

## Independent Auditors' Report



To the shareholders  
The Lebanese Company for the Development  
and Reconstruction of Beirut Central District S.A.L.  
Beirut - Lebanon

We have audited the accompanying balance sheet of The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. known as SOLIDERE (a Lebanese joint stock company), as of December 31, 2001 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 referred to above present fairly, in all material respects, the financial position of The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. as of December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

As more fully described in note 16 to the accompanying financial statements, according to the Articles of Incorporation, the Company may purchase up to 10% of its share capital without the existence of free reserves, provided that it shall resell these shares within a period not exceeding 18 months. The treasury shares held by the Company for a period exceeding 18 months as of December 31, 2001 amounted to 43,000 shares.

Beirut, Lebanon  
April 25, 2002

Deloitte & Touche

Arthur Andersen

## Balance Sheet

December 31,	Notes	2001 US\$	2000 US\$
<b>Assets</b>			
Cash and cash equivalents	3	79,443,903	100,248,860
Prepayments and other debit balances	4	21,026,925	26,453,387
Accounts and notes receivable, net	5	189,060,769	188,628,333
Properties held for development and sale	6	1,656,279,419	1,712,012,296
Investment properties	7	156,155,974	81,176,527
Fixed assets, net	8	17,912,377	20,721,315
<b>Total Assets</b>		<b>2,119,879,367</b>	<b>2,129,240,718</b>
<b>Liabilities</b>			
Accounts payable and other liabilities	9	87,330,752	89,958,424
Dividends payable	10	12,920,472	14,585,965
Deferred revenues	11	13,688,012	19,816,485
Deferred credits	12	49,000,000	49,000,000
Bank loans	13	343,464,720	348,045,555
<b>Total Liabilities</b>		<b>506,403,956</b>	<b>521,406,429</b>
<b>Shareholders' Equity</b>			
Capital	14		
Issued capital at par value US\$10 per share:			
100,000,000 class (A) shares		1,000,000,000	1,000,000,000
65,000,000 class (B) shares		650,000,000	650,000,000
		1,650,000,000	1,650,000,000
Legal reserve	15	24,696,931	24,505,483
Accumulated losses/retained earnings		(1,874,622)	3,314,798
Less: Treasury shares	16	(59,346,898)	(69,985,992)
<b>Total Shareholders' Equity</b>		<b>1,613,475,411</b>	<b>1,607,834,289</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>2,119,879,367</b>	<b>2,129,240,718</b>

the accompanying notes form an integral part of this balance sheet

## Statement of Income

Year ended December 31,		2001 US\$	2000 US\$
	<i>Notes</i>		
Net revenues from land and real estate sales	17	29,140,046	3,450,410
Net revenues from rented properties	18	6,109,379	5,362,575
<b>Revenues from operations</b>		<b>35,249,425</b>	<b>8,812,985</b>
General and administrative expenses	20	(8,527,941)	(8,695,012)
Depreciation		(1,293,855)	(1,406,007)
Provision for doubtful receivables	5	-	(18,717,979)
Provision for contingencies	9	-	(2,000,000)
<b>Total operating expenses</b>		<b>(9,821,796)</b>	<b>(30,818,998)</b>
Net income (loss) from operations		25,427,629	(22,006,013)
Interest income		10,505,050	16,912,585
Interest expense	12 & 13	(33,094,514)	(27,709,857)
Cost of discounting notes receivable	5	(639,169)	(1,552,783)
Non-recurring financial income	19	-	2,581,758
Loss on disposal of fixed asset		(284,515)	-
<b>Net income (loss) for the year</b>		<b>1,914,481</b>	<b>(31,774,310)</b>
Basic earnings (loss) per share	21	0,0124	(0.2051)

*the accompanying notes form an integral part of these statements*

## Statement of Changes in Shareholders' Equity

	Share Capital US\$	Legal Reserve US\$	Treasury Shares US\$	Retained Earnings Accumulated losses US\$	Total US\$
Balance at December 31, 1999	1,650,000,000	24,505,483	(90,907,381)	40,666,373	1,624,264,475
Effect of mark down of treasury shares - Note 16	-	-	5,577,265	(5,577,265)	-
Net loss for the year	-	-	-	(31,774,310)	(31,774,310)
Treasury shares activity	-	-	15,344,124	-	15,344,124
<b>Balance at December 31, 2000</b>	<b>1,650,000,000</b>	<b>24,505,483</b>	<b>(69,985,992)</b>	<b>3,314,798</b>	<b>1,607,834,289</b>
Balance at December 31, 2000	1,650,000,000	24,505,483	(69,985,992)	3,314,798	1,607,834,289
Effect of mark down of treasury shares - Note 16	-	-	6,912,453	(6,912,453)	-
Net income for the year	-	-	-	1,914,481	1,914,481
Allocation to legal reserve	-	191,448	-	(191,448)	-
Treasury shares activity	-	-	3,726,641	-	3,726,641
<b>Balance at December 31, 2001</b>	<b>1,650,000,000</b>	<b>24,696,931</b>	<b>(59,346,898)</b>	<b>(1,874,622)</b>	<b>1,613,475,411</b>

