

Independent Auditors' Report

Deloitte.

 **ERNST & YOUNG**

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, 2003 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.

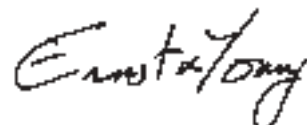
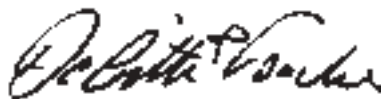
Accounts receivable include an amount of US\$12million representing a problematic receivable which may result in an impairment loss of approximately US\$6million. Had this impairment in accounts receivable been properly provided for in accordance with International Financial Reporting Standards (IFRS), net income and shareholders' equity would have decreased by US\$6million.

In our opinion, except for the effect of the matter mentioned above, the financial statements 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, 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
April 27, 2004

Deloitte & Touche

Ernst & Young



Balance Sheet			
<i>December 31,</i>		2003	2002
	<i>Notes</i>	US\$	US\$
Assets			
Cash and bank balances	3	89,700,337	75,609,160
Prepayments and other debit balances	4	12,629,518	13,022,751
Accounts and notes receivable, net	5	190,852,815	214,275,079
Properties held for development and sale, net	6	1,633,167,383	1,654,214,354
Investment properties, net	7	166,951,014	150,207,571
Fixed assets, net	8	20,283,276	21,228,558
Total Assets		2,113,584,343	2,128,557,473
Liabilities			
Accounts payable and other liabilities	9	64,300,720	106,560,350
Dividends payable	10	12,166,888	12,285,665
Deferred revenues and other credit balances	11	19,066,509	34,303,783
Deferred credits	12	35,911,930	6,012,000
Loans from banks and financial institutions	13	319,567,995	320,078,186
Total Liabilities		451,014,042	479,239,984
Shareholders' Equity			
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	30,454,144	28,810,948
Retained earnings		16,972,617	22,039,557
Change in fair value of interest rate swap agreement		(6,452,074)	(3,902,520)
Less: Treasury shares	10 & 16	(28,404,386)	(47,630,496)
Total Shareholders' Equity		1,662,570,301	1,649,317,489
Total Liabilities and Shareholders' Equity		2,113,584,343	2,128,557,473
<i>the accompanying notes form an integral part of this balance sheet</i>			

Statement of Income			
<i>December 31,</i>		2003	2002
	<i>Notes</i>	US\$	US\$
Net revenues from land and real estate sales	17	35,209,434	59,068,222
Net revenues from rented properties	18	9,620,108	8,336,716
Gain on sale of investment properties	7 & 17	749,394	-
Revenues from operations		45,578,936	67,404,938
General and administrative expenses	19	(9,237,392)	(9,287,770)
Depreciation	8	(1,101,733)	(1,065,570)
Total operating expenses		(10,339,125)	(10,353,340)
Net income from operations		35,239,811	57,051,598
Interest income		5,672,856	8,534,855
Interest expense	12 & 13	(23,675,550)	(24,920,498)
Cost of discounting notes receivable	5	(805,161)	(2,462,787)
Write back of provision for contingencies	9	-	2,937,000
Net income for the year		16,431,956	41,140,168
Basic earnings per share	20	0.1042	0.2646
<i>the accompanying notes form an integral part of these statements</i>			

Statement of Cash Flows		
<i>December 31,</i>		
<i>Notes</i>	2003 US\$	2002 US\$
Cash Flows From Operating Activities		
Net income for the year	16,431,956	41,140,168
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation	3,983,489	3,544,540
Gain on sale of investment properties	(749,394)	-
Cost of discounting notes receivables	805,161	2,462,787
Non cash sale transaction	-	(1,647,092)
Write back of provision for contingencies	-	(2,937,000)
Changes in assets and liabilities:		
Prepayments and other debit balances	393,233	(1,386,965)
Accounts and notes receivable	6,662,408	(45,384,572)
Properties held for development and sale	3,126,689	7,413,138
Accounts payable and other liabilities	(44,809,184)	16,174,078
Deferred revenues and other credit balances	(15,237,274)	22,705,771
Net cash (used in)/provided by operating activities	(29,392,916)	42,084,853
Cash Flows From Investing Activities		
Bank term deposits	(9,157,107)	8,780,208
Receivable from recuperated properties	163,577	(582,126)
Cash proceeds from recuperation of properties	-	387,006
Proceeds from sale of investment properties	4,775,018	-
Acquisition of fixed assets	(915,526)	(451,054)
Investment properties	(711,791)	(1,984,338)
Net cash (used in)/provided by investing activities	(5,845,829)	6,149,696
Cash Flows From Financing Activities		
Bank loans (settlements)	(510,191)	(23,386,534)
Dividends paid	(385,042)	(634,807)
Proceeds from discounting notes receivable	11,501,966	23,382,153
Deferred credits	29,899,930	(42,638,000)
Net settlements from treasury shares	(333,848)	(11,896)
Net cash provided by/(used in) financing activities	40,172,815	(43,289,084)
Net increase in cash and cash equivalents	4,934,070	4,945,465
Cash and cash equivalents—Beginning of the year	16,414,267	11,468,802
Cash and cash equivalents—End of the year	21,348,337	16,414,267
<i>the accompanying notes form an integral part of these statements</i>		

