

Annual Report 2004



KIPCO Asset Management Company (KAMCO)
A Member of KIPCO Group

{ prosper }

A Member of KIPCO Group

KIPCO combines the very best products and services, crafting them into a local package with truly international standards – all the while remaining faithful to our heritage and values.

The individual companies contained within our Group all have different functions and capabilities, but together they are united in a single purpose: the advancement of our region and a better quality of life for all.

Kuwait Projects Company – KIPCO – is one of the leading diversified holding companies in the Middle East and North Africa, with more than US\$ 10 billion under management or control.

KIPCO has substantial ownership interests in a portfolio of companies operating throughout the region and internationally in three major business sectors: Financial Services; Media & Telecommunications; and Management & Advisory. In addition, subsidiaries and affiliates of KIPCO Group companies with interests in Real Estate and Industry are contained in sub-sectors of the Financial Services sector.

Financial Services

KIPCO's holdings in this sector include investments in commercial and investment banking, asset management, and insurance. These institutions meet the needs of individual and corporate customers by developing new products, maintaining an emphasis on service excellence, and harnessing technology to broaden distribution channels and improve customer satisfaction.

Real Estate

KIPCO has sizeable real estate investments in both the Arab world and the U.S. Selection of real estate investments is based on identification of quality properties with attractive medium-term investment potential. KIPCO Group entities are also involved in property development and management.

Industry

Developing the Middle East's industrial infrastructure to achieve self-sufficiency in key goods and services is a priority of many regional governments. KIPCO strongly supports this drive through substantial investments in dairy, food services, fisheries and industrial coatings businesses.

Media & Telecommunications

The rapid convergence of telecommunications, information technology and broadcasting industries has created a wealth of opportunities in the commercial, educational and entertainment fields. With a strategic portfolio of investments in the Media & Telecommunications sector, including a substantial interest in regional mobile telecommunications, KIPCO is already capitalising on these exciting opportunities with the objective of connecting people and communities with the most advanced technology, efficiently and cost-effectively.

Management & Advisory

Management & Advisory services, provided by KIPCO's U.S. and U.K.-based operations, encompass direct investment, finance, private placement, mergers and acquisitions, derivatives, and corporate restructuring. These services, solicited by both KIPCO Group entities and external clients, provide representation and support in the key North American and European markets, an essential factor for success. The sector also comprises investments in companies active in the growing service industries markets.

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**H.H. Sheikh Saad Al-Abdullah
Al-Salem Al-Sabah**

Crown Prince of the
State of Kuwait



**H.H. Sheikh Jaber Al-Ahmad
Al-Jaber Al-Sabah**

Amir of the State of Kuwait



**H.E. Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah**

Prime Minister of the
State of Kuwait

Mission Statement

To be among the premier investment companies in the region.

To provide innovative and customised solutions to meet our clients' entire Asset Management and Financial Services needs.

To adhere to the values of integrity and independence and thus earn the trust of our clients.

To cultivate innovation, high performance and confidentiality in all we do.

To provide clients with tangible results and full access to local and international capital markets.

To develop and nurture our relationships with local and international investors.



Company Profile

In these times of accelerating change and market volatility, thorough knowledge and insight into local and global market conditions are more important than ever. This is where KAMCO leverages its extensive knowledge and expertise.

Established in 1998, KIPCO Asset Management Company (KAMCO) is a member of KIPCO Group. In June 2003, KAMCO increased its share capital from KD 15 million to KD 20 million, and in October 2003 the Company achieved further prominence by being listed on the Kuwait Stock Exchange.

KAMCO offers its clients comprehensive access to local and international capital markets, as well as a comprehensive selection of financial services. These services are provided by a team with a proven track record, which is able to develop customised solutions to meet individual client needs.

KAMCO focusses on two major activities: Asset Management and Financial Services.

Our Asset Management services include brokerage, tailored portfolio management, forward trading, IPOs, local and international fund management, own label and third party funds. KAMCO also offers comprehensive investment research services. KAMCO's strong presence in the financial marketplace has been reflected in the dynamic growth of its Assets Under Management, which now stand at nearly KD 1.3 billion.

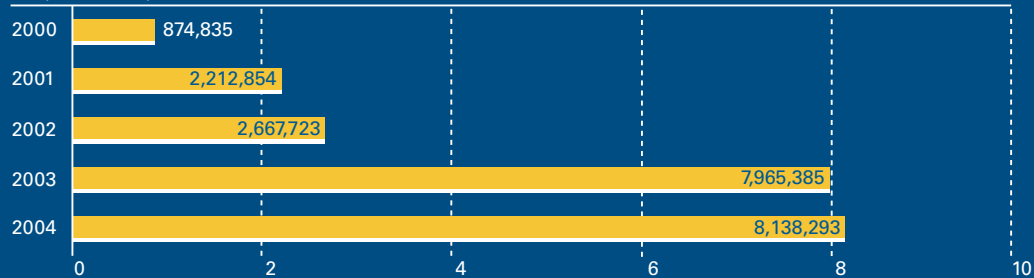
Our Financial Services comprise the full range of corporate finance advisory services, including mergers and acquisitions, underwriting, private placements, strategy development and strategic planning, project and investment evaluation and consulting, as well as private equity.

Headquartered in Kuwait, but with affiliations that span the globe, KAMCO enjoys a leading position and competitive advantages over other investment firms in Kuwait. Our aim is to serve all our clients' needs and constantly bolster our position as one of the leaders and innovators in Asset Management and Financial Services in the Middle East.

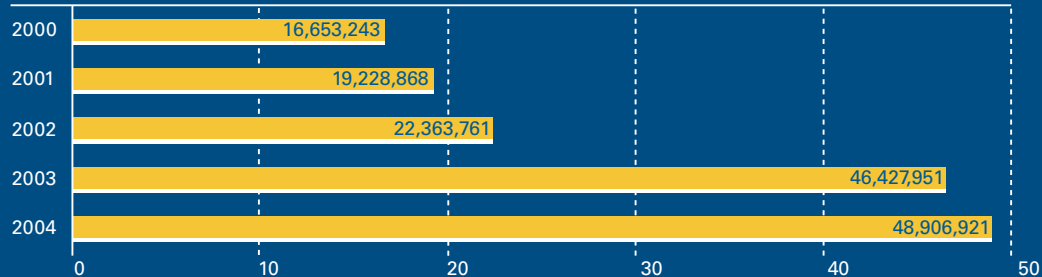


Financial Highlights

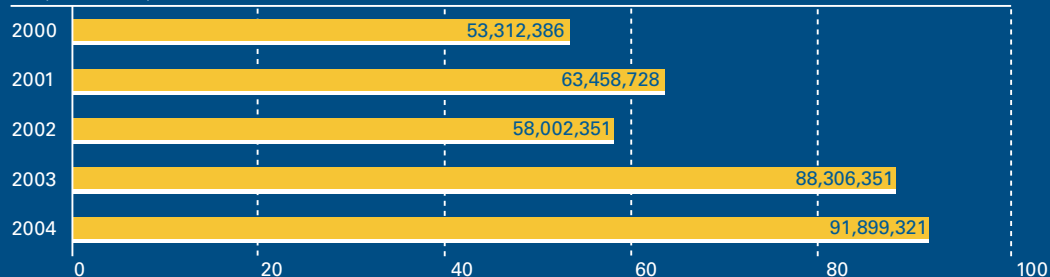
Net Profit
KD (2000-2004)



