

**AL MAZAYA HOLDING CO. K.S.C.P
HOLDING AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENT
31 December 2005



MAZAYA

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AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

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Auditors' Report

The Shareholders
Al Mazaya Holding Company K.S.C. (Closed)
State of Kuwait

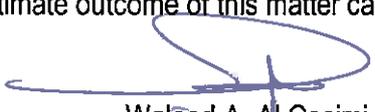
We have audited the accompanying consolidated balance sheet of Al Mazaya Holding Company K.S.C. (Closed) – (the parent company) and subsidiaries (the group) as of December 31, 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on these consolidated financial statements based on the audit.

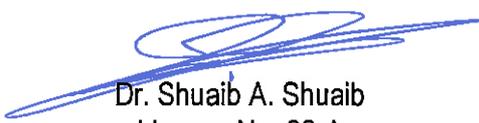
The audit was conducted in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that the audit conducted provides a reasonable basis for our opinion.

In our opinion, based on our audit the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Al Mazaya Holding Company K.S.C. (Closed) and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for the year then ended, in conformity with International Financial Reporting Standards.

Also in our opinion, the consolidated financial statements include the disclosures required by the Commercial Companies Law and the parent company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Directors' Report is in agreement with the parent company's books. According to the information available to us, no contraventions of either the Commercial Companies Law or of the parent company's Articles of Association have occurred during the year that might have a material effect on the group's financial position or results of its operations.

Without qualifying our opinion, we draw attention to Note 7 to the consolidated financial statements. The final agreement for the rights to certain properties between the parent company and the seller has not yet been signed as of the balance sheet date. Since the agreement terms are still negotiable, the ultimate outcome of this matter can not presently be determined.


Waleed A. Al Osaimi
Licence No. 68-A
Ernst & Young


Dr. Shuaib A. Shuaib
Licence No. 33-A
Albazie & Co.
Member of RSM International

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED BALANCE SHEET
As of December 31, 2005

<u>ASSETS</u>	Notes	2005 KD	2004 (Restated) KD
Cash and cash equivalents	3	3,230,198	4,077,724
Term deposits	4	-	903,000
Investments at fair value through income statement	5	13,841,470	7,776,000
Accounts receivable and other debit balances	6	7,003,659	368,182
Rights to certain properties	7	1,571,528	2,882,123
Investment in unconsolidated subsidiaries	8	8,994,603	-
Properties under development	9	11,266,402	8,254,120
Properties held for sale	10	-	5,326,064
Investment property		400,925	-
Work in progress	11	4,674,797	5,961,796
Fixed assets	12	110,304	59,979
		<u>51,093,886</u>	<u>35,608,988</u>
<u>LIABILITIES AND OWNERS' EQUITY</u>			
Liabilities:			
Accounts payable and other credit balances	13	6,885,812	4,554,960
Term loan	14	830,000	-
Wakala payable	15	6,000,000	-
Murabaha payable	16	-	4,548,250
Deferred consideration on acquisition of properties	17	5,964,853	4,910,424
Total liabilities		<u>19,680,665</u>	<u>14,013,634</u>
Owners' Equity:			
Capital	18	15,150,000	15,000,000
Share premium	19	30,000	-
Statutory reserve	20	2,073,451	631,612
Voluntary reserve	21	2,073,451	631,612
Retained earnings		13,456,881	5,332,130
		<u>32,783,783</u>	<u>21,595,354</u>
Treasury shares	22	(1,370,562)	-
		<u>31,413,221</u>	<u>21,595,354</u>
		<u>51,093,886</u>	<u>35,608,988</u>


Rashid Y. Al-Nafisi
Chairman


Khalid S. Esbaitah
Vice Chairman and Managing Director

The accompanying notes are an integral part of the consolidated financial statements

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2005

	Notes	2005 KD	2004 (Restated) KD
Profit from sale of properties under development	23	1,795,483	-
Management fees, commission and consultancy income	24	2,925,295	340,590
Profit from sale of properties held for sale	10	3,881,052	6,573,738
Profit from sale of rights to certain properties		1,546,121	-
Unrealized gain from investments at fair value through income statement		5,969,129	400,000
Realized gain on sale of investments at fair value through income statement		34,444	37,348
Other income		19,067	34,951
Marketing expenses		(326,415)	(141,509)
Administrative expenses		(929,232)	(507,029)
Depreciation	12	(22,900)	(11,755)
Interest income		165,819	68,273
Finance cost		(639,469)	(102,672)
Board of Directors' remuneration		-	(50,000)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labor Support Tax		14,418,394	6,641,935
Contribution to KFAS		(129,766)	(56,627)
National Labor Support Tax	25	(280,199)	-
Net profit for the year		<u>14,008,429</u>	<u>6,585,308</u>
Earnings per share	26	<u>Fils</u> <u>93.72</u>	<u>Fils</u> <u>43.90</u>