Statement of Changes in Shareholders' Equity						
	Share Capital US\$	Legal Reserve US\$	Treasury Shares US\$	Retained Earnings/ (Accumulated Losses) US\$	Change in Fair Value of Interest Rate Swap Agreement US\$	Total US\$
Balance at December 31, 2001	1,650,000,000	24,696,931	(59,346,898)	(1,874,622)	-	1,613,475,411
Effect of mark down of treasury shares - Note 16	-	-	13,111,972	(13,111,972)	-	-
Net income for the year	-	-	-	41,140,168	-	41,140,168
Allocation to legal reserve	-	4,114,017	-	(4,114,017)	-	-
Treasury shares activity	-	-	(1,395,570)	-	-	(1,395,570)
Change in fair value of interest rate swap agreement - Note 9	-	-	-	-	(3,902,520)	(3,902,520)
Balance at December 31, 2002	1,650,000,000	28,810,948	(47,630,496)	22,039,557	(3,902,520)	1,649,317,489
Effect of mark down of treasury shares - Note 16	-	-	230,150	(230,150)	-	-
Net income for the year	-	-	-	16,431,956	-	16,431,956
Allocation to legal reserve	-	1,643,196	-	(1,643,196)	-	-
Dividends - Note 10	-	-	19,359,285	(19,625,550)	-	(266,265)
Treasury shares activity	-	-	(363,325)	-	-	(363,325)
Change in fair value of interest rate swap agreement - Note 9	-	-	-	-	(2,549,554)	(2,549,554)
Balance at December 31, 2003	1,650,000,000	30,454,144	(28,404,386)	16,972,617	(6,452,074)	1,662,570,301
<i>the accompanying notes form an integral part of these statements</i>						

Notes to the Financial Statements *for the year ended December 31, 2003*

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, 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. An 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.

In accordance to Law No. 117/91, the Company is exempted from corporate income tax on profit for a period of 10 years from the date of establishment. Accordingly starting May 2004, the Company will be subject to corporate income tax.

The Company's shares are listed on the Beirut Stock exchange.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee.

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives.

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. 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.

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 the following annual rates:

Buildings	2%
Furniture, fixtures, equipment and other assets	9%-15%
Marina	2%

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and the carrying value exceeds the estimated recoverable amount, the investment properties are written down to their recoverable amount.

f. Fixed Assets:

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

Buildings	2%
Furniture and fixtures	9%
Freehold improvements	9%
Plant	10%
Machines and equipment	15%-20%

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and the carrying value exceeds the estimated recoverable amount, the fixed assets are written down to their recoverable amount.

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.

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.

Notes to the Financial Statements *for the year ended December 31, 2003*

- 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 under deferred revenues and other credit balances. Amounts are released to revenue as and when the above conditions are fulfilled.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable interest rate.

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. 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 part of treasury shares in equity.

k. 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.

l. 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.

The change in the fair value of the cash flow hedging instrument, that is determined to be an effective hedge within the range of 80% to 125%, is recognized directly in equity through the statement of changes in shareholders' equity.

m. Taxation:

In accordance with law No.117/91, the Company is exempted from corporate income tax on profit for a period of 10 years from the date of establishment and ending on May 5, 2004. However, the rental income is subject to property tax in accordance with the Lebanese law.

n. Provisions:

Provisions are recognized when the Company has a present obligation as a result of a past event whereby it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

o. End-of-Service Indemnity:

Staff end-of-service indemnity is computed in accordance with Lebanese laws.

3. Cash and Bank Balances

Cash and bank balances are composed of the following:

<i>December 31,</i>	2003	2002
	US\$	US\$
Cash on hand	108,883	80,450
Current accounts	21,239,454	16,333,817
	21,348,337	16,414,267
Term deposits	68,352,000	59,194,893
	89,700,337	75,609,160

Term deposits outstanding as of December 31, 2003 have an average yield of around 2.25% (2002: 1.5%), and mature in January 2004 (2002: mature in January 2003).

Term deposits include an amount of US\$30 million as of December 31, 2003 (US\$37million as of December 31, 2002) pledged against the loan provided to the Company and guaranteed by "COFACE" as explained in Note 13. It also includes deposits of US\$13.7million pledged against a stand-by letter of credit to the extent of about US\$3.5million and a local bank loan to the extent of US\$10.2million as explained under Note 13 and Note 23 (h).

For the purpose 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 are composed of the following:

<i>December 31,</i>	2003	2002
	US\$	US\$
Accrued interest income	5,867,842	5,669,762
Prepaid expenses	544,725	751,533
Advance payments to contractors	2,202,365	2,462,236
Employee advances	1,274,960	1,030,713
Other debit balances	2,739,626	3,108,507
	12,629,518	13,022,751

Other debit balances include 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, which are incorporated in Lebanon, is to acquire, construct, lease and manage real estate properties in the BCD.