*the accompanying notes form an integral part of these statements*

## Statement of Cash Flows

Year ended December 31,	Notes	2001 US\$	2000 US\$
<b>Cash Flows From Operating Activities:</b>			
Net income (loss) for the year		1,914,481	(31,774,310)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation	22	3,477,988	2,713,551
Loss on sale of tangible fixed assets		284,515	-
Cost of discounting notes receivables		639,167	1,552,783
Provision for contingencies	9	-	2,000,000
Provision for doubtful receivables	5	-	18,717,979
Loss on swap agreement	9	95,000	-
Changes in assets and liabilities:			
Decrease in prepayments and other debit balances		5,426,462	23,111,950
(Increase) decrease in accounts and notes receivable	22	(21,016,457)	25,904,326
(Increase) in properties held for development and sale	22	(20,290,124)	(87,090,699)
(Increase) decrease in investment properties	22	(276,799)	159,727
(Decrease) in accounts payable & other liabilities		(2,922,672)	(18,441,136)
(Decrease) increase in deferred revenues	22	(6,128,473)	3,600,268
Net cash used in operating activities		(38,796,912)	(59,545,561)
<b>Cash Flows From Investing Activities:</b>			
Bank term deposits		19,511,218	(12,685,587)
Cash proceeds from recuperation of properties		3,659,497	1,140,477
Proceeds from sale of fixed assets		1,205,324	-
Acquisition of fixed assets		(638,536)	(469,064)
Net cash provided by (used in) investing activities		23,737,503	(12,014,174)
<b>Cash Flows From Financing Activities:</b>			
Bank overdrafts		(7,949,812)	(17,288,980)
Bank loans raised		(4,580,835)	551,096
Dividends paid	10	(1,665,493)	(2,394,245)
Proceeds from discounting notes receivable	5	15,183,497	23,705,707
Deferred credits on sale of treasury shares	12	-	43,000,000
Net Proceeds from treasury shares activities	22	4,828,501	17,193,990
Net cash provided by financing activities		5,815,858	64,767,568
Net (decrease) in cash and cash equivalents		(9,243,551)	(6,792,167)
Cash and cash equivalents - Beginning of year		20,724,507	27,516,674
<b>Cash and cash equivalents - End of year</b>	<b>3</b>	<b>11,480,956</b>	<b>20,724,507</b>

*the accompanying notes form an integral part of these statements*

## Notes to the Financial Statements for the year ended December 31, 2001

### 1. Formation and Object of the Company

The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. (SOLIDERE) was established as a Lebanese joint stock company on May 5, 1994 based on Law No 117/91, and was registered on May 10, 1994 under Commercial Registration No. 67000. The articles of incorporation of the Company were approved by Decree No. 2537 dated July 22, 1992.

The objective of the Company, is to acquire real estate properties, to finance and ensure the execution of all infrastructure works in the Beirut Central District (BCD) area on the basis of the agreement referred to in Note 23(a), to prepare and reconstruct the BCD area, to reconstruct or restore the existing buildings, to erect buildings and sell, lease or exploit such buildings and lots and to develop the landfill on the seaside.

The duration of the Company is 25 years beginning from the date of establishment. The extraordinary general assembly dated June 29, 1998 resolved to amend the duration of the Company to be 75 years beginning from the date of establishment. This resolution becomes effective upon obtaining the approval of the Council of Ministers which is not yet issued.

The Company is exempted from corporate income tax on profit for a period of 10 years from the date of establishment in accordance to Law No. 117/91.

The Board of Directors approved the financial statements for the year ended December 31, 2001 on April 24, 2002.

### 2. Summary of Significant Accounting Policies

The financial statements have been prepared under the historical cost convention in accordance with International Accounting Standards. The significant accounting policies are set herebelow:

#### a. Basis of Presentation:

In view of the long term nature and particulars of the Company's operations, the financial statements are presented on the basis that the operations have realization and liquidation periods spread over the duration of the Company and which are subject to market conditions and other factors commonly associated with development projects, as such, the balance sheet is shown as "unclassified" without distinction between current and long-term components.

#### b. Translation of Foreign Currencies:

The accounting records are maintained in U.S. Dollars, in accordance with the applicable law, which reflects the economic substance of the underlying events and circumstances of the Company. Transactions denominated in other currencies are translated into U.S. Dollars at the exchange rates prevailing at the dates of the transactions. Assets and Liabilities stated in currencies other than the U.S. Dollar are translated at the rates of exchange prevailing at the end of the year. The resulting exchange gain or loss which is not material, is reflected in the statement of income.

#### c. Accounts and Notes Receivable:

Accounts and notes receivable which are originated by the Company are stated at amortized cost less any amount written off and provisions for impairment. An assessment is made at each balance sheet date to determine whether there is objective evidence that accounts or notes receivable may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is included in the statement of income. The carrying amount of the asset is adjusted through the use of an allowance account.

## Notes to the Financial Statements *for the year ended December 31, 2001*

### **d. Properties Held for Development and Sale:**

Properties held for development and sale are stated at the lower of cost and estimated net realizable value. Costs include appraisal values of real estate plots constituting the contributions in kind to capital ( A shares), in addition to capitalized costs. Capitalized costs comprise the following:

- Project direct costs and overheads related to the properties development, construction and project management as a whole, as well as acquisition, zoning, and eviction costs.
- Indirect costs, such as overheads and general and administrative expenses, which were partially allocated to properties held for development and sale.

### **e. Investment Properties:**

Investment properties which represent rented and vacant available for rent properties are stated at cost less any impairment and accumulated depreciation.

Depreciation is computed using the straight-line method over the estimated useful lives of the properties, excluding the cost of land, based on an annual rate of 2%.

### **f. Fixed Assets:**

Fixed assets are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets based on the following annual rates:

Real estate property	2%
Furniture and fixtures	9%
Plant	10%
Machines and equipment	15%-20%
Freehold improvements	9%

### **g. Treasury Shares:**

According to its articles of incorporation, the Company may purchase up to 10% of its share capital without the appropriation of reserves, provided that it shall resell these shares within a period not exceeding eighteen months. Treasury shares are stated at the lower of weighted average cost and year-end share market price, in case market is below par value. Any gains on sales are reflected as an adjustment to the carrying value, whereas losses in excess of the cumulative gains are charged to retained earnings. The carrying book value of treasury shares sold with a sale back option are marked down to the realizable value.

### **h. Revenue Recognition:**

Revenue on real estate sales transactions is recognized on the basis of the full accrual method as and when the following conditions are met:

- A sale is consummated and contracts are signed.
- The buyer's initial (in principle over 25% of sales price) and continuing investments are adequate to demonstrate a commitment to pay for the property.
- The Company's receivable is not subject to future subordination.
- The Company has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and the Company does not have a substantial continuing involvement with the property.

