

Registration No. 1505579

**Registered Office:
13 George Street
London
W1U 3QJ**

NBK INVESTMENT MANAGEMENT LIMITED

Report and Accounts

31 December 2004

**Ernst & Young LLP
1 More London Place
London
SE1 2AF**



NBK INVESTMENT MANAGEMENT LIMITED

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NBK INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 2004.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$411,012 (2003: \$1,012,023 profit).

During the year, dividends of \$2,000,000 were paid (2003: \$Nil).

The \$1,588,988 loss (2003: \$1,012,023 profit) will be carried to reserves.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of NBK Investment Management Limited (the "Company") is the management of private, corporate and institutional investment portfolios and the provision of investment advisory services. The Company is authorised and regulated by the Financial Services Authority. Both the level of business during the year and the financial position at the end of year were satisfactory. No significant changes in the Company's principal business activity are anticipated.

The Company's ultimate parent undertaking and controlling entity is National Bank of Kuwait SAK.

The profit and loss account for the year is set out on page 4.

DIRECTORS

The following Directors held office throughout the year (except where otherwise shown):

- S K Al-Bahar
- S Y Al-Fulaij (appointed 23 June 2004)
- M Green (appointed 24 May 2004)
- P J W Harrison
- D J Herbert (appointed 23 June 2004)
- G Y A Nasra
- I Al-Sagar (Chairman)
- S Russo (resigned 24 May 2004)

DIRECTORS' INTERESTS

The Directors had no disclosable interests in the share and loan capital of the Company or any other body corporate in the same group at the beginning of the year, at the date of their appointment during the year, or at the end of the year.

AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office as auditors of the Company and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

NBK INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board on

Dimiter Hristov

31 March 2005

Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NBK INVESTMENT MANAGEMENT LIMITED

We have audited the Company's financial statements for the year ended 31 December 2004, which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement and related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report for the above year and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

Date: 31 March 2005

NBK INVESTMENT MANAGEMENT LIMITED

PROFIT & LOSS ACCOUNT

For the year ended 31 December 2004

	Note	2004 \$	2003 \$
REVENUE	2, 3	4,810,107	6,048,091
Staff Costs	4	(665,687)	(603,998)
Other operating charges		<u>(3,984,511)</u>	<u>(4,464,920)</u>
OPERATING PROFIT	5	159,909	979,173
Income from shares in subsidiary undertakings		280,000	359,000
Other interest receivable and similar income	7	45,248	39,448
Foreign exchange gain/(loss)		<u>27,051</u>	<u>(22,537)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		512,208	1,355,084
Tax on profit on ordinary activities	8	<u>(101,196)</u>	<u>(343,061)</u>
PROFIT FOR THE FINANCIAL YEAR		411,012	1,012,023
Dividends on ordinary shares	9	<u>(2,000,000)</u>	<u>-</u>
(LOSS)/PROFIT RETAINED FOR THE FINANCIAL YEAR		<u>(1,588,988)</u>	<u>1,012,023</u>

All operations were continuing in the current and prior year.

A reconciliation of the movement in shareholders' funds has been prepared in note 15 to the accounts.

The notes on pages 7 to 14 form an integral part of the accounts.

Statement of Total Recognised Gains and Losses

There were no recognised gains or losses during the current year or prior year other than those disclosed above. Accordingly, no statement of total recognised gains and losses has been prepared.

NBK INVESTMENT MANAGEMENT LIMITED

BALANCE SHEET 31 December 2004

	Note	2004 \$	2003 \$
FIXED ASSETS			
Investments	10	40,300	40,300
CURRENT ASSETS			
Debtors	11	2,104,236	3,705,668
Cash at bank		<u>2,768,151</u>	<u>3,664,640</u>
		4,872,387	7,370,308
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors	13	<u>(1,471,305)</u>	<u>(2,380,238)</u>
NET CURRENT ASSETS		3,401,082	4,990,070
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,441,382</u>	<u>5,030,370</u>
CAPITAL AND RESERVES			
Called up share capital	14	1,948,908	1,948,908
Profit and loss account	15	<u>1,492,474</u>	<u>3,081,462</u>
EQUITY SHAREHOLDERS' FUNDS		<u>3,441,382</u>	<u>5,030,370</u>

These accounts were approved by the Board on

Signed on behalf of the Board

Domènec Hübner 31 March 2005
Director

The notes on pages 7 to 14 form an integral part of the accounts.