5. Accounts and Notes Receivable, Net

Accounts and notes receivable are composed of the following:

<i>December 31,</i>	2003	2002
	US\$	US\$
Notes receivable	140,297,350	149,258,896
Accounts receivable	57,926,935	80,419,435
Receivables from tenants	10,917,458	5,566,139
Interest receivable on discounted notes	2,359,854	3,565,678
Less: Unearned interest	(16,312,672)	(17,973,959)
Less: Provision for problematic receivables	(4,336,110)	(6,561,110)
	190,852,815	214,275,079

Notes to the Financial Statements *for the year ended December 31, 2003*

The Company's credit risk exposure is spread over 73 counter-parties; 7 customers constitute 34% of the total exposure and 66 customers constitute the remaining 66% (2002: 88 counter-parties; 4 customers constitute 39% of the total exposure and 84 customers constitute the remaining 61%).

Notes receivable, which resulted mainly from sales (and recuperations of previous years), carry the following maturities as of December 31, 2003:

	US\$
Overdue	9,502,718
2004	45,354,844
2005	30,703,434
2006	27,423,832
2007	19,140,953
2008	7,874,207
2009 and thereafter	297,362
	<u>140,297,350</u>

The Company placed in custody of lending banks against short term facilities, as comfort collateral with no pledge, notes receivable in the amount of US\$19.5million as of December 31, 2003 (US\$15million as of December 31, 2002).

Receivables from tenants include an amount of US\$7,915,417 as of December 31, 2003 (2002: US\$3,721,435) due from the Ministry of the Foreign Affairs, relating to the year 2003 rent contract of the ESCWA building.

The provision for problematic receivables has been established to meet probable defaults of certain clients whose notes and accounts receivable aggregate to US\$7,878,144 as of December 31, 2003 (US\$11,440,644 as of December 31, 2002). During the year ended December 31, 2003, the Company utilized a provision of US\$2,225,000 (2002: US\$8,456,256) against cancelled sales contracts.

Movement in the provision for problematic receivables during the year was as follows:

	2003	2002
	US\$	US\$
Balance at the beginning of the year	6,561,110	15,017,366
Write-off of provision	(2,225,000)	(8,456,256)
Balance at the end of the year	<u>4,336,110</u>	<u>6,561,110</u>

During the year ended December 31, 2003, the Company signed an agreement to discount without recourse, notes receivable representing maturities of principal, having an aggregate face value of US\$12,680,730. The net proceeds from these transactions amounted to US\$11,501,966. Interest on some of these notes which remains due to the Company on the pre-determined maturity dates, having a present value of US\$750,931 at the date of the transactions, is still recognized under accounts and notes receivable. An amount of US\$427,833 representing the net cost of discounting was charged to the statement of income for the year ended December 31, 2003.

During the year 2003, the Company recomputed the fair value of the interest receivable balance relating to previously discounted notes and accounts receivables, which resulted in an additional cost of discounting of US\$377,328 charged to the statement of income.

During the year ended December 31, 2002, the company signed four agreements to discount without recourse, notes receivable representing maturities of principal, having an aggregate face value of US\$27,363,627. The net proceeds

from these transactions amounted to US\$23,382,153. Interest on some of these notes which remains due to the Company on the pre-determined maturity dates, having a present value of US\$1,518,687 at the date of the transactions, is still recognized under accounts and notes receivable. An amount of US\$2,462,787 representing the net cost of discounting was charged to the statement of income for the year ended December 31, 2002.

6. Properties held for Development and Sale, Net

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

<i>December 31,</i>	2003	2002
	US\$	US\$
Land and land development works, net (a)	1,504,841,907	1,517,639,697
Real estate development projects, net (b)	<u>128,325,476</u>	<u>136,574,657</u>
	<u>1,633,167,383</u>	<u>1,654,214,354</u>

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

<i>December 31,</i>	2003	2002
	US\$	US\$
Acquired properties (a.1)	956,205,579	955,301,133
Pre-acquisition costs (a.2)	9,412,802	9,412,802
Infrastructure costs (a.3)	594,430,695	574,986,518
Eviction costs (a.4)	259,913,068	259,591,080
Capitalized costs (a.5)	<u>51,540,645</u>	<u>49,029,956</u>
Cumulative costs	1,871,502,789	1,848,321,489
Less: Cost of land sold, net	(290,483,116)	(263,702,175)
Less: Cost of land transferred to real estate development projects	(71,888,653)	(66,979,617)
Less: Cost of infrastructure transferred to real estate development projects	<u>(4,289,113)</u>	<u>-</u>
	<u>1,504,841,907</u>	<u>1,517,639,697</u>

a.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\$255,012,147 were recuperated by original owners and properties appraised at US\$133,333,748 were not claimed for recuperation.

