

QATAR REAL ESTATE INVESTMENT
COMPANY (Q.S.C.)
DOHA – QATAR

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2004
TOGETHER WITH AUDITORS' REPORT

QATAR REAL ESTATE INVESTMENT COMPANY (Q.S.C)
DOHA – QATAR

DECEMBER 31, 2004

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AUDITORS' REPORT

**To The Shareholders
Qatar Real Estate Investment Company (Q.S.C.)
Doha – Qatar**

We have audited the accompanying balance sheet of **Qatar Real Estate Investment Company (Q.S.C.)**, as of December 31, 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. The financial statements of the Company as of December 31, 2003 were audited by another auditor whose report dated January 8, 2004 expressed an unqualified opinion on those statements and it has been presented in the accompanying financial statement for comparative purposes.

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 accompanying financial statements present fairly, in all material respects, the financial position of **Qatar Real Estate Investment Company (Q.S.C.)**, as of December 31, 2004 and the results of its operations, changes in its shareholders' equity and its cash flows for the year then ended in accordance with **International Financial Reporting Standards**.

Furthermore, in our opinion the financial statements provide the information required by the Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association. We are also of the opinion that proper books of account were maintained by the Company and the contents of the directors' report are in agreement with the Company's financial statements. To the best of our knowledge and belief and according to the information given to us, no contraventions of the Law or the Company's Articles of Association were committed during the year which would materially affect the Company's activities or its financial position.

For **Deloitte & Touche**

**Doha – Qatar
February 7, 2005**

**Samer Jaghoub
License No. 88**

QATAR REAL ESTATE INVESTMENT COMPANY (Q.S.C.)

DOHA - QATAR

BALANCE SHEET
AS OF DECEMBER 31, 2004

	Note	2004 (QR'000)	2003 (QR'000)
<u>Assets:</u>			
Cash at banks	3	89,275	25,983
Accounts receivable and other debit balances	4	23,774	4,025
Spare parts and appliances		363	502
Finance lease receivable – current	5	18,546	7,613
Total Current Assets		131,958	38,123
Investment properties – net	6	575,641	589,189
Investments – net	7	28,522	13,539
Investment in land		2,673	--
Deferred finance charges		38,286	42,651
Finance lease receivable – non-current	5	129,447	59,144
Fixed assets – net	8	172,633	32,764
Total Assets		1,079,160	775,410
<u>Liabilities and Shareholders' Equity:</u>			
<u>Current Liabilities:</u>			
Accounts payable and other credit balances	10	39,261	23,450
Loans – current	9	264,265	71,524
Unearned finance income – current	11	11,277	5,240
Total Current Liabilities		314,803	100,214
Loans – non-current	9	330,579	286,124
Unearned finance income – non-current	11	50,573	23,597
Total Liabilities		695,955	409,935
<u>Shareholders' Equity:</u>			
Share capital	17	250,000	250,000
Legal reserve	18	30,930	25,306
General reserve	19	1,025	1,025
Investments fair value reserve		7,295	6,906
Retained earnings		30,195	43,338
Proposed issue of bonus shares		12,500	--
Proposed dividend	20	50,000	37,500
Directors remuneration		1,260	1,400
Total Shareholders' Equity		383,205	365,475
Total Liabilities and Shareholders' Equity		1,079,160	775,410

These financial statements were approved by the Board of Directors and signed by the following on their behalf on February 7, 2005.

Khalid Bin Khalifa Bin Jassim Al Thani
Chairman of The Board and Managing
Director

Mohammed Misnad Al Misnad
General Manager

The accompanying notes are an integral part of these financial statements

QATAR REAL ESTATE INVESTMENT COMPANY (Q.S.C.)
DOHA - QATAR

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2004

	Note	2004 (QR'000)	2003 (QR'000)
Rental income		102,371	98,316
Finance lease income	12	11,736	8,979
Other income	13	4,476	1,983
Total Income		118,583	109,278
General and administrative expenses	14	(16,923)	(12,464)
Depreciation for investment properties and fixed assets		(22,648)	(23,500)
Amortization of deferred finance charges		(9,210)	(6,586)
Foreign exchange loss		(8,837)	(13,538)
Net Income for the Year Before Prior Year Adjustments		60,965	53,190
Prior year adjustments	15	(4,724)	--
Net Income for the Year		56,241	53,190
Average number of shares		25,000,000	25,000,000
Earning per share of QR 10 each (expressed in QR. per share)	16	2.25	2.13