The accompanying notes are an integral part of the consolidated financial statements

EXHIBIT C

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
For the year ended December 31, 2005

	Capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	(Restated) Retained earnings KD	Treasury shares KD	Total KD
Balance at December 31, 2003	100,000	-	2,418	2,418	5,210	-	110,046
Increase in capital	14,900,000	-	-	-	-	-	14,900,000
Net profit for the year as restated on adoption of revised IAS 39 (Note 2)	-	-	-	-	6,585,308	-	6,585,308
Transfer to reserves	-	-	629,194	629,194	(1,258,388)	-	-
Restated balance at December 31, 2004	15,000,000	-	631,612	631,612	5,332,130	-	21,595,354
Increase in capital	150,000	-	-	-	-	-	150,000
Share premium	-	30,000	-	-	-	-	30,000
Cash dividends (2004 – 20 fils per share)	-	-	-	-	(3,000,000)	-	(3,000,000)
Net profit for the year	-	-	-	-	14,008,429	-	14,008,429
Transfer to reserves	-	-	1,441,839	1,441,839	(2,883,678)	-	-
Purchase of treasury shares	-	-	-	-	-	(1,370,562)	(1,370,562)
Balance at December 31, 2005	15,150,000	30,000	2,073,451	2,073,451	13,456,881	(1,370,562)	31,413,221

The accompanying notes are an integral part of the consolidated financial statements

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2005

	2005 KD	2004 (Restated) KD
Cash flows from operating activities:		
Profit for the year before contribution to KFAS and National Labor Support Tax	14,418,394	6,641,935
Adjustments for:		
Depreciation	22,900	11,755
Finance cost	639,469	102,672
Interest income	(165,819)	(68,273)
Unrealised gain from investments at fair value through income statement	(5,969,129)	(400,000)
Realised gain on sale of investments at fair value through income statement	(34,444)	(37,348)
Operating profit before working capital changes	8,911,371	6,250,741
Increase in accounts receivable and other debit balances	(6,598,967)	(361,284)
Increase in accounts payable and other credit balances	1,971,714	4,483,643
Decrease (increase) rights to certain properties	738,833	(2,882,123)
Decrease (increase) of properties under development	595,492	(5,859,548)
Decrease (increase) of properties held for sale	5,326,064	(5,326,064)
Increase in deferred consideration on acquisition of properties	1,054,429	4,910,424
Cash generated from operations	11,998,936	1,215,789
Paid to KFAS	(56,627)	-
Board of directors' remuneration paid	(50,000)	-
Net cash generated from operating activities	11,892,309	1,215,789
Cash flows from investing activities:		
Purchase of fixed assets	(73,225)	(71,734)
Amount paid for work in progress	(1,749,013)	(8,356,368)
Purchase of investment property	(400,925)	-
Amount paid to acquire the unconsolidated subsidiaries	(8,994,603)	-
Purchase of investments at fair value through income statement	(1,747,200)	(7,376,000)
Proceeds from sale of investments at fair value through income statement	1,685,303	37,348
Decrease (increase) in term deposits	903,000	(903,000)
Interest income received	129,309	68,273
Net cash used in investing activities	(10,247,354)	(16,601,481)

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2005

	Note	2005 KD	2004 (Restated) KD
Cash flows from financing activities:			
Additional increase in capital		150,000	14,900,000
Share premium received		30,000	-
Paid for purchase of treasury shares		(1,370,562)	-
Term loan received		830,000	-
Murabaha (paid) received		(4,548,250)	4,548,250
Wakala received		6,000,000	-
Cash dividends paid		(2,854,600)	-
Finance cost paid		(729,069)	(102,672)
Net cash (used in) generated from financing activities		<u>(2,492,481)</u>	<u>19,345,578</u>
Net (decrease) increase in cash and cash equivalents		(847,526)	3,959,886
Cash and cash equivalents at the beginning of the year		4,077,724	117,838
Cash and cash equivalents at the end of the year	3	<u>3,230,198</u>	<u>4,077,724</u>

The accompanying notes are an integral part of the consolidated financial statements

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES
STATE OF KUWAIT
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

1. Incorporation and activities

Al Mazaya Holding Company K.S.C. (Closed) was incorporated on November 7, 1998 under the Commercial Companies Law No. 15 of 1960 and amendments there to.