If any of the above conditions is not met, the initial payments received from buyers are recorded as deferred revenues.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

### **i. Cost of Sales:**

Cost of properties sold is determined on the basis of the built up area (BUA) - permitted right to build in square meters - on the sold plots based on the terms of the sales agreements. The cost of one square meter of BUA is arrived at by dividing, total estimated cost of the land development project over total available BUA after deduction of the BUA relating to recuperated properties and those relating to the religious and public administrations.

### **j. Finance Leases:**

Leased assets under finance lease are included in the balance sheet under finance lease receivables at an amount equal to the net investment. Unearned finance income is computed to produce a constant periodic rate of return over the term of the lease.

### **k. Financial Liabilities and Equity Instruments:**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Treasury shares sold with sale back option whereby materialization is dependent on the outcome of uncertain events beyond the control of both the Company and the buyer, are classified as deferred credits except where the possibility of exercise of option is remote, in that case, the instrument is classified as equity.

### **l. Borrowing Costs:**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be ready for their intended use, are added to the cost of those assets, until such time that the assets are substantially ready for their intended use.

All other borrowing costs are reflected in the statement of income in the period in which they are incurred.

### **m. Derivative Financial Instruments:**

Derivative financial instruments including interest rate swaps are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the income statement as they arise.

### **n. Adoption of International Accounting Standards:**

Effective January 1, 2001, the Company adopted International Accounting Standard Number 40 "Investment Property". According to this standard the Company distinguished investment properties from properties held for development and sale in the ordinary course of business and classified them separately.

The classification criteria is fully disclosed under Notes 2(D) & 2(E). This distinction did not effect the figures of the current year financial statements since the Company is applying the cost model under IAS 40; however, the fair value of investment properties is disclosed as a new requirement under this IAS.

## Notes to the Financial Statements for the year ended December 31, 2001

### 3. Cash and Cash Equivalents

Cash and cash equivalents is composed of the following:

<i>December 31,</i>	<b>2001 US\$</b>	<b>2000 US\$</b>
Cash on hand	75,485	74,084
Current accounts	11,405,471	20,650,423
	11,480,956	20,724,507
Term deposits	67,975,101	87,486,319
	79,456,057	108,210,826
Bank overdrafts	(12,154)	(7,961,966)
	<u>79,443,903</u>	<u>100,248,860</u>

Term deposits outstanding as of December 31, 2001 have an average yield of 3.64%, and mature in the first quarter of the year 2002.

Term deposits include an amount of US\$37 million pledged against the loan provided to the Company and guaranteed by "COFACE" as discussed in Note 13 (US\$30 million as of December 31, 2000). It also includes a deposit of US\$13.8 million pledged against a stand-by letter of credit and a local bank loan as discussed under Note 13 and Note 23 (i).

The bank overdraft balances are hedged by term deposits maintained with the same banks lending the funds and are offset in the accompanying balance sheet against cash and cash equivalents.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and current accounts.

### 4. Prepayments and Other Debit Balances

Prepayments and other debit balances include the following:

<i>December 31,</i>	<b>2001 US\$</b>	<b>2000 US\$</b>
Accrued interest income	8,367,474	12,782,945
Prepaid expenses	4,648,701	5,023,855
Advance payments to contractors	2,299,543	2,813,882
Finance lease receivable	-	1,934,390
Other debit balances	5,711,207	3,898,315
	<u>21,026,925</u>	<u>26,453,387</u>

The finance lease receivable is related to a ready mix concrete batch plant leased in 1996 for a fixed non-cancelable term of 5 years with lease payments of approximately US\$ 375,000 per year. As of December 31, 2000 it is stated net of unearned finance income amounting to US\$ 273,999. The lessee bought the said plant during the year 2001 for US\$ 1,369,800 to be settled over a period of five years with no interest. Accordingly, the finance lease receivable was reclassified to other debit balances at its amortized cost amounting to US\$ 1,129,777. The difference between the face value of the receivable and the amortized cost, amounting to US\$ 240,023 was charged to the income statement.

Other debit balances include also investments in non-consolidated subsidiaries amounting to US\$160,974 which are carried at cost as they are not material and consist of 9 wholly owned inactive subsidiaries. The principal activity of these subsidiaries is to acquire, construct, lease and manage real estate properties in the BCD.

### 5. Accounts and Notes Receivable

Accounts and notes receivable consist of the following:

<i>December 31,</i>	<b>2001 US\$</b>	<b>2000 US\$</b>
Notes receivable	131,953,709	153,877,721
Accounts receivable	83,956,391	67,868,928
Interest receivable on discounted notes	3,570,553	4,588,746
Unearned interest	(15,402,518)	(17,818,109)
Provision for doubtful receivables	(15,017,366)	(19,888,953)
	<u>189,060,769</u>	<u>188,628,333</u>

Notes receivable which resulted from sales and recuperations carry the following maturities as of December 31, 2001:

	<b>US\$</b>
Overdue	10,056,777
2002	24,254,831
2003	29,906,372
2004	28,520,391
2005	21,676,667
2006 and thereafter	17,538,671
	<u>131,953,709</u>

The Company placed in custody of a lending bank, as comfort collateral with no pledge, notes receivable in the amount of US\$ 22,265,624 as of December 31, 2001 (US\$35,347,927 as of December 31, 2000).

Accounts receivable include non-interest earning balances aggregating approximately US\$ 11 million (US\$ 26.8 million for 2000) which are stated at face value pending the formulation of maturity schedules. The Company believes that the recently issued decrees will facilitate the approval process and thus the finalization of the ultimate interest and maturities.

The provision for doubtful receivables has been set-up to meet probable defaults of certain clients whose notes and accounts receivable aggregate to US\$ 26,359,268 as of December 31, 2001 (US\$ 33,623,704 as of December 31, 2000). During the year 2001, an amount of US\$ 7,264,436 out of these accounts and notes receivables was written off as a result of the cancellation of two sale contracts. Accordingly, the provision for doubtful receivables was reduced by US\$ 4,871,587.