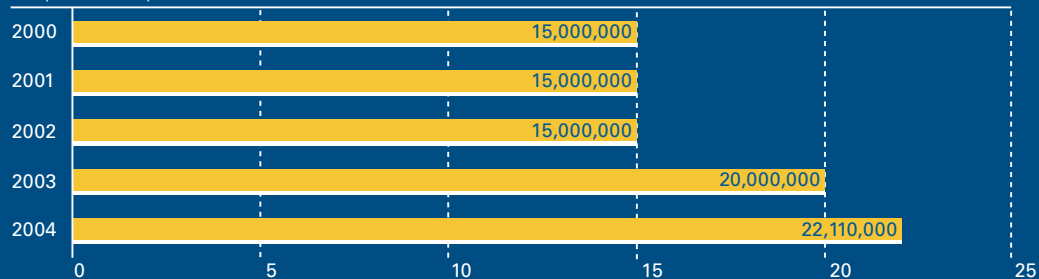
Equity
KD (2000-2004)



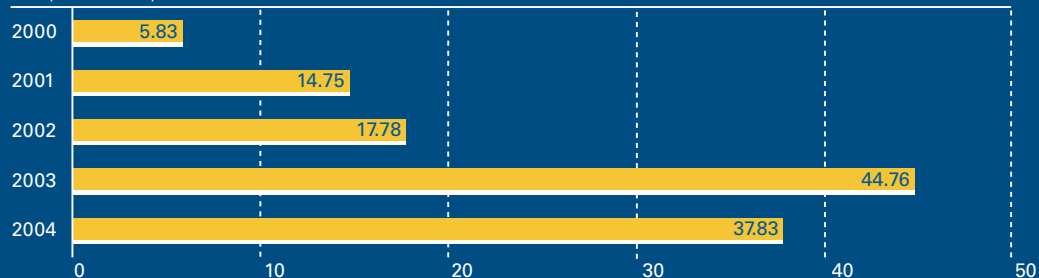
Assets
KD (2000-2004)



Capital
KD (2000-2004)



EPS
Fils (2000-2004)



Chairman's Statement

“ KAMCO recorded a net profit of KD 8.138 million for the year ended December 31, 2004, and is expected to develop positively in 2005 and beyond, with the aim of achieving a deserved and sustainable position among the leading investment companies in Kuwait and in the wider Gulf Cooperation Council region. ”



Dear Shareholders

I am pleased to report, on behalf of the Board of Directors, a solid performance by your Company during the year ended December 31, 2004.

KAMCO recorded a net profit of KD 8.138 million (compared to KD 7.965 million in 2003). Earnings per share in 2004 were 37.83 fils (2003: 44.76 fils); this is somewhat lower due to the increase in the number of shares in issue following the 10 per cent bonus share issue in early 2004. In addition, return on equity was a solid 16.6 per cent in 2004 (2003: 17.15 per cent).

Based on these solid results, the Board of Directors is pleased to recommend a cash dividend of 25 per cent of each share's nominal value (25 fils per share), which represents a significant increase on last year's 10 per cent cash dividend (10 fils per share).

The Kuwait Stock Exchange had a reasonable performance in 2004, with a rise of 9.67 per cent in the KAMCO Total Return Weighted (TRW) Index. International financial markets were more subdued in 2004 compared to 2003, with political factors, such as the U.S. Presidential election and Iraq, increasing U.S. interest rates and increasing crude oil prices, affecting investor sentiment.

In Kuwait, the major favourable macro-economic factor was the continued high level of crude oil prices throughout the year, with the consequent benefit to the Kuwaiti economy, while Kuwaiti Dinar interest rates rose during the year in line with U.S. interest rate rises. Overall, the business environment in which the Company operates was adequate, although the investment company sector is becoming increasingly competitive.

KAMCO's core client service activities continue to be Asset Management and Financial Services. Your Company recorded increases in revenues from service activities, namely Management Fees, which rose 2 per cent to reach KD 4.38 million (2003: KD 4.3 million) and Advisory Fees which rose 29 per cent to reach KD 1.17 million (2003: KD 0.91 million). In addition, your Company recorded a 25 per cent increase in Income from Associated Companies, which rose from KD 1.48 million in 2003 to KD 1.85 million in 2004.

KAMCO also diversified its funding base in 2004 through its first ever Bond issue in the amount of KD 20 million, which was fully subscribed by investors. Our bond issue was rated "BBB" by rating agency Capital Intelligence Ltd., which is regarded as Investment Grade.

Our client Assets Under Management were maintained at an impressive KD 1.3 billion as at December 31, 2004 (KD 1.3 billion as at December 31, 2003). Also, during the year KAMCO successfully launched two new funds: KAMCO Investment Fund, which invests mainly in Kuwaiti listed securities; and Kuwait Private Equity Opportunities Fund, which will invest in unlisted, privately held Kuwaiti companies. The launch of these funds, together with planned new products, will help create a stronger and more diversified revenue stream in the future.


It is also worth mentioning that KAMCO continued in 2004 to enhance its reputation as one of Kuwait's leading Corporate Finance advisors, arranging three corporate bond issues and three Kuwait Stock Exchange listings for various clients.

Your Company is expected to continue to develop positively in 2005 and beyond, with the aim of achieving a deserved and sustainable position among the leading investment companies in Kuwait and in the wider Gulf Cooperation Council region. KAMCO's business strategy is now focussed on not only maintaining current profitability, but on growing profits to an even higher level in the foreseeable future. The Board and management of your Company look forward to a successful future with renewed confidence.

On behalf of the Board of Directors, I would like to thank His Highness The Amir of The State of Kuwait, Shaikh Jaber Al Ahmad Al Jaber Al Sabah, His Highness The Crown Prince, Sheikh Saad Al Abdullah Al Salem Al Sabah and His Highness The Prime Minister, Sheikh Sabah Al Ahmad Al Jaber Al Sabah, for their continuing support and guidance. I also wish to thank the Company's Shareholders for the trust that they have invested in the Board of Directors.

Finally, I also express, on behalf of the Board of Directors, thanks and appreciation to the Company's management and staff for their sincere efforts during the year on behalf of the Company.

May Almighty God grant us all continued success and prosperity.



Masaud Mahmoud Jawhar Hayat
Chairman

Board of Directors

Masaud Mahmoud Jawhar Hayat
Chairman

Radwan Abdullah Jamal
Vice Chairman

Tariq Mohammed Abdul Salam
General Manager

Khalid Fahad Al Zouman
Board Member

Entisar Abdul Raheem Al Suwaidi
Board Member

Ahmed Saud Al Sumait
Secretary of the Board



Executive Management

Tariq Mohammed Abdul Salam
General Manager

Anthony H. Kyprianou
Assistant General Manager,
Financial Services Division

Khaled Abdul Jabbar Al Sharrad
Assistant General Manager,
Management Services Division

Abdullah Jasem Al Qassar
Assistant General Manager,
Asset Management Division

Dhafer Ibrahim Al Helal
Financial Controller

Ahmed Saud Al Sumait
Acting Assistant General Manager,
Finance & Operations Division

Hassan Jassim Al Shamali
Senior Manager, Treasury Department

Talal Mohammed Al Mutawa
Senior Manager, Local
& Gulf Trading Department

Ziad Hassan Al Qaissi
Senior Manager, Investment
Research Department

Dr. Hamad Ali Al Hasawi
Senior Manager, Client Relations
Department

Hazem Khalid Al Braikan
Senior Manager, International
Trading Department

Majed Ahmed Al Adwani
Manager, Information Technology
Department

Dana Ebrahim Al Ebrahim
Manager, Marketing & Product
Development Department

Mohammad Abdullah Al Hubail
Manager, Human Resources &
Administration Department

Safa Abdul Rahman Al Hashem
Manager, Consulting Department

Eisa Abdullah Al Weggian
Acting Head of Direct Investments
Department

Mahmoud Hamid Idris
Acting Head of Operations Department

Mohammed Hanafi Ahmed
Assistant Manager, Internal Audit
Department

Galal Saad Saleh
Assistant Manager, Legal Department

Review of the Year

“ KAMCO is now in a strong position to grow its net profit even further, based on an effective blend of attractive products and services, a strong track record, its significant financial resources, dedication to client service and capable management and staff. ”



Introduction

KAMCO recorded a year of continued good performance in 2004 and further consolidated its position as one of Kuwait's leading investment companies.