The parent company is engaged in investment in local and foreign companies, real estate properties and consultancy services. The registered office of the company is at Salhia complex, Fahad Al Salem Street, P.O. Box 3546, Safat 13036, Kuwait. The parent company's shares were listed on Kuwait Stock Exchange during the year (Note 25).

The group's wholly owned subsidiary companies are engaged in selling, managing and developing real estate properties and offering consultancy services.

The group primarily operates in the Gulf Co-operation Council countries.

The consolidated financial statements of Al Mazaya Holding Company K.S.C. (Closed) (the parent company) and subsidiaries (the group) for the year ended December 31, 2005 were authorized for issue in accordance with a resolution of the directors on February 7, 2006. The shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention except for investments at fair value through income statement and investment property which are stated at fair value.

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the previous year except as discussed in the following paragraph and the accounting policy relating to new transactions that have been adopted during the year.

In 2003 and 2004, International Accounting Standards Board (IASB) issued a series of new International Financial Reporting Standards (IFRS) and revised International Accounting Standards (IAS). The new IFRS and revised IAS became effective beginning January 1, 2005. All new IFRS and revised IAS have been adopted by the group during the year. The main changes in accounting policies arising from the adoption of the new IFRS and revised IAS are summarised as follows:

Adoption of revised IAS 39

The group has adopted the revised IAS 39 "Financial Instruments: Recognition and Measurement". The main changes arising are summarized as follows:

All investments previously classified as available for sale have been redesignated on January 1, 2005 as "investments carried at fair value through income statement".

In accordance with the transition provisions of the revised standard, this redesignation was effected as at January 1, 2004, during the year ended December 31, 2005. The fair value of available for sale investments redesignated as investments carried at fair value through income statement at January 1, 2004 and January 1, 2005 was KD Nil and KD 7,776,000 respectively. The net profit for the year ended December 31, 2004 has been restated by the unrealized gain from re-measurement of available for sale investments redesignated as investments carried at fair value through income statement at January 1, 2004 by KD 400,000.

b) Recognition / derecognition of financial assets

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. With effect from January 1, 2005, a financial asset (in whole or in part) is derecognised when the contractual rights to the cash flows from the financial asset expire or when the group transfers substantially all the risks and rewards of ownership or when the group has neither transferred or retained substantially all the risks and rewards of ownership and when it no longer has control over the asset or a proportion of the assets. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

c) Critical accounting estimates and judgments

The group makes estimates and assumptions concerning the future. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

In the process of applying the group's accounting policies which are described in this note, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements:

Classification of Land

Upon acquisition of a land, the group classifies the land into one of the following categories, based on the intention of the management for the use of the land.

1) Properties under development

When the intention of the group is to develop land in order to sell it in the future, both the land and the construction costs are classified as properties under development.

2) Work in progress

When the intention of the group is to develop a land in order to rent it in the future, both the land and the construction costs are classified as work in progress.

3) Properties held for sale

When the intention of the group is to sell land in the ordinary course of business, the properties are classified as properties held for sale.

4) Investment property

When the intention of the group is to earn rentals from land or hold land for capital appreciation or if the intention is not determined for land, the land is classified as investment property.

d) Principles of consolidation

These consolidated financial statements include the financial statements of Al Mazaya Holding Company K.S.C. (Closed) and its subsidiaries which were incorporated in 2004 as detailed below:

	<u>Place of incorporation</u>	<u>Ownership %</u>
Al Mazaya Real Estate Development Company K.S.C. (Closed)	Kuwait	100
Al Mazaya Real Estate FZ/LLC	U.A.E.	100

The legal owners of Al Mazaya Real Estate FZ/LLC are two board members of the parent company who act as nominees on behalf of the parent company. The nominees have confirmed in writing that the parent company is the beneficial owner Al Mazaya Real Estate FZ/LLC.

Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

e) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

f) Receivables

Receivables are stated at face value, after impairment losses and / or provision for doubtful accounts.

g) Rights to certain properties

Rights to certain properties are carried at cost, which includes purchase price and transaction costs.

h) Investments at fair value through income statement

The group classifies its investments as investments at fair value through income statement. The classification depends on the purpose for which the investments are acquired and is determined at initial recognition by the management.

This category has two sub-categories: (a) financial assets held for trading and (b) those designated at fair value through income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Purchases and sales of investments are recognized on trade-date – the date on which the group commits to purchase or sell the asset.

After initial recognition, financial assets at fair value through income statement are carried at fair value. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Realized and unrealized gains and losses from financial assets at fair value through income statement are included in the statement of income.

Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

i) Properties under development

Properties acquired, constructed or in the course of construction for sale are classified as properties under development. Unsold properties are stated at cost. Sold properties in the course of development are stated at cost plus attributable profit/loss less progress billings. The cost of properties under development includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed. At that stage, the total asset value is eliminated from properties under development.

j) Properties held for sale

Properties held for sale in the ordinary course of business are stated at the lower of cost and net realisable value on an individual basis.

Net realisable value is based on estimated selling price in the ordinary course of business less any further costs expected to be incurred on completion and disposal.

k) Investment property

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at their fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in the statement of income for the period in which they arise.

l) Fixed assets

The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditure is capitalized as an additional cost of fixed assets.

Fixed assets are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated and any gain or loss resulting from their disposal is included in the statement of income.

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other fixed assets as follows:

	<u>Years</u>
Furniture and equipment	5
Computer and software	3
Motor vehicles	5

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

m) Impairment of tangible and intangible assets

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

n) Accounts payable and accruals

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

o) End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

p) Wakala payable

Wakala payable represents an agreement whereby the group takes a certain amount of cash from another party, and invests it according to specific conditions in return for a certain fee (percentage of the amount invested).

q) Murabaha payable

Murabaha payable represents amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking into account the profit rate attributable and the balance outstanding.

r) Treasury shares

Treasury shares consist of the parent company's own shares that have been issued, subsequently reacquired by the parent company and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in owners' equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves.

Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

s) Employee share option

IFRS 2 "Share-Based Payment"

IFRS 2 "Share-Based Payment" requires an expense to be recognised where the group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The adoption of IFRS 2 has not resulted in any adjustment to the previously reported amounts as no employees' share options were granted during the period and those exercised during the period (Note 30) had vested by December 31, 2004.

t) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the consolidated income statement as follows: -

i) Sale of property:

Revenue on sale of plots of land is recognized on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- The group's receivable is not subject to future subordination;
- The group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property; and
- Work to be completed is either easily measurable and accrued or is not significant in relation to the overall value of the contract.

If all except for the last criterion listed above are fulfilled, the percentage of completion method is adopted to recognise revenue.

The risk of the purchaser being able to rescind the contract for reasons stated in the contract which are dependent on the enactment of pending legislation and therefore outside the group's control is considered by management to be remote.

Revenue on sale of apartments and villas is recognized on the basis of percentage completion based on internal surveys of work performed as and when all the following conditions are met:

- The buyer's investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- Construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundation are finished;
- The buyer is committed. The buyer is unable to require a refund except for non-delivery of the unit and, in certain cases, in the event of the non-enactment of pending legislation regarding freehold title and immigration visas. Management believes that the likelihood of the group being unable to fulfill its contractual obligations for these reasons is remote; and
- The aggregate sales proceeds and costs can be reasonably estimated.

ii) **Cost of revenue**

Cost of revenue includes the cost of land and development costs. Development costs include the cost of infrastructure and construction.

u) **Fiduciary assets**

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

v) **Foreign currencies**

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of income for the period. Translation differences on non-monetary items such as equity investments which are classified as investments at fair value through income statement are reported as part of the fair value gain or loss.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange ruling at the balance sheet date. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in equity. Such translation differences are recognized in the statement of income in the period in which the foreign operation is disposed off.

w) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, receivables, investments, derivative financial instruments and payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

x) Contingencies

Contingent liabilities are not recognized but disclosed in the financial statements except when the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. Cash and cash equivalents

Bank balances include fixed deposits amounting to KD Nil (December 31, 2004: KD 3,227,601) placed with local banks, carrying an average interest rate of 3.167% (December 31, 2004: 3.167%) per annum.