During the year 2001, the Company signed several agreements to discount without recourse, notes receivable representing maturities of principal, having an aggregate face value of US\$ 16,979,864. The net proceeds from these transactions amounted to US\$ 15,183,497. Interest on some of these notes which remains due to the company on the pre-determined maturity dates, totaling US\$ 1,157,200 at the date of the transaction, is still recognized under accounts and notes receivable. An amount of US\$ 639,167 representing the net cost of discounting was charged to the income statement for the year ended December 31, 2001.

## Notes to the Financial Statements for the year ended December 31, 2001

Similarly during the year 2000, the Company signed two agreements to discount without recourse, notes receivable representing maturities of principal, having an aggregate face value of US\$30,040,632. The net proceeds from both transactions amounted to US\$23,705,707. Interest on these notes which remains due to the company on the pre-determined maturity dates, totaling US\$4,588,746 at the date of the transaction, is still recognized under accounts and notes receivable. An amount of US\$1,552,783 representing the net cost of discounting was charged to the income statement for the year ended December 31, 2000.

The Company credit risk exposure is spread over 84 counter-parties; 4 customers constitute 38% of the total exposure and 80 customers constitute the remaining 62%.

### 6. Properties held for Development and Sale

Properties held for development and sale consist of the following captions:

December 31,	2001 US\$	2000 US\$
Land and land development works, net (a)	1,538,696,734	1,565,490,804
Real estate development projects, net (b)	117,582,685	146,521,492
	<u>1,656,279,419</u>	<u>1,712,012,296</u>

a. Land and land development works include the following cost items:

December 31,	2001 US\$	2000 US\$
Acquired properties (a.1)	955,374,742	954,486,487
Pre-acquisition costs (a.2)	9,412,801	9,412,801
Infrastructure costs (a.3)	548,659,334	525,384,766
Eviction costs (a.4)	259,493,329	258,548,024
Capitalized costs (a.5)	56,575,015	53,750,257
Cumulative costs	1,829,515,221	1,801,582,335
Less-Cost of land sold, net	(223,838,870)	(197,666,922)
Less-Cost of land transferred to real estate development projects	(66,979,617)	(38,424,609)
	<u>1,538,696,734</u>	<u>1,565,490,804</u>

① Acquired properties consist mainly of the aggregate initial appraised value attributed to the plots included in the BCD area (US\$1,170,001,290) net of the recuperated properties. The aggregate appraised value is determined in accordance with Decree No. 2236 dated February 19, 1992 based on the decision of the Higher Appraisal Committee, which was established in accordance with Law No. 117/91. Acquired properties include the value of purchased or exchanged properties as well.

Law No. 117/91 stated the requirements for property recuperation and exemption, in this respect properties appraised at US\$133,333,748 were not claimed for recuperation and properties aggregating US\$255,012,147 were recuperated by the original owners.

② Pre-acquisition costs include technical and master plan studies incurred during the set up period of the Company.

③ Infrastructure costs include an amount of US\$276 million relating to the sea front defense and marina works, an amount of US\$130 million relating to infrastructure works executed in the traditional BCD area, and an amount of US\$46 million relating to the cost of land reclamation and treatment. It includes also the cost of an electricity power station in the amount of US\$41 million, and other costs which relate mainly to demolition and archeology. This caption includes capitalized borrowing costs totaling US\$33 million.

④ Eviction costs represent the costs of relocating previous settlers out of the BCD area which were mainly paid through the Central Fund for the Displaced. This caption is stated net of US\$21,829,193 (US\$21,829,193 in 2000) representing a 10% charge on recuperated properties appraised values collected from previous owners other than religious and governmental recuperated properties.

⑤ Capitalized costs represent allocation of direct overheads. Costs capitalized during the year 2001 amounted to US\$2,814,727 (US\$ 2,546,098 in 2000).

b. Real estate development projects include the following:

December 31,	2001 US\$	2000 US\$
Construction and rehabilitation of buildings	245,222,426	214,524,607
Cost of land	66,979,617	38,424,609
Cumulative costs	312,202,043	252,949,216
Less - Cost transferred to investment properties	(153,183,695)	(76,492,056)
Less - Cost transferred to fixed assets	(18,102,717)	(18,102,717)
Less - Cost of real estate sold	(23,332,946)	(11,832,951)
	<u>117,582,685</u>	<u>146,521,492</u>

The cost of real estate development projects includes mainly costs incurred in connection with the construction of a shopping mall in the amount of US\$55 million as of December 31, 2001 and office and residential complex in the amount of US\$11 million as of December 31, 2001. These two projects are still in progress.

### 7. Investment Properties

Investment properties include the following:

December 31,	2001 US\$	2000 US\$
Land	45,157,478	24,768,079
Buildings	113,755,121	57,423,846
Other assets	3,040,145	2,597,240
	161,952,744	84,789,165
Less - Accumulated depreciation	(5,796,770)	(3,612,638)
	<u>156,155,974</u>	<u>81,176,527</u>

## Notes to the Financial Statements for the year ended December 31, 2001

The following table summarizes the movement of the investment properties during 2001:

	December 31, 2000 US\$	Transfers from Properties Held for Development & Sale US\$	Additions US\$	December 2001 US\$
Land	24,768,079	20,389,399	-	45,157,478
Buildings	57,423,846	56,302,240	29,035	113,755,121
Other assets	2,597,240	-	442,905	3,040,145
Accumulated depreciation	(3,612,638)	-	(2,184,132)	(5,796,770)
	<u>81,176,527</u>	<u>76,691,639</u>	<u>(1,712,192)</u>	<u>156,155,974</u>

Investment properties include rented and available for rent properties. They represent mainly a property leased out to the Ministry of Foreign Affairs, for the use by an international agency, a residential complex, an embassy complex, and other restored buildings.