It is worth reviewing the Company's key financial results over the last three years, rather than just the last two years, to truly appreciate KAMCO's significant progress in recent years and proven ability to grow over the long term. The key figures are illustrated below:

	2002 KD million	2003 KD million	2004 KD million
Net Profit	2.668	7.965	8.138
Share Capital	15.000	20.000	22.110
Shareholders' Equity	22.364	46.428	48.907
Total Assets	58.002	88.306	91.899

KAMCO is now in a strong position to grow its net profit even further, based on an effective blend of attractive products and services, a strong track record, its significant financial resources, dedication to client service and capable management and staff.

Market Environment

The Kuwaiti economy performed well in 2004 on the back of high crude oil prices and the government's sensible fiscal and economic policies. The Kuwait Stock Exchange performed reasonably, but was less buoyant than in previous years, recording a gain in 2004 of 9.67 per cent based on the KAMCO Total Return Weighted (TRW) Index, and 33.8 per cent based on the KSE Price Index. Kuwaiti Dinar interest rates rose during the year, broadly in line with increases in U.S. interest rates, resulting in higher borrowing costs for corporations. Regional stock markets generally performed well in 2004, but the major international markets posted only moderate gains, such as the Dow Jones Industrial Average Index which rose only 3.15 per cent in the year. A positive local development was the increasing number of companies admitted to listing on the Kuwait Stock Exchange in 2004.

Overall the business environment in which KAMCO operates was satisfactory, but competition from existing and new investment companies appears to be increasing; nevertheless KAMCO is already well-equipped and will continue to undertake new initiatives to enable the Company to perform effectively in a more competitive environment, and in all capital market conditions.

Asset Management

Asset Management is a core activity of KAMCO. With our own assets of almost KD 92 million and KD 1.3 billion of client Assets Under Management, KAMCO is one of the largest private sector managers of financial assets in the Middle East. The Company also continued to attract new clients, with the number of client portfolios increasing by 23 per cent in 2004.

Local and international trading and portfolio management activities continued to produce good returns, and additions were made to our team of trading and portfolio management professionals, in line with increased activity and to enhance the service to our clients. During the year, KAMCO also enabled its clients to gain access to their portfolios statements through the Company web site: www.kamconline.com.

The KAMCO Investment Fund was launched in the first quarter of 2004 to invest in Kuwaiti listed securities. This fund, which is open-ended with monthly liquidity, provides investors with easier access to KAMCO's asset management expertise and experience.

KAMCO's Asset Management services are ably supported by the Company's Investment Research Department, all for the benefit of our clients. KAMCO's original research analysis, covering equities and bonds, continues to be published daily in a number of leading Kuwaiti newspapers. In addition, to increase transparency in the Kuwaiti equity market, at the end of the first quarter of 2004 KAMCO organised a series of public information seminars, entitled the KIPCO Financial Outlook Forum, in which the results and future outlook of the largest listed companies in KIPCO Group were presented.



KAMCO's Bond and High Yield Fund was the largest and the best-performing KD bond fund in Kuwait in 2004. In addition, in demonstration of KAMCO's commitment to developing the capital markets in Kuwait, in December 2004 the Company organised a public seminar on establishing a secondary bond market in Kuwait. This was a well attended event which, it is hoped, will contribute to the development of an efficient secondary bond market in Kuwait.

The establishment of KAMCO's Client Relations Department at the beginning of 2004 has enabled the Company to focus more actively on client care, and on attracting new investment capital. A primary objective of the Company is to effectively place new products and offerings among investors, and to continue to attract new investors to existing funds and other product offerings. In support of this, at the end of 2004, KAMCO also enhanced its internal procedures for new product development, principally to increase the quality and frequency of new product introductions.

Private Equity

KAMCO has been investing in Private Equity, locally and internationally, since its formation, and has a track record of significant achievement in this sector. In 2004, KAMCO successfully launched its first local private equity fund, Kuwait Private Equity Opportunities Fund, with commitments of KD 13.5 million. KAMCO is both manager of, and an investor in this fund, thus aligning its interests with the Fund's investors. KAMCO has established a separate team to manage the Kuwait Private Equity Opportunities Fund and in December 2004, KAMCO's team attended and spoke at the 2nd Middle East Private Equity and Venture Capital Conference in Dubai. KAMCO will continue to develop its private equity investing and management activities for the benefit of its fund's investors and shareholders.

As regards to KAMCO's other direct investments, certain local and international investment positions were profitably exited during the year and the Company's management believes that the new investments made during 2004 should result overall in attractive gains on exit, which will be reported in future periods as and when they arise. A new Direct Investments Department was established at the start of 2004 to reflect the growing importance and scope of our direct investment activities.

KAMCO's associated companies, including United Industries Company (UIC), performed better in 2004, with Income from Associated Companies up 25 per cent compared to 2003. The much anticipated Initial Public Offering (IPO) of Saudi Dairy and Foodstuffs Company (SADAFCO), part of the UIC Group, is expected to take place during the first quarter of 2005.

Corporate Finance

KAMCO's Corporate Finance Department, part of the Financial Services Division, enjoyed its best year to date in 2004 in terms of both the number of client assignments completed (12) and the aggregate value of client assignments completed (more than KD 175 million).

KAMCO now has an enviable track record in Corporate Finance. Specifically, in the period from mid-2001 to end-2004, KAMCO's Corporate Finance Department advised on and completed 33 financial transactions for its clients, with an aggregate value of KD 545 million (US\$ 1.8 billion). KAMCO's future corporate finance assignment pipeline is also strong.

Among the clients KAMCO advised in the year were United Foodstuff Industries Group (listing on Kuwait Stock Exchange); Wethaq Takaful Insurance Company (listing on Kuwait Stock Exchange); Raad Stores Company (listing on Kuwait Stock Exchange); and Al-Mal Kuwaiti Company (KD 15 million bond issue). In 2004 KAMCO's Consulting Department was also appointed to undertake a major consulting assignment for Kuwait Public Transportation Company.

Corporate Finance is a core component of KAMCO's service offerings, and the Company will continue to invest in marketing, recruitment and training in order to grow this important business line, particularly targeting large-scale assignments, and to enhance the quality of its service. The market for Corporate Finance services in Kuwait and the region is anticipated to remain attractive for the foreseeable future.

Employee Share Purchase Scheme

KAMCO's belief in strengthening its connection with employees and offering employment incentives was manifested by the execution of Phase II of its Employee Share Purchase Scheme, with 1,250,000 shares purchased by employees as per the following table:

Employee Rank	Number of Shares Granted
Upper Management	450,000
Middle Management	400,000
Assistant Managers	225,000
Officers and Assistants	175,000
Total	1,250,000

Outlook

KAMCO has a generally positive outlook on the capital markets in 2005, but believes that investors should continue to be selective when investing on the Kuwait Stock Exchange, and should carefully assess the risks of investing in real estate in Kuwait and certain other locations.