4. Term deposits

Term deposits placed with local banks, carries an average interest of Nil% (December 31, 2004: 2.083%).

5. Investments at fair value through income statement

The investments at fair value through income statement represent the following:

	2005 KD	2004 (Restated) KD
Quoted securities at fair value through income statement	732,250	326,000
Unquoted securities designated at fair value through income statement	13,109,220	7,450,000
	<u>13,841,470</u>	<u>7,776,000</u>

The management has determined the fair value of the unquoted securities based on the recent transaction price of those securities as advised by the investment house (related party) that brokered those transactions in December 2005. Further the investment house has indicated that the last transaction prices are sustainable in the current market.

Unquoted securities include an amount of KD 207,000 as of the balance sheet date pledged against a term loan (2004 – Nil) (Note 14).

6. Accounts receivable and other debit balances

	2005 KD	2004 KD
Receivable against sale of property held for sale (Note 10)	3,508,702	-
Receivable against sale of rights to certain properties	930,365	-
Advances to suppliers	2,198,094	261,000
Accrued commission income	91,852	-
Amounts due from related parties (Note 31)	209,124	71,840
Staff receivables	15,980	-
Other receivables	49,542	35,342
	<u>7,003,659</u>	<u>368,182</u>

7. Rights to certain properties

The parent company has made payments to acquire rights to certain land under development (along with certain related parties, discussed below). Under the preliminary terms agreed with the seller the parent company will retain the whole right to these properties provided it meets future payments scheduled over the following 16 months amounting to KD 11,201,667 (net after the amounts relating to the related parties). The parent company will become liable to these payments upon signing the final agreement.

The final agreement has not yet been signed between the seller and the parent company for acquiring these rights as of the balance sheet date, and accordingly the management did not consider the full future scheduled payments amounting to KD 23,336,806 as liabilities since the final agreement terms are still negotiable at this stage.

Based on the preliminary agreement, 52% of the rights were assigned to certain related parties who have paid a commission to the parent company for acquiring these rights (amounting to KD 449,857). Under the preliminary terms of the arrangement, the parent company also earns a management fee from the related parties at the time of sale of their rights; such commission amounted to KD 13,454 for the year ended December 31, 2005.

The current intention of the parent company is to sell the rights prior to the completion of the land development.

8. Investment in unconsolidated subsidiaries

During the year the parent company acquired the following subsidiaries:

<u>Company</u>	<u>Percentage of ownership</u>	<u>Country</u>	<u>Amount KD</u>
Al Wahda Real Estate Investment Limited.	100%	United Arab Emirates	2,998,201
Al Dana Real Estate Limited.	100%	United Arab Emirates	2,998,201
Al Rayhan Real Estate Limited	100%	United Arab Emirates	2,998,201
			<u>8,994,603</u>

The legal owners of the Al Dana Real Estate Limited and Al Rayhan Real Estate Limited are two board members of the parent company and the legal owners of the Al Wahda Real Estate Investment Limited are two board members of the parent company and Advantage General Trading LLC who act as nominees on behalf of the parent company. The nominees have confirmed in writing that Al Mazaya Real Estate FZ/LLC is the beneficial owner of the unconsolidated subsidiaries.

The following are summary of information relating to assets and liabilities of unconsolidated subsidiaries:

<u>Company</u>	<u>Total Assets KD</u>	<u>Total Liabilities KD</u>	<u>Net Assets KD</u>
Al Wahda Real Estate Investment Limited.	4,745,125	1,794,375	2,950,750
Al Dana Real Estate Limited.	4,745,125	1,794,375	2,950,750
Al Rayhan Real Estate Limited	4,745,125	1,794,375	2,950,750

These subsidiaries were not consolidated since they did not commence their operations as of the balance sheet date.

9. Properties under development

Properties under development are located in Kuwait and Dubai, UAE which are in the process of construction or development for sale in the ordinary course of business. Certain properties are registered in the name of certain board members as nominees on behalf of the group. The nominees have executed power of attorney transferring all rights and obligations to the group.

	<u>2005 KD</u>	<u>2004 KD</u>
Costs incurred to date plus recognized profit	13,639,546	8,254,120
Transfer from work in progress	3,036,012	-
Less: Progress billings	(5,409,156)	-
Total properties under development	<u>11,266,402</u>	<u>8,254,120</u>

10. Properties held for sale

One of the properties held for sale represented the parent company's share in land located in Dubai, UAE and was jointly owned with a third party and was pledged under the term of the murabaha agreement (Note 16). Under the agreement, each party had equal share of expenses incurred in association with the property and had control over its share on the property. During the year, the parent company sold its share in this property held for sale for a consideration of KD 8,019,598 and recognized a profit of KD 2,732,490 on the transaction.

