure to foreign currencies is in US Dollars which is pegged to Kuwaiti Dinars.

Fair value of financial assets and liabilities

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 Company 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.

In the opinion of the management, the estimated fair value of financial assets (other than unquoted equities) and liabilities that are not carried at fair value as at the balance sheet date approximated their carrying amounts. Fair value of unquoted equities cannot be reliably determined (note 5).

As at 31 December 2004

23. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

	Kuwait		North America		Europe		Far East		Other		Total	
	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD
Assets												
Cash and cash equivalents	1,257,430	2,006,751	-	556,872	2,892	983	-	-	7,258	13,217	1,267,580	2,577,823
Investments held for trading	2,996,583	2,165,024	4,758,310	4,192,350	1,322,323	855,059	479,481	164,583	-	432,242	9,556,697	7,809,258
Investments available for sale	7,063,937	2,454,950	578,575	571,799	189,827	144,673	86,353	98,896	1,448,028	1,007,116	9,366,720	4,277,434
Loans and receivables	4,361,325	2,705,356	-	-	-	-	-	-	-	303,778	4,361,325	3,009,134
Investment in associate	2,610,025	-	-	-	-	-	-	-	-	-	2,610,025	-
Investment in unconsolidated subsidiaries	-	-	112,691	293,974	-	-	-	-	-	-	112,691	293,974
Other assets	1,486,775	999,427	139,029	298,968	-	-	-	-	-	-	1,625,804	1,298,395
Intangible asset	12,500,000	-	-	-	-	-	-	-	-	-	12,500,000	-
Property and equipment	598,025	660,586	-	-	-	-	-	-	-	-	598,025	660,586
	<u>32,874,100</u>	<u>10,992,094</u>	<u>5,588,605</u>	<u>5,913,963</u>	<u>1,515,042</u>	<u>1,000,715</u>	<u>565,834</u>	<u>263,479</u>	<u>1,455,286</u>	<u>1,756,353</u>	<u>41,998,867</u>	<u>19,926,604</u>
Liabilities and shareholders' equity												
Loans from banks and financial institutions	8,252,475	974,776	607,911	85,183	-	-	-	-	-	-	8,860,386	1,059,959
Accounts payable and other liabilities	1,494,754	1,095,210	-	-	-	-	-	-	-	-	1,494,754	1,095,210
Shareholders' equity	31,643,727	17,771,435	-	-	-	-	-	-	-	-	31,643,727	17,771,435
	<u>41,390,956</u>	<u>19,841,421</u>	<u>607,911</u>	<u>85,183</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,998,867</u>	<u>19,926,604</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2004

24. MATURITIES AND EFFECTIVE INTEREST RATES OF ASSETS AND LIABILITIES

	Within one year		Over one year		Non-interest sensitive		Total		Effective Interest rate%	
	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD
Assets										
Cash and cash equivalents	1,267,580	2,577,823	-	-	-	-	1,267,580	2,577,823	2.89%	2.86%
Investments held for trading	9,556,697	7,809,258	-	-	9,556,697	7,809,258	9,556,697	7,809,258	-	-
Investments available for sale	-	-	9,366,720	4,277,434	9,366,720	4,277,434	9,366,720	4,277,434	-	-
Loans and receivables	4,361,325	3,009,134	-	-	-	-	4,361,325	3,009,134	5.35%	4.80%
Investment in associate	-	-	2,610,025	-	2,610,025	-	2,610,025	-	-	-
Investment in unconsolidated subsidiaries	-	-	112,691	293,974	112,691	293,974	112,691	293,974	-	-
Other assets	1,625,804	1,298,395	-	-	1,625,804	1,298,395	1,625,804	1,298,395	-	-
Intangible asset	-	-	12,500,000	-	12,500,000	-	12,500,000	-	-	-
Property and equipment	-	-	598,025	660,586	598,025	660,586	598,025	660,586	-	-
	<u>16,811,406</u>	<u>14,694,610</u>	<u>25,187,461</u>	<u>5,231,994</u>	<u>36,369,962</u>	<u>14,339,647</u>	<u>41,998,867</u>	<u>19,926,604</u>		
Liabilities and shareholders' equity										
Loans from banks and financial institutions	8,860,386	1,059,959	-	-	-	-	8,860,386	1,059,959	2.39%	3.35%
Accounts payable and other liabilities	954,515	513,214	540,239	581,996	1,494,754	1,095,210	1,494,754	1,095,210	-	-
Shareholders' equity	-	-	31,643,727	17,771,435	31,643,727	17,771,435	31,643,727	17,771,435	-	-
	<u>9,814,901</u>	<u>1,573,173</u>	<u>32,183,966</u>	<u>18,353,431</u>	<u>33,138,481</u>	<u>18,866,645</u>	<u>41,998,867</u>	<u>19,926,604</u>		