The fair value of the above properties is estimated at around US\$185 million based on current market prices.

### 8. Fixed Assets, Net

Fixed assets is composed of the following:

	December 31, 2000 US\$	Additions US\$	Transfer US\$	Disposals US\$	December 31, 2001 US\$
Land and buildings	13,518,283	14,788	(10,234)	-	13,522,837
Furniture and fixtures	1,942,658	47,327	(57,762)	(6,681)	1,925,542
Freehold improvements	2,461,355	115,581	(12,688)	-	2,564,248
Plant	5,149,176	-	-	(3,295,910)	1,853,266
Machines and equipment	5,073,310	460,840	(114,457)	-	5,419,693
	<u>28,144,782</u>	<u>638,536</u>	<u>(195,141)</u>	<u>(3,302,591)</u>	<u>25,285,586</u>

	December 31, 2000 US\$	Additions US\$	Transfer US\$	Disposals US\$	December 31, 2001 US\$
Buildings	403,908	182,287	-	-	586,195
Furniture and fixtures	858,726	172,676	-	-	1,031,402
Freehold improvements	596,324	230,772	-	-	827,096
Plant	1,714,538	468,640	-	(1,812,752)	370,426
Machines and equipment	3,849,971	708,119	-	-	4,558,090
	<u>7,423,467</u>	<u>1,762,494</u>	<u>-</u>	<u>(1,812,752)</u>	<u>7,373,209</u>
Net Book Value	<u>20,721,315</u>				<u>17,912,377</u>

The depreciation for the year 2001 was split between an allocation to properties held for development and sale and a charge to the income statement of US\$468,640 and US\$1,293,856 respectively.

### 9. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of the following:

December 31,	2001 US\$	2000 US\$
Notes Payable	13,983,859	19,983,859
Accounts payable	49,807,411	47,011,424
Accrued disputed claims	1,650,000	3,792,832
Accrued charges and other credit balances	4,105,199	4,076,567
Accrued interest	12,424,404	9,807,707
Provision for contingencies	4,046,801	4,046,801
Provision for end-of-service indemnity	1,218,078	1,239,234
Obligation under swap agreement	95,000	-
	<u>87,330,752</u>	<u>89,958,424</u>

Notes payable outstanding as of December 31, 2001 are due to a contractor and are payable in annual installments of US\$6 million due in years 2002 and 2003 and in a final installment of US\$1.9 million in year 2004. These notes are subject to an interest rate of 6 months Libor plus 3.5% per annum.

Accounts payable as of December 31, 2001 include balances in the aggregate amount of US\$13.8million (US\$13.8 million as of December 31, 2000) due to the Lebanese Government in consideration of the exchange of assets agreement discussed in Note 23(f).

Provision for contingencies as of December 31, 2001 represents a provision for an arbitration proceeding in addition to associated risks amounting to US\$2,000,000 setup as per a board of directors' decision.

On December 21, 2001, the Company entered into a 5 year interest rate swap agreement on a notional amount of US\$100 million with a local arranger bank calling for the payment and receipt of interest at predetermined rates which are to be set up at the beginning of each of the 5 years. During the first period ending December 21, 2002, the interest rate to be paid is Libor + 2% (4.39%) and interest rate to be received by the Company is 5%. Interest rates to be paid or received for the four remaining years will be determined up-front on December 21 of each year based on the fluctuation of the Libor rate at that time.

As at December 31, 2001, the valuation of this derivative instrument as provided by the arranger bank on the basis of unwind or cancellation value of the transaction, amounted to negative US\$95,000. The effect of this valuation was charged to the income statement for the year 2001 and is included under interest expense.

## Notes to the Financial Statements for the year ended December 31, 2001

### 10. Dividends Payable

The breakdown of dividends payable as of December 31, is summarized as follows:

General Assembly Date	Dividend Per Share US\$	2001			2000
		Declared US\$	Paid US\$	Payable US\$	Payable US\$
June 29, 1996	0.20	30,918,413	28,152,118	2,766,295	3,231,360
June 30, 1997	0.25	40,367,172	35,868,851	4,498,321	5,092,283
June 29, 1998	0.25	39,351,753	33,695,897	5,655,856	6,262,322
		<u>110,637,338</u>	<u>97,716,866</u>	<u>12,920,472</u>	<u>14,585,965</u>

The outstanding balance of unpaid dividends relate mostly to unclaimed dividends and undelivered class (A) shares.

### 11. Deferred Revenues

Deferred revenues consist of the following:

December 31,	2001 US\$	2000 US\$
Cash down payments on sale contracts	9,256,684	16,674,946
Deferred rental revenue	4,431,328	3,141,539
	<u>13,688,012</u>	<u>19,816,485</u>

Cash down payments on land and real estate sale contracts amounting to US\$7 million relate to 10 potential sale contracts with an aggregate future realizable sales value of US\$34 million. This caption also includes down payments totaling US\$1.6 million on sale of units in the shopping mall project corresponding to a realizable sales value of US\$33 million.

Deferred rental revenue represents down payments on lease and rental agreements and reservation deposits for the rental of real estate properties.

### 12. Deferred Credits

The board of directors, in their meetings held on October 29, 1999 and December 13, 1999 authorized management to sell part of its treasury shares. In this respect, management agreed during 1999 to sell 7 million shares from its portfolio for a total consideration of US\$49 million, at US\$7 per share whereby the buyers were granted a sale back option at an average strike price of US\$ 8.4 per share to be exercised by those buyers within two years and/or three years period, subject to certain conditions specified in the sales contracts. The strike price represents the selling price of US\$7 per share plus accumulated interest at Libor (at the date of the deal) + 1/2%. Until such time as the Company's commitment to buy back those shares lapse, the proceeds will be reflected as deferred credit.

Interest in the amount of US\$3.9 million has been accrued on this credit during 2001, and was charged to the income statement under interest expense (US\$ 3.7 million during 2000).