11. Work in progress

	Freehold land KD	Capital Work in progress KD	Total KD
Cost at December 31, 2004	5,765,164	196,632	5,961,796
Additions	21,070	1,727,943	1,749,013
Transfer to properties under development	(2,311,500)	(724,512)	(3,036,012)
Cost at December 31, 2005	3,474,734	1,200,063	4,674,797

Freehold land and capital work in progress represents costs incurred in the process of construction or development for future use as investment properties.

Certain properties are registered in the name of certain board members as nominees on behalf of the group. The nominees have executed power of attorney transferring all rights and obligations to the group.

12. Fixed assets

	Furniture and equipment KD	Computers and software KD	Motor Vehicles KD	Total KD
Cost				
At December 31, 2004	37,448	11,532	22,754	71,734
Additions	52,364	20,861	-	73,225
At December 31, 2005	89,812	32,393	22,754	144,959
Accumulated depreciation				
At December 31, 2004	6,762	3,800	1,193	11,755
Charge for the year	9,254	9,245	4,401	22,900
At December 31, 2005	16,016	13,045	5,594	34,655
Net book Value				
At December 31, 2005	73,796	19,348	17,160	110,304
At December 31, 2004	30,686	7,732	21,561	59,979

13. Accounts payable and other credit balances

	2005 KD	2004 KD
Advances received from customers	1,185,527	3,330,234
Amounts due to related parties (Note 31)	1,928,153	610,537
Trade payable	2,877,121	199,272
Other payables and accrued expenses	895,011	414,917
	<u>6,885,812</u>	<u>4,554,960</u>

14. Term loan

Term loan represents a loan agreement entered with a related party and carries an average interest rate of 2.5% over the Central Bank of Kuwait discount rate per annum (2004 – Nil) (Note 31).

The parent company has pledged certain investments amounting to KD 207,000 as of the balance sheet date, as collateral against the term loan (Note 5).

15. Wakala payable

Wakala payable represents wakala agreements entered with a related party and maturing on December 31, 2006. The average cost rate attributable to wakala payable during the period was 6.5% (December 31, 2004 - Nil) per annum (Note 31).

16. Murabaha payable

On November 10, 2004, the parent company and an unrelated party entered into short-term murabaha agreement with the National Bank of Sharjah, UAE on acquisition of properties held for sale. During the year, the parent company transferred its obligation in the murabaha payable on sale of these properties.

The effective rate of cost payable approximates 6% per annum.

17. Deferred consideration on acquisition of properties

Deferred consideration on acquisition of properties includes an amount of KD 5,964,853 due for payment in one to three years from the balance sheet date and does not carry interest.

18. Capital

The authorized, issued and fully paid-up capital is as follows:

	<u>2005</u>	<u>2004</u>
Capital (KD)	<u>15,150,000</u>	<u>15,000,000</u>
Capital (number of shares)	<u>151,500,000</u>	<u>150,000,000</u>

The annual general meeting of the shareholders held on March 6, 2005 approved the increase of 1% of authorised and paid up capital totalling to 1,500,000 shares at 120 fils, including a share premium of 20 fils, under employees' share option scheme.

19. Share premium

This item represents cash received in excess of the par value of the shares issued. The share premium is not distributed except under specific circumstances as stipulated under Kuwait Commercial Companies law.

20. Statutory reserve

As required by the Commercial Companies Law and the parent company's Articles of Association, 10% of annual net profit is transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the parent company's Articles of Association.

21. Voluntary reserve

As required by the parent company's Articles of Association, 10% of net profit is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors.

22. Treasury shares

	<u>2005</u>	<u>2004</u>
Number of shares (shares)	1,529,534	-
Percentage of issued shares (%)	1.01%	-
Market value (KD)	1,193,037	-
Cost (KD)	1,370,562	-

23. Profit from sale of properties under development

	2005 KD	2004 KD
Revenue from sale	10,783,766	-
Cost of sale	(8,988,283)	-
Profit from sale of properties under development	<u>1,795,483</u>	<u>-</u>

24. Management fees, commission and consultancy income

The group acts as project manager for certain real estate properties owned by other parties through developing, managing, and selling those properties. The group charges those parties certain management fees, commission and consultancy income against those services.