As at 31 December 2004

25. SEGMENT REPORTING

Business segments

The company operates in the following distinguishable business segments. These business segments form the basis on which the Company reports its primary segmental information.

- International Investment Division, which is engaged in carrying out investment activities for own account and for clients, in international markets;
- Real Estate Division, which is engaged in investing in real estate (Discontinued operations - see note 15);
- Local Market Division, which is engaged in carrying out investment activities for own account and for clients and broking in the local Kuwait market; and
- Online trading division, which is engaged in on-line trading for own account and for clients in International and Local market.

Financial information about business segments for the year ended 31 December 2004 and 31 December 2003 are set out below:

	International Investments		Real Estate		Local Markets		On-line Trading		Total	
	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD	2004 KD	2003 KD
Segment revenue	523,430	224,925	206,397	918,591	4,081,748	3,042,763	1,157,827	523,879	5,969,402	4,710,158
Segment expenses	793,066	597,299	95,968	498,595	903,421	790,835	736,051	501,587	2,528,506	2,388,316
Segment result	(269,636)	(372,374)	110,429	419,996	3,178,327	2,251,928	421,776	22,292	3,440,896	2,321,842
Unallocated Revenues									495,324	88,051
Revenues from discontinued operations									6,479,123	-
Unallocated Expenses									889,932	633,232
Net income for the year									<u>9,525,411</u>	<u>1,776,661</u>
Segment assets	7,653,225	8,483,119	-	1,753,906	27,364,777	2,951,241	393,120	360,897	35,411,122	13,549,163
Unallocated assets									6,587,745	6,377,441
Total assets									<u>41,998,867</u>	<u>19,926,604</u>
Segment liabilities	-	-	-	-	8,860,386	-	-	-	8,860,386	-
Unallocated liabilities									1,494,754	2,155,169
Total liabilities									<u>10,355,140</u>	<u>2,155,169</u>
Capital expenditure	-	-	-	-	-	-	92,137	39,736	92,137	39,736
Unallocated capital expenditure									66,045	20,203
Total capital expenditure									<u>158,182</u>	<u>59,939</u>
Depreciation	-	-	-	68,113	-	-	76,343	70,571	76,343	138,684
Unallocated depreciation									144,400	134,085
Total depreciation									<u>220,743</u>	<u>272,769</u>
Impairment loss recognized in statement of income	313,574	-	-	-	-	-	-	-	313,574	-
(Loss)/income from unconsolidated subsidiaries	(12,980)	38,272	-	-	-	-	-	-	(12,980)	38,272

GEOGRAPHICAL SEGMENTS

The Company operates from one location in Kuwait and majority of its customers are based in Kuwait. The Company's assets relate to different geographical areas of the world. The carrying amount of the Company's assets and liabilities by geographical area are presented in note 23 to the financial statements.

26. ASSETS DENOMINATED IN FOREIGN CURRENCIES

As at the balance sheet date the Company had the following significant net asset exposures denominated in foreign currencies:

	2004 KD	2003 KD
US Dollars	780,110	12,464
Qatari Riyal	651,000	449,000
Other	45,875	43,256
	<u>1,476,985</u>	<u>504,720</u>