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

a.3 Infrastructure costs include an amount of US\$279million relating to the sea front defense and marina works, an amount of US\$137million relating to infrastructure works executed in the traditional BCD area, and an amount of US\$69million relating to the cost of land reclamation and treatment. It includes also the cost of an electricity power station in the amount of US\$42million, and other costs which relate mainly to demolition and archeology. This caption includes capitalized borrowing costs totaling US\$36,650,779 (US\$35,341,054 up to December 31, 2002). During the year ended December 31, 2003 borrowing costs of US\$1,309,725 were capitalized.

Notes to the Financial Statements *for the year ended December 31, 2003*

a.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 (a public authority). This caption is stated net of US\$21,798,862 (US\$21,816,442 in 2002) representing a 10% charge on recuperated properties appraised values collected from original owners other than religious and governmental recuperated properties.

a.5 Capitalized costs represent allocation of direct overheads. Costs capitalized during the year ended December 31, 2003 amounted to US\$4,000,902 (US\$3,228,897 during the year ended December 31, 2002). During 2003, an amount of US\$1,490,213 (US\$86,420 in 2002) was transferred to real estate development projects.

(b) Real estate development projects include the following:

<i>December 31,</i>	2003 US\$	2002 US\$
Construction and rehabilitation of buildings	289,372,750	264,214,398
Cost of land	71,888,653	66,979,617
Cumulative costs	361,261,403	331,194,015
Less: Cost transferred to investment properties, net	(170,668,955)	(147,729,923)
Cost transferred to fixed assets	(18,102,717)	(18,102,717)
Cost of real estate sold	(44,164,255)	(28,786,718)
	128,325,476	136,574,657

The cost of real estate development projects includes costs incurred in connection with the construction of a shopping mall in the amount of US\$57.6million and offices and residential complexes as of December 31, 2003.

7. Investment Properties, Net

Investment properties are composed of the following:

	Balance as at December 31 2002	Additions	Transfer From Properties Held for Development and Sale	Disposals and Sales	Balance as at December 31 2003
	US\$	US\$	US\$	US\$	US\$
Cost:					
Land	43,531,850	134,652	3,516,919	(1,373,798)	45,809,623
Buildings	111,868,831	544,403	14,959,359	(2,828,178)	124,544,415
Marina	-	-	4,289,113	-	4,289,113
Furniture, fixtures, equipment and other assets	3,082,629	32,736	173,641	-	3,289,006
	158,483,310	711,791	22,939,032	(4,201,976)	177,932,157
Accumulated Depreciation:					
Buildings	6,975,612	2,480,248	-	(176,352)	9,279,508
Marina	-	84,112	-	-	84,112
Furniture, fixtures, equipment and other assets	1,300,127	317,396	-	-	1,617,523
	8,275,739	2,881,756	-	(176,352)	10,981,143
Net Book Value	150,207,571				166,951,014

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

During the year 2003, the Company sold several properties having an aggregate net book value of US\$4,025,624 for total proceeds of US\$4,775,018 which resulted in a gain of US\$749,394 recorded in the income statement.

The fair value of the investment properties is estimated at around US\$189 million based on current market prices (2002: US\$170 million).

8. Fixed Assets, Net

Fixed assets are composed of the following:

	Balance as at December 31, 2002	Additions	Balance as at December 31, 2003
	US\$	US\$	US\$
Cost:			
Land and buildings	13,840,664	505,918	14,346,582
Furniture and fixtures	1,985,221	7,372	1,992,593
Freehold improvements	2,625,350	50,076	2,675,426
Plant	1,853,266	-	1,853,266
Machines and equipment	9,548,162	352,161	9,900,323
	29,852,663	915,527	30,768,190
Accumulated Depreciation:			
Buildings	771,753	188,468	960,221
Furniture and fixtures	1,205,767	178,670	1,384,437
Freehold improvements	1,059,559	236,282	1,295,841
Plant	555,751	185,327	741,078
Machines and equipment	5,031,275	1,072,062	6,103,337
	8,624,105	1,860,809	10,484,914
Net Book Value	21,228,558		20,283,276

The depreciation for the year ended December 31, 2003 was split between an allocation to properties held for development and sale and a charge to the statement of income of US\$759,076 and US\$1,101,733 respectively.

9. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of the following:

<i>December 31,</i>	2003 US\$	2002 US\$
Notes Payable	1,983,859	7,983,859
Accounts payable	41,549,806	81,744,530
Accrued disputed claims	1,000,000	1,000,000
Accrued charges and other credit balances	5,914,788	6,520,449
Accrued interest	5,908,236	4,097,382
Provision for end-of-service indemnity	1,509,263	1,216,610
Liability under interest rate swap agreement	6,434,768	3,997,520
	64,300,720	106,560,350

Notes to the Financial Statements *for the year ended December 31, 2003*

Notes payable outstanding as of December 31, 2003 are due to a contractor and are payable in the first half of the 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, 2003 and 2002 include balances in the aggregate amount of US\$13.8million due to the Lebanese Government in consideration of the exchange of assets agreement explained in Note 23(f).