The inevitable rise of competition among investment companies, domestic companies and regional/international companies is a challenge, but one which KAMCO is well-equipped to meet and to overcome successfully by implementing a sound business strategy. KAMCO's strategy in this regard encompasses, inter-alia, the launching of attractive new products and services, enhancing our placing power, a continuing dedication to client service, choice and quality, and selective expansion outside Kuwait. The anticipated outcome, for the benefit of KAMCO's shareholders, will be to grow the Company's maintainable profits to an even higher level and thus further enhance the Company's value.



Financial Statements

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Independent Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF KIPCO ASSET MANAGEMENT COMPANY K.S.C. (CLOSED)

We have audited the accompanying balance sheet of Kipco Asset Management Company K.S.C. (Closed) as of 31 December 2004, and the related statements of income, 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 of 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion proper books of account have been kept by the company and the financial statements, together with the contents of the report of the board of directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for 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 violations of the Commercial Companies Law of 1960, as amended, nor 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 audit, 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.

WALEED A. AL OSAIMI
Licence No. 68-A
of Ernst & Young


9 February 2005
Kuwait

Q. H. ALOTAIBI
Licence No. 73-A
Member of the
International Group of
Accounting Firms

Balance Sheet

As at 31 December 2004

	Notes	2004 KD	2003 KD
ASSETS			
Cash and cash equivalents	3	800,269	2,132,776
Investments held for trading	4	7,549,744	11,530,846
Investments available-for-sale	5	47,552,777	40,531,325
Investments in unconsolidated subsidiary and associated companies	6	23,333,883	22,487,407
Loans and advances	7	2,687,752	2,540,024
Other assets	8	9,974,896	9,083,703
TOTAL ASSETS		91,899,321	88,306,081
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Loans from related parties	9	19,125,800	37,835,800
Bonds	10	20,000,000	-
Other liabilities	11	3,866,600	4,042,330
Total liabilities		42,992,400	41,878,130
Shareholders' equity			
Share capital	12	22,110,000	20,000,000
Share premium	13	7,534,000	7,500,000
Treasury shares	14	(3,278,477)	-
Proposed issue of bonus shares	17	-	2,000,000
Statutory reserve	15	2,558,917	1,718,788
Voluntary reserve	16	2,558,917	1,718,788
Investments revaluation reserve		2,234,150	2,846,918
Foreign currency translation reserve		(318,017)	(319,646)
Retained earnings		10,241,181	8,963,103
Proposed cash dividends	17	5,266,250	2,000,000
Total shareholders' equity		48,906,921	46,427,951
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		91,899,321	88,306,081



Masaud Mahmoud Jawhar Hayat
Chairman



Tariq Mohammed Abdul Salam
General Manager

Statement of Income

Year ended 31 December 2004

	Notes	2004 KD	2003 KD
OPERATING INCOME			
Management fees		4,381,543	4,300,957
Brokerage		339,604	345,867
Advisory fees		1,171,015	909,347
Dividend income		1,635,424	885,892
Interest income		581,600	481,132
Gain on sale of investments held for trading		1,964,162	4,213,526
Unrealised gains on investments held for trading		1,081,212	1,391,492
Gain on sale of investments available-for-sale		444,730	603,390
Share of results of associated companies		1,846,460	1,477,542
Gain on sale of part investment in associated company		130,588	24,059
Foreign exchange (loss) income		(6,852)	950,777
Other income		75,228	295,274
		13,644,714	15,879,255
OPERATING EXPENSES			
Administration expenses		3,943,388	3,904,362
Finance costs		1,810,176	1,812,487
(Release of) charge for provision for doubtful debts		(689,161)	1,691,463
Amortisation of goodwill		176,006	256,441
Impairment losses on investments available-for-sale		-	137,883
Impairment losses on loans and advances		3,015	17,572
		5,243,424	7,820,208
OPERATING PROFIT			
		8,401,290	8,059,047
Contribution to Kuwait Foundation for the Advancement of Sciences		(61,406)	(58,327)
National Labour Support Tax		(164,091)	(35,335)
Directors' remuneration	17	(37,500)	-
NET PROFIT FOR THE YEAR	18	8,138,293	7,965,385
EARNINGS PER SHARE (Fils)	19	37.83	44.76

Statement of Changes in Shareholders' Equity

Year ended 31 December 2004

	Share capital KD	Share premium KD	Treasury shares KD	Proposed issue of bonus shares KD	Statutory reserve KD	Voluntary reserve KD	Investments revaluation reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Proposed cash dividends KD	Total KD
Balance at 31 December 2002	15,000,000	-	-	-	922,249	922,249	(225,391)	(318,013)	6,062,667	-	22,363,761
Issue of share capital	5,000,000	7,500,000	-	-	-	-	-	-	-	-	12,500,000
Change in value of investments available-for-sale	-	-	-	-	-	-	3,285,003	-	-	-	3,285,003
Effects of sale of investments available-for-sale	-	-	-	-	-	-	(212,694)	-	528,129	-	315,435
Transfer to reserves	-	-	-	-	796,539	796,539	-	-	(1,593,078)	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	(1,633)	-	-	(1,633)
Net profit for the year	-	-	-	-	-	-	-	-	7,965,385	-	7,965,385
Proposed issue of bonus shares	-	-	-	2,000,000	-	-	-	-	(2,000,000)	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	(2,000,000)	2,000,000	-
Balance at 31 December 2003	20,000,000	7,500,000	-	2,000,000	1,718,788	1,718,788	2,846,918	(319,646)	8,963,103	2,000,000	46,427,951
Issue of share capital	100,000	34,000	-	-	-	-	-	-	-	-	134,000
Dividends	-	-	-	-	-	-	-	-	(10,000)	(2,000,000)	(2,010,000)
Issue of bonus shares	2,010,000	-	-	(2,000,000)	-	-	-	-	(10,000)	-	-
Purchase of treasury shares	-	-	(3,278,477)	-	-	-	-	-	-	-	(3,278,477)
Change in equity of associated companies	-	-	-	-	-	-	11,201	-	-	-	11,201
Change in value of investments available-for-sale	-	-	-	-	-	-	(587,995)	-	-	-	(587,995)
Effects of sale of investments available-for-sale	-	-	-	-	-	-	(35,974)	-	106,293	-	70,319
Transfer to reserves	-	-	-	-	840,129	840,129	-	-	(1,680,258)	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	1,629	-	-	1,629
Net profit for the year	-	-	-	-	-	-	-	-	8,138,293	-	8,138,293
Proposed issue of bonus shares	-	-	-	-	-	-	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	(5,266,250)	5,266,250	-
Balance at 31 December 2004	22,110,000	7,534,000	(3,278,477)	-	2,558,971	2,558,971	2,234,150	(318,017)	10,241,181	5,266,250	48,906,921

The attached notes 1 to 31 form part of these financial statements.