Subsequent to December 31, 2001, the option holders exercised their rights on 2.95 million shares that matured on January 2002 which resulted in a payment of US\$ 24 million by the Company.

### 13. Bank Loans

Bank loans consist of the following:

December 31,	2001 US\$	2000 US\$
Local bank loan (US\$50 million)	14,000,000	24,000,000
Syndicated loans (two loans, US\$ 100 million each)	200,000,000	200,000,000
Foreign bank loan (US\$10 million)	10,000,000	10,000,000
"COFACE" guaranteed loan	91,964,571	107,291,999
Syndicated loans (US\$ 22 million)	12,026,694	6,753,556
Local bank loan (US\$ 10 million)	5,762,623	-
Loan guaranteed by Export - Import Bank	9,710,832	-
	<u>343,464,720</u>	<u>348,045,555</u>

The above loans carry the following maturities as of December 31, 2001:

	US\$
2002	33,000,027
2003	227,000,027
2004	19,547,373
2005	21,094,718
2006	19,758,419
2007	18,422,119
2008	3,094,691
2009	1,547,346
	<u>343,464,720</u>

On September 17, 1998 the Company entered into a 5 year loan agreement with a local bank for an amount of US\$ 50 million payable in 10 semi-annual installments starting December 31, 1998 (subject to voluntary full prepayment clause) and subject to an interest rate of 6-month Libor + 2%. The Company placed in custody of the bank, as comfort collateral with no pledge, notes receivable in the amount of US\$ 22,265,624 as of December 31, 2001 (US\$ 35,347,927 as of December 31, 2000).

On April 2, 1998 the Company entered into a 5 year loan agreement with a syndicate of local banks for an amount of US\$ 100 million payable in the year 2003 (subject to voluntary full prepayment clause). This loan is subject to an interest rate of 12 month Libor + 2.35% for the first year, to be escalated yearly to reach 12 month Libor + 2.65% in the fifth year, and payable every quarter.

On December 14, 1998 the Company entered into a 5 year loan agreement with a syndicate of local banks for an amount of US\$ 100 million payable in the year 2003 (subject to voluntary full prepayment clause). This loan is subject to an interest rate of 12 month Libor + 2.35% for the first year, to be escalated yearly to reach 12 month Libor + 2.65% in the fifth year, and payable every quarter. The loan has an interest rate floor of 7.6% and a cap of 10.9%.

According to the covenants of the above loan agreements, the Company is required to maintain a debt to equity ratio below 25%, and the Company should maintain ownership of not less than 1 million square meter of built-up-area free from any security to third party and to maintain net tangible assets of a minimum of US\$ 1 billion.

## Notes to the Financial Statements *for the year ended December 31, 2001*

On April 15, 1999 the Company entered into a 4 year loan agreement with a foreign bank for an amount of US\$ 10 million payable in two equal installments during 2002 and 2003. This loan is subject to an average rate of 7.5% approximately and paid semi-annually. The Company issued 18 promissory notes in the amount of US\$ 12,774,303 being the value of principal and interest repayment.

For the purpose of partially financing the sea front defense works, the Company signed in 1996 a 10 year "COFACE" guaranteed loan agreement for an amount of US\$ 107.3 million of which US\$ 7.3 million represents a guarantee premium. This loan is scheduled for settlement starting February 2001 through 14 semi annual equal payments, and is subject to an interest rate of 7.39% per annum payable semi annually starting August 1998. The loan was fully drawn and two payments in the amount of US\$ 7.7 million each were settled in 2001. Under the terms of the loan contract, the Company is required to maintain a pledged deposit of US\$ 23.6 million with the lending bank starting from the date of the first withdrawal. Moreover, the Company is required to maintain a debt to equity ratio of no more than 20% and to maintain a US\$ 75 million of cash and cash equivalents. On December 10, 1999, the lending bank agreed to increase the debt to equity ratio to 25% till September 30, 2001 with an increase to US\$ 30 million in the pledged deposits as security for the loan. On January 15, 2001, the lending bank agreed also to extend the debt to equity ratio of 25% till January 1, 2003 with an increase in the pledged deposit to US\$ 37 million. This pledged deposit will be reduced to US\$ 30 million after that date, when the debt to equity ratio goes back to 20%.

For the purpose of partially financing the waste treatment project which costs approximately US\$ 53 million, the following loan agreements were signed by the Company.

- On March 21, 2000 the Company signed a 6 year loan agreement with a syndicate of banks for an amount of US\$ 22 million. This loan can be drawn up to June 29, 2002. An amount of US\$12,026,694 has been drawn up to December 31, 2001 (US\$ 6,753,556 up to December 31, 2000). This loan shall be paid in 9 equal semi-annual installments, the first of which is due on June 30, 2002. It is subject to an interest rate of three month Libor plus 4%. According to the covenants of this loan agreement, the Company is required to maintain a debt to equity ratio not greater than 25%, and should maintain tangible assets of a minimum of US\$1 billion and to maintain accounts and notes receivable of not less than US\$ 75 million free from any liens, assignments or similar charges. In addition, the Company should maintain the number of treasury shares below 11,610,000 shares.
- In July 2001, the Company signed an Export Financing Credit agreement in the amount of US\$ 14,709,252 to support the purchase of engineering and construction services and equipment from the United States for the waste treatment project. This loan is guaranteed by the Export-Import Bank of the United States and financed by a resident foreign bank. This loan shall be paid in 10 approximately equal, successive semi-annual installments, the first of which shall be due and payable on October 25, 2004. It is subject to an interest rate of 0.25% per annum above Libor. According to the contract terms, an irrevocable stand-by letter of credit in the amount of US\$ 3,566,993 was submitted to the export import bank. Moreover, the company is required to maintain a minimum balance of cash and cash equivalents of US\$ 30 million and the number of treasury shares should not exceed 10,131,829 shares or US\$ 76 million in aggregate.
- In July 2001, a complementary loan in the amount of US\$ 10 million was signed with the same above mentioned resident bank. An amount of US\$ 5.7 million has been drawn up to December 31, 2001, the Company shall repay the aggregate principal in 10 equal semi-annual installments commencing on October 25, 2004 and ending on the final maturity date being April 27, 2009. The loan is subject to an interest rate of 3 month Libor plus 1%. The Company shall maintain a pledged fund not less than 102% of all outstanding principal and interest amounts, and should maintain a debt to equity ratio not exceeding 25% and total tangible net assets should not be less than US\$ 1 billion free from any liens including permitted liens.