NBK INVESTMENT MANAGEMENT LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2004

	Note	2004 \$	2003 \$
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	16	852,408	(107,345)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		45,248	39,448
Dividends received from subsidiary undertaking		280,000	359,000
Foreign exchange		27,051	(22,537)
TAXATION		(101,196)	(1,722)
EQUITY DIVIDENDS PAID		(2,000,000)	-
(DECREASE)/INCREASE IN CASH		(896,489)	266,845
RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET FUNDS			
(DECREASE)/INCREASE IN CASH IN THE YEAR		(896,489)	266,845
NET FUNDS AS AT 1 JANUARY 2004		3,664,640	3,397,795
NET FUNDS AS AT 31 DECEMBER 2004	17	2,768,151	3,664,640

NBK INVESTMENT MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

1. ACCOUNTING POLICIES

a) Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable United Kingdom company law and accounting standards.

b) Functional currency

The accounts are prepared in US dollars, the currency of the primary economic environment in which the Company operates.

c) Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the balance sheet date. Transactions in currencies other than US dollars are recorded at the rates ruling at the dates of the transactions. All translation differences are taken through the profit and loss account.

d) Fixed asset investments

Fixed asset investments are stated at cost, less provision for any impairment.

e) Taxation

UK corporation tax is provided at amounts expected to be paid / recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Full provision has been made for deferred tax assets and liabilities arising from timing differences. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

f) Netting

All assets and liabilities have been disclosed gross unless the Company's ability to insist on net settlement is assured beyond doubt.

2. REVENUE

Net revenue represents fees and commissions receivable for investment management, custody, transaction and performance services supplied by the Company and is stated after deduction of value added tax.

3. SEGMENTAL REPORTING

The Directors are of the opinion that it would be seriously prejudicial to the interests of the Company to give separate disclosure in respect of each geographical market within which it operates. The Company has only one class of business, as described in the Directors' Report.

NBK INVESTMENT MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

4. STAFF COSTS

	2004 \$	2003 \$
Wages and salaries	563,392	506,227
Social security costs	48,451	50,252
Pension costs	53,844	47,519
	<u>665,687</u>	<u>603,998</u>

The Company employed seven staff during the year (2003: six). Five employees are seconded by National Bank of Kuwait (International) PLC and two employees are seconded by Morgan Stanley UK Limited.

5. OPERATING PROFIT

	2004 \$	2003 \$
Operating profit is stated after charging :		
Auditors' remuneration - audit fees	<u>16,491</u>	<u>16,052</u>

6. DIRECTORS' EMOLUMENTS

The Company had eight directors who held office at some point during the year ended 31 December 2004 (2003: five), none of whom received any remuneration or other emoluments from the Company (2003: nil).

The Company paid no remuneration to its directors during the year but incurred management charges in respect of directors' services provided to the Company. The management charges for these services are included within the management charges disclosed in note 19.

7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 \$	2003 \$
Bank interest receivable	<u>45,248</u>	<u>39,448</u>

NBK INVESTMENT MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS For the year ended 31 December 2004

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the year

	2004 \$	2003 \$
UK corporation tax at 30% (2003: – 30%)		
- Current year	177,556	434,904
- Adjustment in respect of prior years	(197)	-
	<u>177,359</u>	<u>434,094</u>
Double taxation relief		
- Current year	(76,201)	(91,083)
	<u>101,158</u>	<u>343,011</u>
Total current tax	101,158	343,011
Deferred taxation		
- Current year	38	50
	<u>101,196</u>	<u>343,061</u>
Tax on profit on ordinary activities	101,196	343,061

Factors affecting the tax charge for the year

The current year UK taxation charge is lower than that resulting from applying the standard UK corporation tax rate of 30% (2003:30%). The main differences are explained below:

	2004 \$	2003 \$
Profit on ordinary activities before tax	<u>512,208</u>	<u>1,355,084</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	153,662	406,525
Effects of:		
Expenses not deductible for tax purposes	1,072	294
Capital allowances for the year in excess of depreciation	(38)	(50)
Tax gross-ups on overseas dividends received	22,860	27,325
Underlying tax relief on overseas dividends received	(76,201)	(91,083)
Prior year adjustment	(197)	-
	<u>101,158</u>	<u>343,011</u>
Current tax charge for the year	101,158	343,011

NBK INVESTMENT MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS For the year ended 31 December 2004

9. DIVIDENDS

	Date of payment	2004 \$	2003 \$
Dividends on 'A' ordinary shares	2 June 04	1,200,000	-
Dividends on 'B' ordinary shares	2 June 04	800,000	-
		<u>2,000,000</u>	<u>-</u>

10. FIXED ASSET INVESTMENTS

Year ended 31 December 2004	Subsidiary undertakings \$
Cost	
At 1 January 2004 and 31 December 2004	<u>40,300</u>

The Company's unlisted investment in subsidiary undertakings consists of a 100% holding in the ordinary shares of NBK Investment Management (Jersey) Limited, an investment management company registered in Jersey. NBK Investment Management (Jersey) Limited is a provider of Investment Management Services..

Consolidated accounts are not produced, since the Company itself is a subsidiary of NBK Overseas (London) Limited, a company registered in England & Wales, which will prepare consolidated accounts for the year to 31 December 2004.