Statement of Cash Flows

Year ended 31 December 2004

	2004 KD	2003 KD
OPERATING ACTIVITIES		
Net profit for the year	8,138,293	7,965,385
Adjustments for:		
Share of results of associated companies	(1,846,460)	(1,477,542)
Gain on sale of part investment in associated company	(130,588)	(24,059)
Gain on sale of investments available-for-sale	(444,730)	(603,390)
Impairment losses on investments available-for-sale	-	137,883
Impairment losses on loans and advances	3,015	17,572
(Release of) charge for provision for doubtful debts	(689,161)	1,691,463
National Labour Support Tax	164,193	35,335
Depreciation	101,862	111,795
Amortisation of goodwill	176,006	256,441
Provision for employees' end of service benefits	283,379	141,584
Unrealised gains on foreign exchange	-	(991,917)
Dividend income	(1,635,424)	(885,892)
Interest income	(581,600)	(481,132)
Finance costs	1,810,176	1,812,487
Operating profit before changes in operating assets and liabilities:	5,348,961	7,706,013
Investments held for trading	3,981,102	(925,284)
Loans and advances	(150,743)	(878,587)
Other assets	(211,880)	(5,717,891)
Other liabilities	(695,483)	619,646
Cash from operations	8,271,957	803,897
Employees' end of service benefits paid	(30,726)	(20,614)
National Labour Support Tax paid	35,335	-
Net cash from operating activities	8,276,566	783,283
INVESTING ACTIVITIES		
Purchase of investments available-for-sale	(13,554,883)	(23,067,435)
Proceeds from sale of investments available-for-sale	6,460,485	4,770,592
Purchase of investment in associated companies	-	(3,003,677)
Proceeds from sale of part investment in associated companies	857,521	3,225,307
Purchase of investment in unconsolidated subsidiary	(96,000)	-
Dividend received from investment in associated companies	205,875	490,000
Purchase of furniture and equipment	(94,150)	(76,232)
Dividend received	1,635,424	885,892
Interest income received	583,736	481,132
Net cash used in investing activities	(4,001,992)	(16,294,421)
FINANCING ACTIVITIES		
Issue of share capital	134,000	12,500,000
Purchase of treasury shares	(3,278,477)	-
Repayment of term loans	-	(5,929,615)
New loans from related parties	4,750,000	24,486,354
Repayment of loans from related parties	(23,460,000)	(12,191,566)
Dividends paid	(1,997,287)	-
Issue of bonds	20,000,000	-
Finance costs paid	(1,755,317)	(1,673,846)
Net cash (used in) from financing activities	(5,607,081)	17,191,327
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,332,507)	1,680,189
Cash and cash equivalents at the beginning of the year	2,132,776	452,587
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	800,269	2,132,776

The attached notes 1 to 31 form part of these financial statements.

Notes to the Financial Statements

At 31 December 2004

1. INCORPORATION AND ACTIVITIES

KIPCO Asset Management Company K.S.C. (Closed) (the company) is a Kuwaiti closed shareholding company registered and incorporated in Kuwait on 28 September 1998 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The company is registered with the Central Bank of Kuwait as an investment company and listed on the Kuwait Stock Exchange.

The company's main activities are to invest in real estate, industrial and agricultural and other sectors, to establish specialized companies and manage third parties funds and real estate portfolios, to act as underwriters, subscription agents and investment trustees, to finance and intermediate in international trade, to provide loans and trade in foreign exchange and precious metal markets, to provide consultancy and undertake technical and economic feasibility studies, to establish and manage funds, and to do all activities that help to develop and advance the capabilities of the financial market.

The major shareholder of the company is United Gulf Bank B.S.C. (E.C.) and the ultimate parent company is Kuwait Projects Company Holding K.S.C. which is listed on the Kuwait Stock Exchange.

These financial statements were authorised for issue by the Board of Directors on 9 February 2005, and are subject to the approval of the ordinary general assembly of the shareholders of the company.

The company's registered head office is at Sharq, Al Shaheed Tower, Khalid Bin Al-Waleed Street, Kuwait City, P.O. Box 28873, Safat 13149, Kuwait.

The company employed 132 employees as at 31 December 2004 (31 December 2003: 123).

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the principal accounting policies adopted in the presentation of these financial statements. These policies have been consistently applied to all the years presented.

Basis of preparation

The financial statements have been prepared in accordance with Standards issued, or adopted by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, and applicable requirements of Ministerial Order No. 18 of 1990.

The financial statements are presented in Kuwaiti Dinars.

Accounting convention

The financial statements are prepared under the historical cost convention as modified for the revaluation at fair value of investments held for trading and investments available-for-sale.

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

Notes to the Financial Statements

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are initially recognised at cost, being the fair value of the consideration given, which is measured using settlement date, including all associated acquisition costs. After initial recognition, investments held for trading and investments available-for-sale are both measured at fair value. The fair value of investments traded in recognised 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. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses. Where the company has the positive intent and ability to hold bonds to maturity, they are stated at amortised cost less impairment losses.

Any gain or loss arising from a change in the fair value of investments classified as held for trading is recognised in the statement of income in the period in which it arises. Any gain or loss arising from a change in the fair value of investments classified as available-for-sale is recognised in equity. When an available-for-sale investment is disposed of, any amount in equity that relates to that investment is transferred to the statement of income in calculating the gain or loss. Amounts in equity are also transferred to the statement of income whenever the investment is impaired.

Investments in unconsolidated subsidiary and associated companies

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.

An enterprise is not consolidated even if ownership exceeds 50 per cent of the equity share capital if control is intended to be temporary, or if the enterprise is immaterial in the context of the financial statements. The investment in such enterprises is recorded as an investment in unconsolidated subsidiary and is accounted for by the equity method.

An associated company is one over which the company has significant influence but not control over its operations, generally accompanying, directly or indirectly, a holding of 20 per cent or more of the voting power of the investee and are accounted for by the equity method. Where such influence or ownership is intended to be temporary, the associated company is recorded as an investment available-for-sale and carried at fair value.

Under the equity method, investment in unconsolidated subsidiary and associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the company's share of net assets of the investee. The company recognises in the statement of income its share of the total recognised profit or loss of the unconsolidated subsidiary and associate from the date that control, influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from unconsolidated subsidiary and associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the company's share in the unconsolidated subsidiary and associate arising from changes in the unconsolidated subsidiary and associate's equity that have not been recognised in the unconsolidated subsidiary and associate's profit or loss. The company's share of those changes is recognised directly in equity.

The company's investments in associated companies includes goodwill (net of accumulated amortization) identified on acquisition, which is treated in accordance with the accounting policy for goodwill.

Unrealised gains on transactions with unconsolidated subsidiary and associate are eliminated to the extent of the company's share in the unconsolidated subsidiary and associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment of investment in unconsolidated subsidiary and associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the company's share of the fair value of the net identifiable assets of the acquired subsidiary or associate as at the date of the acquisition. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the balance sheet. Goodwill arising on the acquisition of an associated company is included within the carrying amount of the investment. Any excess, at the date of acquisition, of the company's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill.

Goodwill is stated at cost less accumulated amortisation and impairment losses. Goodwill is amortised using the straight-line method over 5 years, the period that management expects to benefit from such goodwill. The unamortised balance of goodwill is reviewed at each balance sheet date to assess the probability of continuing future benefits. If there is an indication that goodwill may be impaired, the recoverable amount is determined for the cash-generating unit to which the goodwill belongs. If the carrying amount exceeds the recoverable amount an impairment loss is recognised.

Any excess of negative goodwill over the total fair value of the acquired identifiable non-monetary assets is immediately recognised as income. Remaining negative goodwill is recognised as income on a systematic basis over the weighted average remaining useful lives of the identifiable assets which are subject to depreciation or amortisation.