Accrued charges and other credit balances as of December 31, 2003 include an amount of US\$2.1million representing proceeds received in respect of a performance bond executed against a contractor for improper performance of contracted works under arbitration. As the outcome of the subject arbitration is not yet certain and since the final resolution of the executed performance bond is associated with this arbitration, a liability was recognized against the cash proceeds.

On December 21, 2001, the Company entered into a 5 year interest rate swap agreement on a notional amount of US\$100million with a local arranger bank calling for the payment and receipt of interest at predetermined rates which were to be set up at the beginning of each of the 5 years. This instrument was designated to hedge the Libor rate fluctuations on the US\$100million term loan. During the first and second periods ending December 21, 2002 and 2003, the interest rate to be paid was Libor + 2% (4.39% and 3.58%, respectively) and interest rate to be received by the Company was 5% and 4.95% respectively. Interest rates to be paid by the Company were 4%, 5% and 6% for the three remaining years while interest rates to be received for the three remaining years were to be determined up-front on December 21 of each year based on the fluctuation of the Libor rate at that time.

On May 14, 2003, to hedge itself against further downward moves in Libor interest rates over the coming 3 years, the Company amended the hedging strategy by purchasing a 3 year interest rate floor for a notional amount of US\$42million. The cost to purchase this interest rate floor was US\$1.4million deducted from the liability under swap agreement.

On December 1, 2003, the Company restructured the swap agreement whereby it replaced the previous agreement by entering into a 3 year interest rate swap agreement effective December 15, 2003 on a notional amount of US\$100million. This agreement calls for the receipt and payment of interest at rates which are to be set up at the beginning and at the end of each of the 3 years, respectively. During the three year period of the agreement, the interest rate to be received is 12-month Libor set up at the beginning of each period (in advance), and the interest rate to be paid is 12-month Libor set up at the end of each period (in arrears) plus 1.4%.

As at December 31, 2003, 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\$6,452,074 (US\$3,902,520 as of December 31, 2002). The change in valuation which amounted to US\$2,549,554 was charged to the "Change in fair value of interest rate swap agreement" under shareholders' equity.

10. Dividends Payable

The breakdown of dividends payable is summarized as follows:

<i>December 31,</i>		2003			2002
General Assembly Date	Dividend per Share US\$	Declared US\$	Paid US\$	Payable US\$	Payable US\$
June 29, 1996	0.20	30,918,413	28,396,422	2,521,991	2,610,463
June 30, 1997	0.25	40,367,172	36,236,146	4,131,026	4,272,590
June 29, 1998	0.25	39,351,753	34,093,570	5,258,183	5,402,612
June 23, 2003	stock dividend			255,688	-
				<u>12,166,888</u>	<u>12,285,665</u>

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

The shareholders' ordinary general assembly held on June 23, 2003 declared a stock dividend of 1 share for each 40 shares to be distributed, to the registered shareholders as at June 23, 2003, from the Company's class (A) treasury shares portfolio. Accordingly, 3,871,857 (A) shares were distributed for a total value of US\$19.4million (at market price). Undistributed shares and fraction shares dividends amounted to US\$255,688 as of December 31, 2003.

11. Deferred Revenues and Other Credit Balances

Deferred revenues consist of the following:

<i>December 31,</i>	2003 US\$	2002 US\$
Cash down payments on sale contracts	13,485,684	29,220,300
Deferred rental revenue and related deposits	<u>5,580,825</u>	<u>5,083,483</u>
	<u>19,066,509</u>	<u>34,303,783</u>

Cash down payments on sale contracts amounting to approximately US\$12million relate to 18 sale contracts with an aggregate potential gross sales value of US\$102million. This caption also includes down payments totaling US\$1.7million on sale of units in the shopping mall project corresponding to a potential gross sales value of US\$33million.

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

12. Deferred Credits

The Company sold on April 3, 2002 to a local financial institution, 1,004,004 shares (607,212 "A" shares and 396,792 "B" shares) from treasury shares with a sale back option for a total consideration of US\$6,011,930 at US\$6 per share, which includes an option premium of \$0.987 per share. The sale back option can be exercised at a strike price of US\$7.10 per share after 3 years subject to certain conditions specified in the sale contracts. The strike price represents the selling price plus accumulated interest. Until such time as the Company's commitment to buy back these shares lapse, the proceeds will be reflected as deferred credit.

The Company sold on February 24, 2003, 600,000 shares (360,000 "A" shares and 240,000 "B" shares) from treasury shares with a sale back option for a total consideration of US\$3.9million at US\$6.50 per share. The sale back option can be exercised at a strike price of US\$7.61 per share after 3 years subject to certain conditions specified in the sale contract. The strike price represents the selling price plus accumulated interest. Until such time as the Company's commitment to buy back these shares lapse, the proceeds will be reflected as deferred credit.