The accompanying notes are an integral part of these financial statements

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QATAR REAL ESTATE INVESTMENT COMPANY (Q.S.C)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2004

	Share Capital (QR'000)	Legal Reserve (QR'000)	General Reserve (QR'000)	Investments Fair Value Reserve (QR'000)	Retained Earnings (QR'000)	Proposed Issue of Bonus Shares (QR'000)	Proposed Dividend (QR'000)	Directors Remuneration (QR'000)	Total (QR'000)
Balance at January 1, 2003	250,000	19,987	1,025	368	34,524	--	30,000	1,115	337,019
Net income for the year	--	--	--	--	53,190	--	--	--	53,190
Transfer to legal reserve	--	5,319	--	--	(5,319)	--	--	--	--
Dividends paid for 2002	--	--	--	--	--	--	(30,000)	--	(30,000)
Directors remuneration paid for 2002	--	--	--	--	(157)	--	--	(1,115)	(1,272)
Realized profit transferred to income on sale of available for sale securities	--	--	--	(368)	--	--	--	--	(368)
Movement in fair value reserve for available for sale investment	--	--	--	6,906	--	--	--	--	6,906
Proposed cash dividend for 2003	--	--	--	--	(37,500)	--	37,500	--	--
Proposed directors remuneration for 2003	--	--	--	--	(1,400)	--	--	1,400	--
Balance at December 31, 2003	250,000	25,306	1,025	6,906	43,338	--	37,500	1,400	365,475
Net income for the year	--	--	--	--	56,241	--	--	--	56,241
Transfer to legal reserve	--	5,624	--	--	(5,624)	--	--	--	--
Dividends paid for 2003	--	--	--	--	--	--	(37,500)	--	(37,500)
Directors remuneration paid for 2003	--	--	--	--	--	--	--	(1,400)	(1,400)
Movement in fair value reserve for available for sale investments	--	--	--	389	--	--	--	--	389
Proposed cash dividend for 2004	--	--	--	--	(50,000)	--	50,000	--	--
Proposed issue of bonus shares	--	--	--	--	(12,500)	12,500	--	--	--
Proposed directors remuneration for 2004	--	--	--	--	(1,260)	--	--	1,260	--
Balance at December 31, 2004	250,000	30,930	1,025	7,295	30,195	12,500	50,000	1,260	383,205

The accompanying notes are an integral part of these financial statements

QATAR REAL ESTATE INVESTMENT COMPANY (Q.S.C)

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2004

	Note	2004 (QR'000)	2003 (QR'000)
Net income for the year		56,241	53,190
Adjustments for:			
Depreciation for investment properties and fixed assets		22,648	23,500
Amortization of unearned finance income		(8,304)	(5,547)
Amortization of deferred finance charges		7,959	6,036
Profit on sale of Investments		(168)	(1,012)
Unrealized gain on trading investments		(2,035)	--
Provision for Investment		1,000	--
Cash flow from operating activities before changes in working capital		77,341	76,167
Decrease / (increase) in spare parts and appliances		139	(50)
(Increase) / decrease in accounts receivable and other debit balances		(19,749)	14,730
Increase / (decrease) in accounts payables and other credit balances		15,811	(23,282)
Net Cash from Operating Activities		73,542	67,565
Investing Activities:			
Purchase of investment properties and fixed assets		(198,019)	(50,058)
Proceeds from sale of investments		1,195	1,484
Purchase of investments		(17,270)	(5,633)
Increase in deferred finance charges		(4,431)	(27,807)
Net Cash Used in Investing Activities		(218,525)	(82,014)
Financing Activities:			
Loans		237,196	51,708
Dividends paid		(37,500)	(30,000)
Directors remuneration paid		(1,400)	(1,272)
Proceeds from finance lease		9,979	7,613
Net cash from financing activities		208,275	28,049
Net increase in cash at banks		63,292	13,600
Cash at banks at beginning of the year		25,983	12,383
Cash at Banks at End of the Year	3	89,275	25,983

The accompanying notes are an integral part of these financial statements

QATAR REAL ESTATE INVESTMENT COMPANY (Q.S.C)

NOTES TO THE FINANCIAL STATEMENT **FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Legal Status and Principal Activities:

Qatar Real Estate Investment Company was founded as per the Amiri Decree no 49, of 1995 issued on July 3, 1995 and subject to the rules of Qatar Commercial Companies Law. The company is registered under the commercial registration number 18714.