Loans and advances

Loans and advances originated by the company are categorised as loans originated by the company and are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the company will not be able to collect all amounts due. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate. The amount of the loss arising from impairment is taken to the statement of income. The loan loss provision also covers potential losses not specifically identified but which experience indicates are present in the portfolio. The amount of this loss is taken to the statement of income.

When a loan is uncollectible and there is no realistic prospect of recovery, it is written off against the related provision. Subsequent recoveries and reductions in provisions are credited to provision for loan loss in the statement of income.

Accounts receivable

Receivables are stated at face value after provision for doubtful accounts.

Term loans

Term loans are carried on the balance sheet at their principal amounts. Interest is charged as an expense as it accrues, with unpaid amounts included in other liabilities.

Bonds

Bonds are carried on the balance sheet at their principal amount. Interest is charged as an expense as it accrues, with unpaid amounts included in other liabilities.

Notes to the Financial Statements

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and accruals

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

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Treasury shares

Treasury shares consist of the company's own issued shares that have been reacquired by the company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the shareholders' equity. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity, "treasury shares reserve," which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Foreign currency

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 year.

Revenue recognition

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

- Management and brokerage fees relating to portfolios, fund management and custody services are recognised when earned and accounted for on a quarterly basis according to the terms of the contracts with portfolio customers.
- Dividend income is recognised when the right to receive the payment is established.
- Interest income considered an integral part of the effective yield of a loan, is recognised using the effective yield method. The recognition of interest income is suspended when loans become impaired, such as when overdue by more than 90 days. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.
- Gains and losses on the sale of investments are recognised upon completion of the sale transaction.

Impairment of assets

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of the company's loans, receivables and bonds is calculated as the present value of expected future cash flows, discounted at the original effective interest rates inherent in the asset. Assets with a short duration are not discounted. The recoverable amount of the company's investments held for trading and 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 its 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 recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income.

Recognition and derecognition of financial assets and liabilities

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

Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, investments, accounts receivable, loans receivable, accounts payable, loans payable and bonds. 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 realise the asset and settle the liability simultaneously.

Trade and settlement date accounting

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

Fiduciary assets

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

Notes to the Financial Statements

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

Segment information

A segment is a distinguishable component of the company that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

3. CASH AND CASH EQUIVALENTS

	2004 KD	2003 KD
Bank balances and cash	800,269	632,776
Term deposit	-	1,500,000
Total cash and cash equivalents	800,269	2,132,776

4. INVESTMENTS HELD FOR TRADING

	2004 KD	2003 KD
Quoted securities – local	4,642,731	9,390,070
Quoted securities – international	2,907,013	2,140,776
	7,549,744	11,530,846

5. INVESTMENTS AVAILABLE-FOR-SALE

	2004 KD	2003 KD
Quoted securities	7,134,794	3,777,331
Unquoted securities	12,390,782	10,398,923
Managed funds	26,150,348	25,738,218
Bonds	1,876,853	616,853
	47,552,777	40,531,325

At 31 December 2004, certain investments amounting to KD 7,361,003 (2003: KD 4,438,723) were carried at initial cost due to the non-availability of quoted market prices or other reliable measures of their values. In the opinion of the management, the fair value of these investments is not significantly different from their carrying values.

6. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARY AND ASSOCIATED COMPANIES

The unconsolidated subsidiary and associated companies of KIPCO Asset Management Company K.S.C. (Closed) dealt within these financial statements are as follows:

Name of company	Equity interest as at 31 December 2004	Country of incorporation	Principal activities
Unconsolidated subsidiary			
Al-Ahlia Arabian Markets Company K.S.C. (Closed)	96%	Kuwait	Managing supermarkets
Associated companies			
United Industries Co. K.S.C. (Closed)	47.36%	Kuwait	Investing in manufacturing companies
Gulf Egypt for Hotels and Tourism S.A.E.	16.26%	Egypt	Hotel construction and management
United Gulf Bank Securities Co. B.S.C.	30.00%	Bahrain	Investment services
United Medical Service Co. K.S.C. (Closed)	27.45%	Kuwait	Health care
Salem Al-Marzouk & Sabah Abi Hana W.L.L.	30.00%	Kuwait	Architecture consulting services

Goodwill included in the carrying value of the associates together with related amortisation is as follows:

	2004 KD	2003 KD
Opening balance	493,533	1,549,223
Amortisation	(176,006)	(256,441)
Goodwill related to investments sold during the year	(8,483)	(799,249)
Ending balance	309,044	493,533

Notes to the Financial Statements

For the year ended 31 December 2004

7. LOANS AND ADVANCES

Loans and advances are classified as receivables originated by the company.

	2004 KD	2003 KD
Gross amount	2,742,604	2,591,861
Less: Provision for credit losses	(54,852)	(51,837)
	2,687,752	2,540,024

Loans are secured against investments in the funds and securities held in fiduciary portfolios, on behalf of the borrowers, managed by the company

The policy of the company for calculation of the impairment provision for credit losses for loans and advances complies in all material respects with the specific and general provision requirements of Central Bank of Kuwait. In this respect the Central Bank of Kuwait requires a general provision of 2 per cent on all credit facilities not subject to specific provision.

8. OTHER ASSETS

	2004 KD	2003 KD
Accrued income	1,887	4,023
Staff advances	1,039,039	1,307,059
Prepaid expenses	122,798	22,054
Due from related parties (Note 21)	2,842,411	2,345,472
Due from portfolio clients	2,548,078	1,366,443
Receivable from future contracts	2,842,176	3,698,128
Receivable from Kuwait Clearing Company	-	107,960
Fixed assets (net)	138,457	146,169
Others	440,050	86,395
	9,974,896	9,083,703

9. LOANS FROM RELATED PARTIES

	2004 KD	2003 KD
• Loan due in full on 13 January 2005 bearing interest of 6.25%	15,000,000	15,000,000
• Loan due in full on 14 January 2005 bearing interest of 4.208% (US\$ loan)	3,831,100	3,831,100
• Loan due in full on 30 March 2004 bearing interest of 3.18%	-	17,960,000
• Loan due in full on 1 April 2004 bearing interest of 4%	-	750,000
• Loan due in full on 21 June 2005 bearing interest of 2.9375% (US\$ loan)	294,700	294,700
	19,125,800	37,835,800

All loans are unsecured.

10. BONDS

During the year, the company issued floating rate bonds with a principal of KD 10,000,000 and fixed rate bonds with a principal of KD 10,000,000. The issue price of bonds is 100 per cent of their principal amount. The floating rate bonds bear interest at the rate of 1.5 per cent per annum above the three month KIBOR rate in effect on the rate fixing date. The fixed rate bonds bear fixed interest at the rate of 5.5 per cent per annum. Interest is payable quarterly in arrears. The bonds will be redeemed at their principal amount on 21 June 2009.

11. OTHER LIABILITIES

	2004 KD	2003 KD
Accrued expenses and provisions	2,040,113	3,023,405
Due to related parties (Note 21)	181,896	1,195
Other payables	411,289	168,916
Kuwait Foundation for the Advancement of Sciences	74,594	71,515
National Labour Support Tax	164,091	35,335
Employees' end of service benefits	994,617	741,964
	3,866,600	4,042,330

12. SHARE CAPITAL

The extraordinary general assembly of the company held on 28 February 2004 approved an increase in authorised share capital from 200,000,000 shares to 201,000,000 shares, which was utilised by the issue of 1,000,000 shares under an employee share purchase scheme (Note 22).