25. National Labor Support Tax

In accordance with the National Labor Support Law No. 19 for the year 2000 and the Ministerial resolution No. 26 for the year 2001, tax is provided at the rate of 2.5% on the annual net income of Kuwaiti companies that are listed on the Kuwait Stock Exchange. The parent company was listed in the Kuwait Stock Exchange on May 2, 2005. Accordingly, the parent company has calculated its tax liability at 2.5% on the profit for the nine months ended December 31, 2005, after deducting any cash dividends from listed companies in the Kuwait Stock Exchange for prior years, its contribution to KFAS, Director's remuneration and the 10% transfer to the statutory reserve for the same period.

26. Earnings per share

There are no potential dilutive ordinary shares. Earnings per share is computed by dividing net profit for the year over the weighted average number of shares outstanding during the year as follows:

	2005 KD	2004 (Restated) KD
Net profit for the year	<u>14,008,429</u>	<u>6,585,308</u>
	Shares	Shares
Weighted average number of issued and fully paid-up shares	151,002,740	150,000,000
Less: weighted average number of treasury shares	<u>(1,529,534)</u>	-
Weighted average number of shares outstanding	<u>149,473,206</u>	<u>150,000,000</u>
	Fils	Fils
Earnings per share	<u>93.72</u>	<u>43.90</u>

27. Fiduciary accounts

The group manages projects on behalf of others, and maintains cash balances and notes receivable in fiduciary accounts, which are not reflected in the group's consolidated financial statements. Assets under management as of December 31, 2005, amounted to KD 18,490 (December 31, 2004 – KD 1,643,745).

28. Commitments

The group has capital commitments in respect of construction of real estate for KD 25,478,207 (December 31, 2004 - KD 2,300,000). Commitments under rights to certain properties are disclosed in Note 7.

The group has commitments in respect of sale of properties of KD Nil (December 31, 2004 – KD 31,356,000).

29. Contingencies

At December 31, 2005 the group had contingent liabilities in respect of bank and other guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 5,688,000 (December 31, 2004 - KD 903,000).

30. Employees share option scheme

The annual general meeting of the shareholders held on March 6, 2005 approved the increase of 1% of authorised and paid up capital totalling to 1,500,000 shares at 120 fils, including a share premium of 20 fils, under employees' share option scheme. These grants are considered to have vested at December 31, 2004

31. Related party transactions

These represent transactions with related parties i.e. shareholders, directors and executive officers of the group and entities of which they are principal owners. The group's management approves pricing policies and terms of these transactions. Significant transactions with group's related parties included are as follows:

	<u>2005</u> KD	<u>2004</u> KD
Balance sheet:		
Purchase of property under development	-	210,000
Accounts receivable and other debit balances	209,124	71,840
Account payable and other credit balances	1,928,153	199,272
Term Loan	830,000	-
Wakala Payable	6,000,000	-

	2005 KD	2004 KD
Statement of income:		
Management fees, commission and consultancy income	720,597	328,597
Finance cost	400,070	44,293
Profit from sale of held for sale properties	-	6,573,738
Key management compensation:		
Salaries and other short term benefits	286,100	143,750
Terminal benefits	4,499	3,532

32. Financial instruments

In the normal course of business, the group uses primary financial instruments such as cash, receivables, investments and payables and as a result, is exposed to the risks indicated below. The group currently does not use derivative financial instruments to manage its exposure to these risks.

Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature are indicated in the respective notes.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the group to credit risk consist principally of fixed and short notice bank deposits and receivables. The group's fixed and short notice bank deposits are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

Foreign currency risk

The group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. At present, the group has no significant exposure to such risk.

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from current bid prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their carrying amounts.

33. Proposed dividends and bonus shares

The Board of Directors proposed a cash dividend of 25 fils per share and bonus shares of 25% for the year ending December 31, 2005. This proposal is subject to the approval of the Shareholders' General Assembly.

The Shareholders ordinary General Assembly meeting held on March 6, 2005 approved the distribution of cash dividend of 20 fils per share for the year ended December 31, 2004, as proposed by the Board of Directors.

34. Comparative figures

Certain prior year figures have been reclassified to conform with the current year presentation.