The company's principal activity is the establishment of residential compounds and projects for rental purpose, purchase of land and developing it for resale. The company also deals in management of residential compounds.

2. Significant Accounting Policies:

The financial statements of the company have been prepared in accordance with the **International Financial Reporting Standards (IFRS)** promulgated by the International Accounting Standards Board.

a. Basis of Preparation

The financial statements are presented in Qatari Riyals, rounded to the nearest thousand. They are prepared on the historical cost basis except for the measurement at fair value of certain available-for-sale and trading investments.

b. Cash at Banks

Cash at banks comprises of current accounts, call accounts and deposits having a maturity of less than ninety days.

c. Accounts Receivable

Receivables are stated net of provision. Provision for doubtful accounts is based on a detailed review by management of the individual balances at the year-end.

d. Spare Parts and Appliances

These are stated at the lower of cost and net realizable value less provision for obsolescence estimated by management. Cost is determined under weighted average method. Cost includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition.

e. Finance Lease Receivable

Leases for which substantially all the risks and rewards of ownership are transferred to the lessee at the end of the lease are classified as finance lease receivable. Finance lease receivable is stated at an amount equal to the present value of the minimum lease payments at the inception of the lease.

Lease payments are apportioned between the finance lease receivable and the unearned finance income so as to achieve a constant rate of interest on the remaining balance of the receivable.

f. Investment Properties

Investment properties comprise of investment in land and buildings in Qatar acquired or constructed to earn rental income from such properties.

Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on straight-line method. No depreciation is calculated on investments in land. The rates of depreciation used are based on the following estimated useful lives of the assets:

Buildings (Investment property)	20 - 33.3 years
Infrastructure	50 years

Gains or losses arising from the retirement or disposal of investment property are recognised as income or expense in the statement of income.

g. Investments

Investments held for trading are carried at fair value (market to market) with any gain or loss arising from the change in fair value included in the statement of income in the period in which it arises.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the company, or held to maturity. Available-for-sale instruments include private equity investments.

Quoted investments: Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition all available-for-sale assets are re-measured at fair value.

Unquoted investments: These represent investments where there is no quoted market price. Unquoted investments are measured initially at cost, including transaction costs. Subsequent to initial recognition, the unquoted investments are re-measured at cost less any impairment losses.

Gains and losses arising from a change in the fair value of available-for-sale quoted investments are recognised directly in equity. When the investments are sold, impaired, collected or otherwise disposed of the cumulative gain or loss recognised in equity is transferred to the income statement.

h. Deferred Finance Charges

Represents the cost of finance portion related to loans to be settled in future periods. Finance costs are expensed in the income statement unless incurred during the construction period in which case it is capitalised as part of the cost of properties.

i. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated annually on the basis of the straight-line method. The estimated useful lives of the assets are:

- Equipment and tools 5 years
- Vehicles 5 years
- Furniture and fixtures 5 years

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j. Accounts Payable and Other Credit Balances

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

k. Unearned Finance Income

Unearned finance income is calculated as the difference between the present value of the minimum lease payments under a finance lease and the fair value of the leased property.

l. Revenue Recognition

Rental income is accounted for on an accrual basis and represents rents received and receivable.

m. Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement in the year when such losses are first determined.

n. Foreign Currencies

Transactions in foreign currencies are recorded in Qatari Riyals at the rates of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Qatari Riyals at the rates of exchange prevailing at the balance sheet date. All differences arising from exchange are included in the income statement.