The extraordinary general assembly of the company held on 20 March 2004 approved an increase in authorised share capital from 201,000,000 shares to 221,100,000 shares, which was utilised by the issue of 10 per cent bonus shares (20,100,000 shares).

The share capital of the company consists of 221,100,000 (2003: 200,000,000) authorised, issued and fully paid up shares of 100 fils each.

13. SHARE PREMIUM

The share premium account is not available for distribution.

14. TREASURY SHARES

	2004 KD	2003 KD
Number of treasury shares	10,450,000	-
Percentage of capital	4.73%	-
Market value – KD	3,605,250	-

Part of the reserves created or appropriated and retained earnings equivalent to the cost of treasury shares is not available for distribution throughout the period these shares are held by the company.

Notes to the Financial Statements

For the year ended 31 December 2004

15. STATUTORY RESERVE

In accordance with the Commercial Companies Law and the company's Articles of Association, 10 per cent of the net profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and Board of Directors' remuneration has been transferred to statutory reserve. The company may resolve to discontinue such annual transfers when the reserve equals 50 per cent of the paid-up capital. The statutory reserve is not available for distribution except in certain circumstances stipulated by law.

16. VOLUNTARY RESERVE

In accordance with the company's Articles of Association, 10 per cent of net profit for the year before Contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and Board of Directors' remuneration has been transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors.

17. PROPOSED ISSUE OF BONUS SHARES, CASH DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

The board of directors of the company have proposed cash dividends of KD 5,266,250 for the year ended 31 December 2004, representing 25 fils per share to the company's shareholders on records as of the date of the general assembly excluding treasury shares. This proposal is subject to the approval of the ordinary general assembly of the shareholders of the company. Proposed cash dividends are shown separately within shareholders' equity.

Directors' remuneration of KD 37,500 is within the amount permissible under local regulations and is subject to approval by the annual general assembly of the shareholders of the company.

The cash dividends proposed for the year ended 31 December 2003 of 10 per cent to shareholders on record of the company as of the date of general assembly meeting excluding treasury shares were approved by the company's ordinary general assembly of the shareholders held on 20 March 2004.

18. NET PROFIT FOR THE YEAR

The net profit for the year is stated after charging:

	2004 KD	2003 KD
Staff costs:		
Salaries	1,281,737	1,094,001
Leave and end of service benefits	483,594	294,264
Bonuses	515,752	800,000
Other benefits	133,626	195,687
	2,414,709	2,383,952
Depreciation	101,862	111,795

19. EARNINGS PER SHARE

There are no dilutive potential ordinary shares. The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the year, less treasury shares, is as follows:

	2004 KD	2003 KD
Net profit for the year	8,138,293	7,965,385
Weighted average number of shares, less treasury shares, outstanding during the year (Shares)	215,146,694	177,958,904
Earnings per share (Fils)	37.83	44.76

Earnings per share of the previous year has been restated for the bonus shares issue in 2004.

20. CONTINGENCIES

Contingent liabilities

At 31 December 2004, the company had contingent liabilities in respect of bank guarantees and letters of credit arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 1,514,099 (2003: KD 43,292,779).

21. RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. shareholders, directors and senior management of the company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the company's management.

Transactions with related parties are as follows:

	2004 KD	2003 KD
Balance sheet		
Cash and cash equivalents	770,502	2,130,601
Investments held for trading	4,485,869	7,970,385
Investments available-for-sale	34,712,868	25,960,884
Other assets	3,091,058	2,306,692
Other liabilities	471,482	759,067
Loans from related parties	19,125,800	37,835,800
Statement of income		
Management fees	2,716,733	1,683,046
Advisory fees	264,314	716,620
Dividend income	646,952	310,122
Interest income	416,704	315,663
Gain on sale of part investment in associated company	130,588	319,379
Other income	-	70,212
Donation	77,999	82,092
Finance costs	1,177,840	1,215,419
Transactions		
Sale of associates	-	1,381,965

Other related party balances are disclosed in Notes 8, 9 and 11.

Notes to the Financial Statements

For the year ended 31 December 2004

22. EMPLOYEES' SHARE PURCHASE SCHEME

The company operates an employee share purchase scheme. Under this scheme, which has a duration of 5 years, the company may issue shares for cash to eligible employees by increasing its share capital. The total capital increase during the 5 year period to meet the requirement of the scheme should not exceed 5 per cent of the paid-up share capital (KD 15,000,000), at the time when the scheme was initiated.

During 2004, 1,000,000 shares of par value KD 0.100 were issued under the scheme at KD 0.134 per share totalling KD 134,000.

23. CURRENCY RISK

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

Currency risk is managed on the basis of limits determined by the company's Board of Directors and a continuous assessment of the company's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the company does not hedge foreign currency exposure.

The company had the following significant net long exposures denominated in foreign currency at 31 December:

	2004 KD	2003 KD
US Dollar	5,867,881	4,578,702
GCC currencies	81,814,800	80,372,954
Euro	584,483	106,269
Others	3,632,157	3,248,154

24 SEGMENTAL INFORMATION

Primary segment information

For management purposes, the company is organised into two major business segments. The principal activities and services under these segments are as follows:

- Proprietary investment management : Investing of company funds in securities, lending to corporate and individual customers and managing the company's liquidity requirements.
- Investment management and advisory services : Discretionary and non-discretionary investment portfolio management, managing of local and international investment funds and providing advisory and structured finance services and other related financial services.

	Proprietary investment management KD	Investment management and advisory services KD	Others KD	Total KD
31 December 2004				
ASSETS				
Cash and cash equivalents	800,269	-	-	800,269
Investments held for trading	7,549,744	-	-	7,549,744
Investments available-for-sale	47,552,777	-	-	47,552,777
Investments in unconsolidated subsidiary and associated companies	23,333,883	-	-	23,333,883
Loans and advances	2,687,752	-	-	2,687,752
Other assets	8,551,701	-	1,423,195	9,974,89
TOTAL ASSETS	90,476,126	-	1,423,195	91,899,321
LIABILITIES AND SHAREHOLDERS' EQUITY				
Loans from related parties	19,125,800	-	-	19,125,800
Bonds	20,000,000	-	-	20,000,000
Other liabilities	-	-	3,866,600	3,866,600
Shareholders' equity	-	-	48,906,921	48,906,921
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	39,125,800	-	52,773,521	91,899,321
Year ended 31 December 2004				
Segment income	7,684,176	5,892,162	68,376	13,644,714
Segment profit	4,731,282	3,627,908	42,100	8,401,290

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For the year ended 31 December 2004

24. SEGMENTAL INFORMATION (continued)

	Proprietary investment management KD	Investment management and advisory services KD	Others KD	Total KD
31 December 2003				
ASSETS				
Cash and cash equivalents	2,132,776	-	-	2,132,776
Investments held for trading	11,530,846	-	-	11,530,846
Investments available-for-sale	40,531,325	-	-	40,531,325
Investments in associated companies	22,487,407	-	-	22,487,407
Loans and advances	2,540,024	-	-	2,540,024
Other assets	7,522,026	-	1,561,677	9,083,703
TOTAL ASSETS	86,744,404	-	1,561,677	88,306,081
LIABILITIES AND SHAREHOLDERS' EQUITY				
Loans from related parties	37,835,800	-	-	37,835,800
Other liabilities	-	-	4,042,330	4,042,330
Shareholders' equity	-	-	46,427,951	46,427,951
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	37,835,800	-	50,470,281	88,306,081
Year ended 31 December 2003				
Segment income	9,077,033	5,556,171	1,246,051	15,879,255
Segment profit	4,606,780	2,819,871	632,396	8,059,047