The Company sold on June 27, 2003 to a local financial institution, 4,000,000 shares (2,600,000 "A" shares and 1,400,000 "B" shares) from treasury shares with a sale back option for a total consideration of US\$26million at US\$6.50 per share. The sale back option can be exercised at a strike price of US\$7.63 per share in the period starting on January 1, 2005 and ending on December 14, 2005, to be paid after one year from this date, subject to certain conditions specified in the sale contract. The strike price represents the selling price plus accumulated interest. Until such time as the company's commitment to buy back these shares lapse, the proceeds will be reflected as deferred credits.

Interest in the amount of US\$1,760,839 has been accrued on the above deferred credits up to December 31, 2003 (US\$276,835million up to December 31, 2002).

Notes to the Financial Statements *for the year ended December 31, 2003*

13. Bank Loans

Bank loans consists of the following:

<i>December 31,</i>	2003 US\$	2002 US\$
Short term local bank loan (US\$20million)	16,000,000	-
Short term local financial institution facility	10,171,250	-
Local bank loan (US\$50million)	-	4,000,000
Foreign bank loan (US\$10million)	-	5,000,000
Two syndicated loans (US\$100million each)	200,000,000	200,000,000
"COFACE" guaranteed loan	61,309,715	76,637,142
Syndicated loan (US\$22million)	11,574,103	16,203,744
Local bank loan (US\$10million)	7,909,837	6,779,298
Loan guaranteed by Export - Import Bank of the United States	12,603,090	11,458,002
	<u>319,567,995</u>	<u>320,078,186</u>

Maturities of the bank loans during the next six years ending December 31 are as follows:

	<u>US\$</u>
First half 2004	25,978,534
Second half 2004	22,201,078
2005	24,059,655
2006	221,744,835
2007	19,430,015
2008	4,102,586
2009	2,051,292
	<u>319,567,995</u>

Short Term Local Bank Loan:

On April 8, 2003 the Company entered into a short term loan agreement with a local bank for an amount of US\$20million to be withdrawn in multiples of US\$2million between March 31, 2003 and September 30, 2003, and to be repaid in three, six or nine months from withdrawal date. This short term loan is subject to an interest rate of 3 month Libor +3.5% (with a floor of 6.75%). Three amounts of US\$6million, US\$4million and US\$10million were drawn on March 31, 2003, June 30, 2003 and August 14, 2003, respectively. The repayments of drawn amounts are matched with maturities of promissory notes from sale transactions. These notes are placed with the bank as comfort collateral with no pledge. On December 30, 2003, the Company settled US\$4million from the withdrawn amounts. Moreover, under the terms of the loan contract, the Company is required to maintain a debt to equity ratio of no more than 25% and to maintain net tangible assets of a minimum of US\$1billion.

Short Term Local Financial Institution Facility:

During 2003, the Company signed three promissory notes in the amounts of US\$10,201,667, US\$5,099,167 and US\$10,513,750 which mature on August 14, 2003, September 12, 2003 and July 2, 2004, respectively. These notes bear a weighted average interest rate of 6.34% per annum. The remaining balance as of December 31, 2003 consists of the unmatured note in the amount of US\$10,513,750 which reflects net deferred interest in the amount of US\$342,500.

Local Bank Loan:

On September 17, 1998, the Company entered into a 5 year loan agreement with a local bank for an amount of US\$50million 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\$15,288,423 as of December 31, 2002. This loan was fully settled in the first half of year 2003.

Foreign Bank Loan:

On April 15, 1999 the Company entered into a 4 year loan agreement with a foreign bank for an amount of US\$10million payable in two equal installments in April 2002 and 2003. Accordingly, this loan was fully settled in the first half of year 2003. This loan was subject to an average interest rate of around 7.5% approximately, 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.

Two Syndicated Loans:

On April 2, 1998 the Company entered into a 5 year loan agreement with a syndicate of local banks for an amount of US\$100million payable in April 2003 (subject to voluntary full prepayment clause). This loan was 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. To refinance this loan, the Company entered on January 16, 2003 into a three year loan agreement with a syndicate of local banks for an amount of US\$100million payable in April 2006. This loan is subject to interest at the rate of 3 month Libor + 4.25% (with floor of 7.5%) payable quarterly.

On December 14, 1998 the Company entered into a 5 year loan agreement with a syndicate of local banks for an amount of US\$100million payable in December 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%. To refinance this loan, the Company entered on December 1, 2003 into a three year loan agreement with a syndicate of banks for an amount of US\$100 million payable in December 2006. This loan is subject to interest at the rate of 3-month Libor + 4.25% (with floor of 7.5%) payable quarterly.

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 1million square meter of built-up-area free from any security to third party and to maintain net tangible assets of a minimum of US\$1billion.

"COFACE" Guaranteed Loan:

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\$107.3million of which US\$7.3million 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\$7.66million each were settled in year 2003 and two payments in the amounts of US\$15.3million each were settled in years 2002 and 2001. Under the terms of the loan contract, the Company is required to maintain a pledged deposit of US\$23.6million 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 minimum balance of US\$75million of cash and cash equivalents (as defined by the lending bank).