3. Cash at Banks:

	2004 (QR'000)	2003 (QR'000)
Current accounts	6,946	5,751
Call accounts	82,329	10,232
Time Deposits	--	10,000
Total	89,275	25,983

4. Accounts Receivable and Other Debit Balances:

	2004 (QR'000)	2003 (QR'000)
Rent receivable	17,120	1,939
Other receivables and prepayments	6,654	2,086
Total	23,774	4,025

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5. Finance Lease Receivable:

	2004 (QR'000)	2003 (QR'000)
Finance lease receivable – Current	18,546	7,613
Finance lease receivable – Non-current		
Between one and five years	83,672	30,451
More than five years	45,775	28,693
	129,447	59,144
Total	147,993	66,757

6. Investment Properties, Net:

	2004 (QR'000)	2003 (QR'000)
Cost		
At January 1,	664,203	613,935
Additions	100	7,680
Transfers from work-in-progress	6,023	42,588
At December 31,	670,326	664,203
Accumulated Depreciation		
At January 1,	75,014	55,930
Charge for the year	19,671	19,084
At December 31,	94,685	75,014
Net Book Value	575,641	589,189

The fair value of investment properties is determined on the basis of management's estimate of the market value, which in the opinion of management is in excess of their carrying amounts.

Investment properties include buildings and infrastructure. Investment properties are built on land owned by third parties with the exception of the Qatar Gas Housing Project and Ras Gas Housing Project where the land was gifted by the Government and the title deed transfer is in progress.

7. Investments, Net:

	2004 (QR'000)	2003 (QR'000)
Trading Securities:		
Investment in quoted shares at market value	11,994	2,619
Available-for-Sale Investments:		
Investments in quoted shares at market value	10,528	9,920
Investments in unquoted local companies at cost (10% of the equity of local companies)	7,000	1000
Provision for impairment of unquoted local company investment	(1,000)	--
Net	28,522	13,539

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9. Loans:

	2004 (QR'000)	2003 (QR'000)
Estisna financing no. (1)	87,200	72,221
Estisna financing no. (2)	135,382	141,838
Murabaha financing	167,403	--
Ijjarah financing facilities	101,294	143,369
Overdraft account	103,565	220
	594,844	357,648

- The Estisna financing no. (1) of (Islamic Dinar) ID 16.3 million was drawn during the year 1999/2000 and is repayable in equal semi annual instalments of ID 1.5 million. The last instalment is payable in March 2008.

- The Estisna financing no. (2) of (Islamic Dinar) ID 20.9 million was drawn during the year 2002/2003 and is repayable in equal semi annual instalments of ID 1.7 million. The last instalment is payable in July 2011.

- The Murabaha Financing facilities amounting to USD 46 million was drawn during 2004. One half of this amount is repayable in 2005 and the balance in semi-annual instalments up to 2006.

- The Ijjarah financing facilities amounting to QR 130.6 million represents financing facilities with local Islamic banks and is repayable over 4 to 6 years.

- Overdraft relates to temporary borrowing for the purchase of land in Qatar (refer Note 8).

Those loans are classified as:

	2004 (QR'000)	2003 (QR'000)
Current	264,265	71,524
Non-current	330,579	286,124

Total	<u>594,844</u>	<u>357,648</u>
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10. Accounts Payable and Other Credit Balances:

	2004 (QR'000)	2003 (QR'000)
Accounts payable	15,055	7,392
Retentions	9,104	7,620
Rent received in advance	3,330	-
Dividends payable	4,681	4,417
Other payables and accruals	7,091	4,021
Total	<u>39,261</u>	<u>23,450</u>

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11. Unearned Finance Income:

	2004 (QR'000)	2003 (QR'000)
Unearned finance income – Current	11,277	5,240
Unearned finance income – Non-current		
Between one to five years	41,951	16,851
More than five years	8,622	6,746
	<u>50,573</u>	<u>23,597</u>
Total	<u>61,580</u>	<u>28,837</u>

12. Finance Lease Income:

This represents lease income net of expenses for lease and sublease deals entered into by the Company with other local companies.

13. Other Income:

	2004 (QR'000)	2003 (QR'000)
Profit on bank deposits	1,860	279
Miscellaneous income	2,616	1,704
Total	<u>4,476</u>	<u>1,983</u>

14. General and Administrative Expenses:

	2004 (QR'000)	2003 (QR'000)
Staff cost	3,409	2,587
Water and electricity	3,282	2,596
Repair, maintenance and insurance	5,634	4,004
Others	4,598	3,277
Total	16,923	12,464

The number of employees as at the balance sheet date was 56 (2003: 40)

15. Prior Year Adjustments:

	2004 (QR'000)	2003 (QR'000)
Foreign exchange loss on Estisna financing	6,440	--
Unrecorded rent income for 2003	(809)	--
Unrecorded profit on bank deposits for 2003	(643)	--
Others	(264)	--
Total	4,724	--

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16. Earning Per Share:

Earning per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares during the year.