### 14. Capital

Capital consists of 165,000,000 shares of US\$10 par value, authorized and fully paid and divided in accordance with Law 117/91 into the following:

Class A, amounting to 100,000,000 shares represent contribution in kind of properties in the BCD, based on the resolutions of the High Appraisal Committee. All Class A shares are deemed to have been issued and outstanding since the formation of the Company.

Class B, amounting to 65,000,000 shares that represent capital subscription in cash and are all issued and fully paid.

As of December 31, 2001, the Company had 8,870,000 "A" shares traded on the London Stock Exchange in the form of Global Depository Shares (GDS). (8,870,000 "A" shares in 2000).

### 15. Legal Reserve

In conformity with the Company's Articles of Incorporation and the Lebanese Commercial Law, 10 % of annual net income is required to be transferred to legal reserve until this reserve equals one third of capital. This reserve is not available for dividend distribution.

### 16. Treasury Shares

Treasury shares represent 9,237,167 class (A) and (B) shares (10,106,180 shares as of December 31, 2000), of which 7 million shares are subject to an option as described in note 12.

The treasury shares outstanding as of December 31, 2001 were marked to market except for the treasury shares sold with a sale back option, which were adjusted downward since 1999 year end to net realizable value. The resulting loss of US\$6,912,453 in 2001 was charged to retained earnings (US\$5,577,265 in 2000).

According to the Articles of Incorporation, the Company may purchase up to 10% of its share capital without the existence of free reserves, provided that it shall resell these shares within a period not exceeding eighteen months. The treasury shares held by the Company as of December 31, 2001 are broken down as follows:

	Number of Shares <i>in Thousands</i>
Shares acquired through trading activities:	
Shares held over 18 months	43
Shares subject to a sale back option (Note 12)	<u>7,000</u>
	7,043
Shares reverting to the Company from recuperated properties	<u>2,194</u>
<b>Total treasury shares</b>	<b><u>9,237</u></b>

According to the Company's in-house legal counselor, shares reverting to the Company from recuperated properties are not subject to the 18 month limitation imposed by the Company's Articles of Incorporation.

## Notes to the Financial Statements for the year ended December 31, 2001

### 17. Net Revenues from Land and Real Estate Sales

Net revenues from land and real estate sales include the following:

<i>December 31,</i>	<b>2001 US\$</b>	<b>2000 US\$</b>
Sales of land and real estate properties	77,538,750	6,318,200
Less: Cost of sales	(45,243,987)	(2,867,790)
Less: Net result of cancellation of sales	(3,154,717)	-
	<u>29,140,046</u>	<u>3,450,410</u>

The loss on cancellation of sales represent the net profit on previously recognized sale transactions which were cancelled during the year 2001, as a result the built up area related to these transactions reverted back to the company.

### 18. Net Revenues from Rented Properties

Net revenues from rented properties include the following:

<i>December 31,</i>	<b>2001 US\$</b>	<b>2000 US\$</b>
Rent	10,131,225	7,495,187
Less: Depreciation expense	(2,184,133)	(1,307,544)
Less: Real estate taxes	(1,413,775)	(1,146,243)
Less: Maintenance and other related expenses, net	(500,655)	(22,061)
	<u>6,032,662</u>	<u>5,019,339</u>
Other related income, net	76,717	343,236
	<u>6,109,379</u>	<u>5,362,575</u>

### 19. Non Recurring Financial Income

Non-recurring financial income for the year 2000 relates mainly to interest received on a put option, which was concluded in 1996 for the acquisition of unquoted shares, and exercised by the Company on September 7, 2000.

By virtue of this agreement the counter-party had the right to exercise a call option to purchase the said securities during a 4 year period from the purchase date ending August 26, 2000. On the other hand, the Company had the right to exercise a put option to sell the said securities to the counter-party within two years after the lapse of the call option period. According to the terms of this agreement in case of exercise of the call option by the counter-party, the Company was entitled to a call price on the basis of the issue price plus 3 month Libor plus a variable spread compounded quarterly in addition to a profit sharing if the market price is higher than the call price. However, in case of exercise of the put option by the Company, the latter would be entitled to a put price on the basis of the issue price plus one year Libor compounded annually. The Company exercised its right in the put option on September 7, 2000 and thus realized a non-recurring financial income of US\$ 2,581,758 during 2000.

### 20. General and Administrative Expenses

General and administrative expenses include the following:

<i>December 31,</i>	<b>2001 US\$</b>	<b>2000 US\$</b>
Salaries, benefits and related charges	4,803,605	4,925,015
Board of directors' remunerations	144,000	144,000
Administrative expenses	3,580,336	3,625,997
	<u>8,527,941</u>	<u>8,695,012</u>

The head-count of the company as of December 31, 2001 was 263 (238 at the end of 2000).

### 21. Earnings (loss) per Share

The computation of earnings (loss) per share is based on net income (loss) before non-recurring financial income and the weighted average number of outstanding class (A) and (B) shares during each year net of treasury shares held by the Company.

The weighted average number of shares to compute basic earnings (loss) per share is 154,904,275 shares in 2001 and 154,924,684 shares in 2000.