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\$30million 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\$37million. This pledged deposit was reduced to US\$30million after that date, when the debt to equity ratio went back to 20%.

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

Notes to the Financial Statements *for the year ended December 31, 2003*

Syndicated Loan:

On March 21, 2000 the Company signed a 6 year loan agreement with a syndicate of banks for an amount of US\$22million. This loan can be drawn up to June 29, 2002 (extended to December 29, 2002). Total withdrawals up to December 31, 2003 and December 31, 2002 amounted to US\$20,260,624. This loan is repaid in 9 equal semi-annual installments. The first installment in the amount of US\$4,056,881 was due on June 30, 2002; however, it was postponed to December 29, 2002 and settled on that date. The second and third installments in the amount of US\$2,314,820 each were paid in June 30 and December 29, 2003 and thus the balance of the loan amounted to US\$11,574,103 as at December 31, 2003. This loan is subject to an interest rate of 3 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%, maintain tangible assets of a minimum of US\$1billion and maintain accounts and notes receivable of not less than US\$75million free from any liens, assignments or similar charges. In addition, the Company should maintain the number of treasury shares below 11,610,000 shares.

Local Bank Loan:

In July 2001, a complementary loan agreement in the amount of US\$10million was signed with a resident foreign bank. An amount of US\$6,779,298 had been drawn up to December 31, 2002. On July 11, 2003, an additional amount of US\$1,130,539 was drawn, thus increasing the total amount drawn to US\$7,909,837 as of December 31, 2003. 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\$1billion free from any liens including permitted liens.

Loan Guaranteed by Export - Import Bank of the United States:

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. An amount of US\$11,458,002 had been drawn up to December 31, 2002. On August 11, 2003, an additional amount of US\$1,145,089 was drawn, thus increasing the total amount drawn to US\$12,603,091 as of December 31, 2003. 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\$30million and the number of treasury shares should not exceed 10,131,829 shares or US\$76million in aggregate.

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 represent capital subscription in cash and are all issued and fully paid.

As of December 31, 2003 and December 31, 2002, the Company had 8,870,000 "A" shares listed on the London Stock Exchange in the form of Global Depository Shares (GDS).

15. Legal Reserve

In conformity with the Company's articles of incorporation and the Lebanese Code of Commerce, 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 5,767,727 class (A) and (B) shares (9,583,339 shares as of December 31, 2002), of which 5,604,004 shares are subject to an option as described in note 12.

The treasury shares outstanding as of December 31, 2003 were marked to market. The resulting loss of US\$230,150 for the year ended December 31, 2003 was debited to retained earnings (loss of US\$13,111,972 for the year ended December 31, 2002).

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 for a period exceeding eighteen months as of December 31, 2003 amounted to 53,818 shares.

The number of treasury shares held by the Company as of December 31, 2003 and 2002 are broken down as follows:

December 31,	Shares in thousands	
	2003	2002
Shares acquired through trading activities:		
Shares held for less than 18 months	104	389
Shares held for over 18 months	54	4,532
Shares subject to a sale back option (Note 12)	5,604	1,004
	5,762	5,925
Shares reverting to the Company from recuperated properties	6	3,658
Total number of treasury shares	5,768	9,583

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.

17. Net Revenues from Land and Real Estate Sales

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

December 31,	2003	2002
	US\$	US\$
Sales of land	67,117,187	122,134,524
Sales of real estate properties	15,081,913	6,767,565
Less: Cost of land sales	(30,023,874)	(62,571,015)
Cost of real estate properties sales	(15,437,217)	(5,482,852)
Net result of cancellation of sales	(1,528,575)	(1,780,000)
	35,209,434	59,068,222

Notes to the Financial Statements *for the year ended December 31, 2003*

The loss on cancellation of sales represent the net profit on previously recognized sale transactions which were cancelled during the years ended December 31, 2003 and 2002, as a result the built up area related to these transactions reverted back to the Company.

During the year 2003, the Company sold several apartments from its investment properties, which resulted in a gain of US\$749,394 as disclosed in Note 7.

18. Net Revenues from Rented Properties

Net revenues from rented properties include the following:

<i>December 31,</i>	2003 US\$	2002 US\$
Rent	15,444,652	14,080,743
Less: Depreciation expense	(2,881,756)	(2,478,969)
Real estate taxes	(2,277,406)	(2,022,468)
Maintenance and other related expenses, net	(1,521,477)	(1,210,589)
	8,764,013	8,368,717
Other related income/(expense), net	856,095	(32,001)
	<u>9,620,108</u>	<u>8,336,716</u>

19. General and Administrative Expenses

General and administrative expenses is composed of the following:

<i>December 31,</i>	2003 US\$	2002 US\$
Salaries, benefits and related charges	5,611,159	5,605,125
Board of directors' remunerations	144,000	144,000
Administrative expenses	3,482,233	3,538,645
	<u>9,237,392</u>	<u>9,287,770</u>

The head-count of the Company as of December 31, 2003 was 273 (275 as of December 31, 2002).