17. Share Capital:

The authorized, issued and fully paid share capital consist of 25,000,000 shares of QR.10 each.

The Board of Directors decided in their meeting held on February 7, 2005 to propose to the forthcoming Extraordinary General Assembly to approve to increase the Company's authorized share capital to QR.500,000,000 of QR. 10 per share through distribution of bonus shares amounting to QR.12,500,000 and the issuance of 23,750,000 shares in a private placement to the existing shareholders of the Company at QR.40 per share of which QR.30 relates to share premium.

18. Legal Reserve:

As per the Company's Articles of Association and the provision of Commercial Companies' Law No. 5 of 2002, an amount equivalent to 10% of the net income for the year is transferred annually to the legal reserve until it equals 50% of the capital. This reserve is not available for distribution except in circumstances stipulated in the Companies' Law.

19. General Reserve:

In accordance with Articles of Association of the Company the general assembly may allocate a portion of the net profit to a general reserve. No transfer was made to general reserve during 2004 and 2003. This reserve is freely distributable.

20. Proposed Dividend:

The Board of Directors decided in its meeting held on February 7, 2005 to propose to the forthcoming General Assembly to approve the following:

- A cash dividend of 20% amounting to QR. 50 million, and
- A bonus dividend at 1 share for every 20 shares

21. Capital Commitments:

	2004 (QR'000)	2003 (QR'000)
Investment properties under construction	<u>143,000</u>	<u>94,752</u>

22. Contingent Liabilities:

	2004 (QR'000)	2003 (QR'000)
Banks Guarantees		
	<u>51,750</u>	<u>25,200</u>
Guarantee cheque issued by the company for a third party	<u>723</u>	<u>723</u>

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During the year, one of the Company's lessees has made certain deduction, totalling to QR. 7.5 million while making payments for rent due from them. These deductions have been made on account of certain maintenance expenses incurred by the lessee that they are claiming should be borne by the Company. The Company is contesting the validity of these deductions and negotiations are currently in progress between the two parties to resolve this issue.

23. Financial Instruments

The financial assets of the company include balances with bank, accounts receivable and investments. The financial liabilities of the company include accounts payable and other payables and due to banks.

a) Credit Risk Exposure

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 exposure to credit risk is as indicated by the carrying amount of its financial assets which consist primarily of bank balance and accounts receivable. Credit risk on bank balance is limited as it is placed with banks having good credit rating. Credit risk on accounts receivable is limited as these are shown after review of their recoverability and are stated net of provision for doubtful receivables.

b) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset can be exchanged or a liability settled, between knowledgeable and willing parties transacting at an "arm's length". The accounting convention under which the financial statements have been prepared is disclosed in Note 2(a). The carrying

value of the Company's financial instruments as recorded could therefore be different from their fair value. However, in the management's opinion, the fair values of the Company's financial assets and liabilities approximate to their carrying amounts.

24. Comparative Figures:

Certain corresponding amounts have been reclassified to conform to the presentation adopted in the current year's financial statements.

8. Fixed Assets:

	Land (QR'000)	Porta Cabins and Fences (QR'000)	Furniture and Office Equipment (QR'000)	Vehicles (QR'000)	Projects under Construction (QR'000)	Furniture, Fixtures & Electrical Equipment- (Invest- ments Projects) (QR'000)	Total (QR'000)
Cost							
At January 1, 2004	--	1,067	633	1,346	23,207	31,050	57,303
Additions during the year	115,340	--	88	--	82,372	119	197,919
Transfers to investment properties and finance lease	--	--	--	--	(55,073)	--	(55,073)
Disposals	--	--	--	(86)	--	--	(86)
At December 31, 2004	115,340	1,067	721	1,260	50,506	31,169	200,063
Depreciation							
At January 1, 2004	--	1000	435	358	--	22,746	24,539
Charge for the year	--	16	75	248	--	2,638	2,977
Disposals	--	--	--	(86)	--	--	(86)
At December 31, 2004	--	1,016	510	520	--	25,384	27,430
Net Book Value							
At December 31, 2004	115,340	51	211	740	50,506	5,785	172,633
At December 31, 2003	--	67	198	988	23,207	8,304	32,764