The Directors are of the opinion that the aggregate value of the subsidiary's assets is not less than the amount at which they are included in the accounts.

11. DEBTORS

	2004 \$	2003 \$
Trade Debtors from external counterparties	1,972,736	3,609,092
Amounts due from group undertakings	102,925	95,655
Deferred taxation (see note 12)	111	149
Prepayments and accrued income	28,464	772
	<u>2,104,236</u>	<u>3,705,668</u>

NBK INVESTMENT MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

12. DEFERRED TAX

Deferred tax has been fully recognised and is analysed as follows:

	2004 \$	2003 \$
Accelerated capital allowances	111	149

The movement in deferred tax asset during the year is analysed as follows:

	\$
At 1 January 2004	149
Current year timing differences	(38)
At 31 December 2004	<u>111</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 \$	2003 \$
Amounts owing to group undertakings	1,204,224	1,900,132
Corporation tax	42,961	313,714
Accruals and deferred income	<u>224,120</u>	<u>166,392</u>
	<u>1,471,305</u>	<u>2,380,238</u>

NBK INVESTMENT MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

14. CALLED UP SHARE CAPITAL

	2004 \$	2003 \$
Authorised:		
Equity shares		
3,000,000 'A' ordinary shares of £0.39 each	1,170,000	1,170,000
2,000,000 'B' ordinary shares of £0.39 each	780,000	780,000
	<u>1,950,000</u>	<u>1,950,000</u>
 Allotted and fully paid:		
Equity shares		
1,860,000 'A' ordinary shares of £0.39 each	1,169,345	1,169,345
1,240,000 'B' ordinary shares of £0.39 each	779,563	779,563
	<u>1,948,908</u>	<u>1,948,908</u>

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up.

The A and B shares rank pari passu in all respects, other than those listed below, but constitute separate share classes.

A Shareholders' rights

- Majority can appoint/remove up to 6 A Directors
- Cannot vote on removal of a Director appointed by any other class
- Chairman shall be an A Director

B Shareholders' rights

- Majority can approve/remove up to 4 B Directors
- Cannot vote on removal of a Director appointed by any other class
- Class consent required before any variation of rights can be voted at a general meeting.

The general meeting quorum requires at least one A and one B shareholder, and the Board quorum requires at least one A and one B Director.

NBK INVESTMENT MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital \$	Profit and loss account \$	Total \$
At 1 January 2003	1,948,908	2,069,439	4,018,347
Profit for the year	-	1,012,023	1,012,023
At 1 January 2004	1,948,908	3,081,462	5,030,370
Profit for the year	-	411,012	411,012
Dividends paid	-	(2,000,000)	(2,000,000)
At 31 December 2004	1,948,908	1,492,474	3,441,382

16. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004 \$	2003 \$
Operating profit/(loss)	159,909	979,173
Decrease/(Increase) in debtors	1,601,432	(1,936,192)
(Decrease)/Increase in creditors	(908,933)	849,674
	852,408	(107,345)

17. ANALYSIS OF CHANGES IN NET FUNDS

	2004 \$	2003 \$
Cash at bank as at 1 January 2004	3,664,640	3,397,795
Cash at bank as at 31 December 2004	2,768,151	3,664,640
Cash flows	(896,489)	266,845

NBK INVESTMENT MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

18. PENSIONS

The employees are members of the defined contribution scheme administered by National Bank of Kuwait (International) PLC.

The assets of the scheme are held separately from those of the Company in independently administered funds. The pension charge represents contributions payable to the fund and amounted to \$53,855 (2003: \$47,519). Contributions of 15% were paid in respect of members of the scheme. There were no amounts outstanding at the balance sheet date (2003: \$nil).

19. RELATED PARTY TRANSACTIONS

Under the terms of agreements with National Bank of Kuwait SAK, the ultimate parent company, and a subsidiary undertaking, \$760,000 (2003: \$760,000) was payable by the Company in respect of marketing and management services provided during the year, of which \$190,000 (2003: \$190,000) was outstanding at the balance sheet date.

Fees in respect of administration and security transactions services of \$2,636,904 (2003: \$3,201,641) were incurred during the year to Morgan Stanley Investment Management Limited, a company of which NBK Investment Management Limited is an associated undertaking, \$1,014,224 (2003: \$1,710,136), of which was outstanding at the balance sheet date.

At the year end, debtors include \$121,304 (2003: \$95,655) due from Morgan Stanley Investment Management Limited in respect of a foreign exchange contract

20. PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling party is National Bank of Kuwait SAK, which is incorporated in Kuwait. The parent undertaking of the smallest group of undertakings for which group accounts are prepared and of which the Company is a member is NBK Overseas (London) Limited, a company registered in England and Wales. Copies of the accounts of NBK Overseas (London) Limited and National Bank of Kuwait SAK can be obtained from the Company's office at 13 George Street, London, W1U 3QJ.