In addition to the above, salaries, benefits and related charges in the aggregate of US\$3.6 million were reallocated to cost during 2003 (US\$3.2 million in 2002).

20. Earnings per Share

The computation of earnings per share is based on net income for the year and the weighted average number of outstanding class (A) and (B) shares during each period net of treasury shares held by the Company.

The weighted average number of shares to compute basic earnings per share is 157,647,122 shares in 2003 and 155,452,260 shares in 2002.

21. 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>	2003 US\$	2002 US\$
Non cash trade-in of common shares against recuperated properties	(29,476)	(86,582)
Increase in receivables from recuperated properties	163,577	582,126
Cash proceeds from recuperation	-	(387,006)
Increase in receivables from recuperated properties	<u>134,101</u>	<u>108,538</u>

b. Depreciation was applied as follows:

<i>December 31,</i>	2003 US\$	2002 US\$
Depreciation of fixed assets - Note 8	1,860,809	1,250,896
Depreciation of investment properties - Note 7	2,881,756	2,478,969
Less: Depreciation allocated to the cost of property held for development and sale	(759,076)	(185,325)
Depreciation expense for the year	<u>3,983,489</u>	<u>3,544,540</u>

c. Non-cash transactions include change in fair value of interest rate swap agreement in the amount of US\$2,549,554 presented in the shareholders' equity caption and accounts payable and other liabilities caption for the year ended December 31, 2003.

d. Non-cash transactions in the financing activities include dividends distributed from the Company's treasury shares in the amount of US\$19,359,285 during the year ended December 31, 2003.

e. Non-cash transactions in the operating and investing activities include a transfer of an amount of US\$22,939,032 from properties held for development and sale to investment properties during the year ended December 31, 2003.

f. Non-cash transactions in the operating activities include sales of built up area for an amount of US\$1,647,092 against treasury shares during the year ended December 31, 2002.

22. Related Party Transactions

Certain directors are members on the Boards of banks with whom the Company has various banking activities.

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, 2003*

- b. The total projected cost for completion of the BCD project has been estimated by management to be approximately US\$2billion. 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, 2003 amounted to approximately US\$76,646,333million.
- d. A lawsuit was raised in 1999 against the Company by the "CDR" claiming reimbursement of an amount of LL.5.4billion (US\$3.6million) 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\$13.6million 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 neither approved nor confirmed by the concerned party nor recorded as receivables in the accompanying financial statements.
- e. The Company is a 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 58,000m² and 556,340 Class A shares in exchange for approximately 15,000m² and the payment of US\$38million to restore governmental buildings. US\$25million has already been paid and the balance of US\$13.7million 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\$17.7millions representing compensation for delays that resulted from excavation works. These claims were not yet approved nor confirmed by the concerned authorities nor recorded as receivables in the accompanying financial statements.
- h. The Company has as of December 31, 2003 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\$14.7million 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.
- i. 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 Company signed 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 minimum building rights of 4,900m² against ceding of owners' shares from both lots. Additionally, a built up area of 5,335m² remains as a contingent loss to the Company in case the prelacy decides to build this area within the next 10 years.
- j. During 2003, the Company entered into a dispute with one of its contractors regarding what the Company considered to be a defect in the land remediation works performed by the contractor. The contractor denied this issue and

commenced an arbitration in relation to this matter on May 19, 2003. In his request for arbitration, the contractor sought a non-monetary relief that there is no defect in the works it performed, and made monetary claims against the Company in the total amount of US\$1,079,533, in addition to claiming for the payment of its legal and other costs incurred in connection with the arbitration for an amount of US\$2,226,569. On the other hand, the Company made counter claims for non-monetary relief that there exists a defect in the works performed by the contractor and claimed for the payment of its legal and other costs incurred in connection with the arbitration for an amount of US\$3,004,711. The legal counselors representing the Company in the arbitration believe that the Company has meritorious claims but are unable to ascertain what the eventual outcome of the arbitration will be.

24. 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.

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 conditions.

The Company credit risk exposure is spread over 73 counter-parties; 7 customers constitute 34% of the total exposure and 66 customers constitute the remaining 66%.

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. The Company had started since the end of the year 2000 considering various options to reschedule or refinance the US\$100million bullet loans that matured in April of 2003 and the US\$100million that matured in December of 2003. The Board had discussed various proposals, which were received from the existing and potential lenders, and made a decision to reschedule and refinance these loans. During the year 2003, the Company refinanced these loans through other loans that mature in April 2006 and December 2006.

25. Reclassifications

Certain 2002 account balances in the corresponding financial statements were reclassified to conform with current period presentation.

26. Approval of Financial Statements

The Board of Directors approved the financial statements for the year ended December 31, 2003 on March 26, 2004.