### 22. Notes to the Statements of Cash Flows

a. Non-cash transactions in the operating and investing activities related to the proceeds from recuperated properties are detailed as follows:

<i>December 31,</i>	<b>2001 US\$</b>	<b>2000 US\$</b>
Non cash trade-in of common shares against recuperated properties	(1,101,860)	(1,849,866)
Cash proceeds from recuperation	<u>(3,659,497)</u>	<u>(1,140,477)</u>
Decrease in receivables from recuperated properties	<u>(4,761,357)</u>	<u>(2,990,343)</u>

b. Non-cash transactions in the operating activities relating to depreciation amounting to US\$468,638 were allocated to properties held for development and sale in the year 2001.

c. Non-cash transactions in the operating activities include off-setting an amount of US\$200,000 relating to accounts payable and other liabilities and properties held for development and sale in the year 2001.

d. Investment properties include non-cash transactions in the amount of US\$76,691,639 that represent transfers from properties held for development and sale in the year 2001.

### 23. Commitments and Contingencies

a. An agreement between the Company and the Council for Development and Reconstruction ("CDR") was promulgated through Decree No. 5665 dated September 21, 1994, duly approved by the Council of Ministers. By virtue of this agreement, the Company was granted 291,800 sqm of the reclaimed land surface (totaling 608,000 sqm) against the execution by the Company of the sea landfill and infrastructure works.

## Notes to the Financial Statements *for the year ended December 31, 2001*

- b. The total projected cost for completion of the BCD project has been estimated by management to be approximately US\$2 billion. This amount is used as a base for the determination of cost of sales.
- c. Commitments for contracted works not executed as of December 31, 2001 amounted to approximately US\$ 91 million.
- d. A lawsuit was raised in 1999 against the Company by the "CDR" claiming reimbursement of an amount of LL.5.4 billion (US\$3.6 million) plus interest. This balance represents payments previously made by the "CDR" in connection with the appraisal of the properties in the BCD area and other tender documents. On the basis of the advice received from the Company's legal advisor, the directors are of the opinion that this claim is not based on sound legal grounds. On the other hand, the Company had submitted to the "CDR" claims aggregating US\$13.6 million representing mainly change orders to infrastructure works in the traditional BCD which were incurred by the Company on behalf of the Government. These claims were not approved nor confirmed by the concerned party nor recorded as receivables in the accompanying financial statements.
- e. The Company is defendant in various legal proceedings and has litigations pending before the courts and faces several claims raised by contractors. On the basis of advice received from the external legal counsel and the Company's technical department, the directors are of the opinion that any negative outcome thereof, if any, would not have a material adverse effect on the financial condition of the Company.
- f. On June 7, 1997, the Company signed an exchange agreement with the Lebanese Government. By virtue of this agreement, the Company acquired additional built up area of approximately 58,000 sqm and 556,340 Class A shares in exchange for approximately 15,000 sqm and the payment of US\$38 million to restore governmental buildings. US\$25 million has already been paid and the balance of US\$13.7 million is included under accounts payable. According to the terms of the agreement, the Company undertook to build a governmental building and to conclude ten finance leases over seven years for certain buildings to the Lebanese Government. In 1999, the government canceled the exchange and finance lease agreement. The implementation and the effect of cancellation is not yet determined.
- g. In prior years, the Company submitted to the Ministry of Culture and Higher Education claims totaling US\$17.7 million representing compensation for delays that resulted from excavation works. These claims were not yet approved nor confirmed by the concerned authorities nor recorded as receivable in the accompanying financial statements.
- h. The Company has as of December 31, 2000 a stand-by letter of credit issued in favour of the contractor of the waste treatment project in the amount of US\$10.6 million, maturing on June 1, 2001.
- i. The Company has as of December 31, 2001 a stand-by letter of credit in the amount of US\$ 3,566,993 to be gradually decreased starting June 2007 to reach US\$ 3,035,622 in June 2011. This instrument is issued in guarantee of the US\$ 14.7 million US Export Import Bank of the United States facility. Throughout its life, this stand-by letter of credit shall be fully covered by a cash collateral.
- j. For the purpose of enhancing and improving land value in Zokak Al Blat area and to settle the recuperation of a lot in that area, the Board of Directors approved an agreement with the Armenian Orthodox prelacy to demolish the building on the recuperated lot and to transfer corresponding building rights to another adjacent lot with final maximum building rights of 13,000 sqm against ceding of owners' shares from both lots. The resulting effect of this agreement which is concluded in 2002 is a contingent loss to the company of approximately 5,000 sqm of building rights, in case the prelacy develops this lot within the next 10 years.

## 24. Related Party Transactions

The Company was engaged in certain transactions with directors on the board, mainly related to the following:

- a. Certain directors are members on the Boards of banks with whom the Company has various banking activities.
- b. As outlined in Note 12, management sold 7 million treasury shares at US\$ 7 per share with a sale back option at an average strike price of US\$8.4 per share. The option is to be exercised by the buyers within two to three years period subject to certain conditions. This transaction was partially executed with banks, whose directors are also directors of the Company's board, and with other major shareholders.

## 25. Financial Instruments

- a. Fair values of financial assets and liabilities:

The carrying book value of financial assets and liabilities are not materially different from their fair values applicable at the balance sheet date except for non-interest earning accounts receivable aggregating US\$11 million (US\$26.8 million in 2000) which are stated at face value pending formulation of maturity schedules. Management represents that these balances will be structured as interest earning financial assets in the course of year 2002 and net fair value presentation will be regularly assessed thereafter.

- b. Credit Risk:

The Company's credit risk is primarily attributable to its liquid funds and receivables. The amounts presented in the balance sheet are stated at net realizable value, estimated by the Company's management based on prior experience and the current economic environment.

The Company has no significant concentration of credit risk, with exposure spread over a number of counter-parties and customers.

- c. Interest Rate Risk:

The Company's interest rate risk arises from the possibility that changes in market interest rates will affect the value of interest earning assets and interest bearing liabilities.

- d. Liquidity Risk:

Liquidity risk is the risk that an institution 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 mitigate this risk, management is trying to refinance its current and future obligations.

## 26. Reclassifications

Certain 2000 account balances in the corresponding financial statements were reclassified to conform with current year presentation.