Secondary segment information

The company allocates its assets, liabilities and shareholders' equity in different geographical regions as shown below:

	Kuwait KD	Gulf and the Rest of the Middle East KD	International KD	Total KD
31 December 2004				
ASSETS				
Cash and cash equivalents	677,439	122,830	-	800,269
Investments held for trading	4,642,731	-	2,907,013	7,549,744
Investments available-for-sale	44,360,207	147,240	3,045,330	47,552,777
Investments in unconsolidated subsidiary and associated companies	19,477,101	3,856,782	-	23,333,883
Loans and advances	2,687,752	-	-	2,687,752
Other assets	9,974,896	-	-	9,974,896
TOTAL ASSETS	81,820,126	4,126,852	5,952,343	91,899,321
LIABILITIES AND SHAREHOLDERS' EQUITY				
Loans from related parties	18,831,100	294,700	-	19,125,800
Bonds	20,000,000	-	-	20,000,000
Other liabilities	3,866,600	-	-	3,866,600
Shareholders' equity	48,906,921	-	-	48,906,921
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	91,604,621	294,700	-	91,899,321
31 December 2003				
ASSETS				
Cash and cash equivalents	462,161	1,670,615	-	2,132,776
Investments held for trading	9,390,070	1,047,655	1,093,121	11,530,846
Investments available-for-sale	35,845,021	147,240	4,539,064	40,531,325
Investments in associated companies	18,743,145	3,744,262	-	22,487,407
Loans and advances	2,540,024	-	-	2,540,024
Other assets	9,083,703	-	-	9,083,703
TOTAL ASSETS	76,064,124	6,609,772	5,632,185	88,306,081
LIABILITIES AND SHAREHOLDERS' EQUITY				
Loans from related parties	37,541,100	294,700	-	37,835,800
Other liabilities	4,042,330	-	-	4,042,330
Shareholders' equity	46,427,951	-	-	46,427,951
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	88,011,381	294,700	-	88,306,081

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25. CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the company's performance to developments affecting a particular industry or geographic location.

The distribution of assets, liabilities and shareholders' equity by industry sector was as follows:

	2004		2003	
	Assets KD	Liabilities and shareholders' equity KD	Assets KD	Liabilities and shareholders' equity KD
Trading and manufacturing	17,506,039	-	16,937,570	-
Banks and financial institutions	38,807,723	19,125,800	38,090,251	37,835,800
Construction and real estate	398,839	-	270,921	-
Other	35,186,720	72,773,521	33,007,339	50,470,281
	91,899,321	91,899,321	88,306,081	88,306,081

26. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company's credit policy and exposure to credit risk is monitored on an ongoing basis. The company seeks to avoid undue concentrations of risks within individuals or groups of customers in specific locations or business through diversification of lending activities. It also obtains security when appropriate.

Information on concentrations of credit risk is set out in Note 25.

27. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The company is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The company's interest rate sensitivity position based on earlier of contractual repricing arrangements and maturity at 31 December was as follows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Non interest bearing items KD	Total KD	Effective interest rate %
31 December 2004						
Cash and cash equivalents	799,269	-	-	1,000	800,269	1-2
Investments held for trading	-	-	-	7,549,744	7,549,744	-
Investments available-for-sale	-	-	1,360,000	46,192,777	47,552,777	4.25-6
Investments in unconsolidated subsidiary and associated companies	-	-	-	23,333,883	23,333,883	-
Loans and advances	-	-	2,687,752	-	2,687,752	6.25
Other assets	-	-	1,019,037	8,955,859	9,974,896	4.2-6.25
TOTAL ASSETS	799,269	-	5,066,789	86,033,263	91,899,321	
Loans from related parties	18,831,100	-	294,700	-	19,125,800	2.94-6.25
Bonds	-	-	20,000,000	-	20,000,000	3.5-5.5
Other liabilities	-	-	-	3,866,600	3,866,600	-
Shareholders' equity	-	-	-	48,906,921	48,906,921	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	18,831,100	-	20,294,700	52,773,521	91,899,321	
31 December 2003						
Cash and cash equivalents	2,123,083	-	-	9,693	2,132,776	2.3-3
Investments held for trading	-	-	-	11,530,846	11,530,846	-
Investments available-for-sale	-	-	616,853	39,914,472	40,531,325	5.3-6.4
Investments in associated companies	-	-	-	22,487,407	22,487,407	-
Loans and advances	-	-	2,540,024	-	2,540,024	5.8
Other assets	-	-	1,351,566	7,732,137	9,083,703	5.8
TOTAL ASSETS	2,123,083	-	4,508,443	81,674,555	88,306,081	
Loans from related parties	750,000	17,960,000	19,125,800	-	37,835,800	1.7-5
Other liabilities	-	-	-	4,042,330	4,042,330	-
Shareholders' equity	-	-	-	46,427,951	46,427,951	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	750,000	17,960,000	19,125,800	50,470,281	88,306,081	

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28. LIQUIDITY RISK

Liquidity risk is the risk that the company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the company's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

The maturity profile of assets, liabilities and shareholders' equity at 31 December was as follows:

	Within 3 months KD	3 to 6 months KD	6 to 12 months KD	Over one year KD	Total KD
31 December 2004					
ASSETS					
Cash and cash equivalents	800,269	-	-	-	800,269
Investments held for trading	-	7,549,744	-	-	7,549,744
Investments available-for-sale	-	-	-	47,552,777	47,552,777
Investments in unconsolidated subsidiary and associated companies	-	-	-	23,333,883	23,333,883
Loans and advances	-	-	2,687,752	-	2,687,752
Other assets	-	-	794,926	9,179,970	9,974,896
TOTAL ASSETS	800,269	7,549,744	3,482,678	80,066,630	91,899,321
LIABILITIES AND SHAREHOLDERS' EQUITY					
Loans from related parties	18,831,100	294,700	-	-	19,125,800
Bonds	-	-	-	20,000,000	20,000,000
Other liabilities	1,070,744	-	-	2,795,856	3,866,600
Shareholders' equity	-	-	-	48,906,921	48,906,921
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	19,901,844	294,700	-	71,702,777	91,899,321
	Within 3 months KD	3 to 6 months KD	6 to 12 months KD	Over one year KD	Total KD
31 December 2003					
ASSETS					
Cash and cash equivalents	2,132,776	-	-	-	2,132,776
Investments held for trading	-	11,530,846	-	-	11,530,846
Investments available-for-sale	-	-	-	40,531,325	40,531,325
Investments in associated companies	-	-	-	22,487,407	22,487,407
Loans and advances	-	-	2,540,024	-	2,540,024
Other assets	-	-	1,285,068	7,798,635	9,083,703
TOTAL ASSETS	2,132,776	11,530,846	3,825,092	70,817,367	88,306,081
LIABILITIES AND SHAREHOLDERS' EQUITY					
Loans from related parties	17,960,000	750,000	19,125,800	-	37,835,800
Other liabilities	218,802	-	-	3,823,528	4,042,330
Shareholders' equity	-	-	-	46,427,951	46,427,951
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	18,178,802	750,000	19,125,800	50,251,479	88,306,081

29. MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

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

30. FIDUCIARY ASSETS

The aggregate value of the assets held in a trust or fiduciary capacity by the company at 31 December 2004 amounted to KD 1,311,368,731 (2003: KD 1,311,041,751).

31. COMPARATIVE AMOUNTS

The corresponding figures for 2003 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.