

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

CONSOLIDATED FINANCIAL STATEMENT

31 December 2006



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, 2006

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AUDITING OFFICE  
ALI OWAID RUKHAEYES



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### Independent Auditors' report

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

#### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Al Mazaya Holding Company K.S.C. (Closed) (the Parent Company) and subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated statement of income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

We did not audit the financial statements of the subsidiary, First Dubai for Real Estate Development Company K.S.C. (Closed), whose total assets and revenues constitute 35.6% and 15.5% of the respective consolidated totals. The financial statements of First Dubai for Real Estate Development Company K.S.C. (Closed) for the year ended December 31, 2006 were audited by other auditor, whose report was provided to us and our opinion in so far as it relates to the amounts included in the consolidated financial statements related to this subsidiary is based solely on the report of the other auditor.

#### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained and the report of other auditor are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and based on the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Al Mazaya Holding Company K.S.C. (Closed) as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

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 Director's Report is in agreement with the Parent Company's books. According to the information available to us, there were no contraventions during the year ended December 31, 2006 of either the Commercial Companies Law or of the Parent Company's Articles of Association which might have materially affected the Group's financial position or results of its operations.

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

State of Kuwait  
February 5, 2007

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET  
 DECEMBER 31, 2006  
 (All amounts are in Kuwaiti Dinars)

<u>ASSETS</u>	Notes	2006	2005
Cash and cash equivalents	3	16,096,502	3,230,198
Investments at fair value through income statement	4	21,815,983	13,841,470
Accounts receivable and other debit balances	5	23,567,628	7,003,659
Rights to certain properties	6	-	1,571,528
Investment in joint venture	7	1	-
Investments in unconsolidated subsidiaries	1	-	8,994,603
Properties under development	8	59,191,060	11,266,402
Investment properties	9	43,226,075	400,925
Work in progress	10	1,075,479	4,674,797
Fixed assets	11	274,381	110,304
Goodwill	1	920,096	-
		<u>166,167,205</u>	<u>51,093,886</u>
<u>LIABILITIES AND EQUITY</u>			
Liabilities:			
Accounts payable and other credit balances	12	30,285,627	6,885,812
Term loan	13	4,830,000	830,000
Wakala payable	14	6,000,000	6,000,000
Deferred consideration on acquisition of properties	15	33,421,846	5,964,853
Total liabilities		<u>74,537,473</u>	<u>19,680,665</u>
Equity:			
Capital	16	28,601,242	15,150,000
Share premium	17	32,758,688	30,000
Statutory reserve	18	4,514,191	2,073,451
Voluntary reserve	19	4,514,191	2,073,451
Gain on sale of treasury shares		97,258	-
Assets revaluation surplus		1,038,731	-
Retained earnings		23,290,875	13,456,881
		<u>94,815,176</u>	<u>32,783,783</u>
Treasury shares	20	(7,013,148)	(1,370,562)
		<u>87,802,028</u>	<u>31,413,221</u>
Minority interest		3,827,704	-
Total equity		<u>91,629,732</u>	<u>31,413,221</u>
		<u>166,167,205</u>	<u>51,093,886</u>

The accompanying notes (1) to (32) are an integral part of the consolidated financial statements

  
 Rashid Y. Al-Nafisi  
 Chairman

  
 Khalid S. Esbaitah  
 Vice Chairman and Managing Director

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(All amounts are in Kuwaiti Dinars)

	Notes	December 31, 2006	December 31, 2005
Profit from sale of properties under development	21	19,705,047	1,795,483
Management fees, commission and consultancy income	22	2,814,780 ✓	2,925,295
Gain from sale of properties held for sale		2,515,489 ✓	3,881,052
(Loss) profit from sale of rights to certain properties	23	(605,436) ✓	1,546,121
Net investment income	24	740,289 ✓	6,003,573
Share of loss from joint venture		(19,973) ✓	-
Changes in fair value of investment properties		3,307,995 ✓	-
Foreign currency exchange gain		66,084 ✓	-
Other income	??	* 22,998 ✓	19,067
Marketing expenses		(718,076) ✓	(326,415)
Administrative expenses		(2,081,938) ✓	(929,232)
Depreciation		(57,815) ✓	(22,900)
Loss on disposal of fixed assets		✗ (23,277) ✓	-
Interest income		67,065 ✓	165,819
Finance charges		(940,353) ✓	(639,469)
Profit for the year before Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax and Board of Directors' remuneration		24,792,879	14,418,394
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(216,197)	(129,766)
National Labor Support Tax		(610,185)	(280,199)
Board of Directors' remuneration		(150,000)	-
Net profit for the year		<u>23,816,497</u>	<u>14,008,429</u>
Attributable to:			
Equity holders of the Parent Company		23,431,021	14,008,429
Minority interest		385,476	-
Net profit for the year		<u>23,816,497</u>	<u>14,008,429</u>
Earnings per share attributable to the equity holders of the parent company (fils)	25	<u>102.29</u>	<u>70.52</u>

The accompanying notes (1) to (32) are an integral part of the consolidated financial statements

**AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
 (All amounts are in Kuwaiti Dinars)

	Attributable to equity holders of the parent company										
	Capital	Share premium	Statutory reserve	Voluntary reserve	Gain on sale of treasury shares	Assets revaluation surplus	Retained earnings	Treasury shares	Subtotal	Minority interest	Total
Balance at December 31, 2004	15,000,000	-	631,612	631,612	-	-	5,332,130	-	21,595,354	-	21,595,354
Net profit for the year	-	-	-	-	-	-	14,008,429	-	14,008,429	-	14,008,429
Total recognized income for the year	-	-	-	-	-	-	14,008,429	-	14,008,429	-	14,008,429
Transfer to reserves	-	-	-	-	-	-	(2,883,678)	-	-	-	-
Increase in capital (Note 27)	150,000	-	1,441,839	1,441,839	-	-	-	150,000	150,000	-	150,000
Share premium (Note 27)	-	30,000	-	-	-	-	-	30,000	30,000	-	30,000
Cash dividend (2004 - 20 fils per share) (Note 27)	-	-	-	-	-	-	(3,000,000)	-	(3,000,000)	-	(3,000,000)
Purchase of treasury shares	-	-	-	-	-	-	-	(1,370,562)	(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	-	31,413,221
Gain on sale of treasury shares	-	-	-	-	97,258	-	-	-	97,258	-	97,258
Net income recognized directly in equity	-	-	-	-	97,258	-	-	-	97,258	-	97,258
Net profit for the year	-	-	-	-	-	-	23,431,021	-	23,431,021	385,476	23,816,497
Total recognized income for the year	-	-	-	-	97,258	-	23,431,021	-	23,528,279	385,476	23,913,755
Transfer to reserves	-	-	2,440,740	2,440,740	-	-	(4,881,480)	-	-	-	-
Increase in capital (Note 16)	9,663,742	-	-	-	-	-	-	9,663,742	9,663,742	-	9,663,742
Share premium (Note 16)	-	32,728,688	-	-	-	-	-	32,728,688	32,728,688	-	32,728,688
Bonus shares (2005 - 25%) (Note 27)	3,787,500	-	-	-	-	-	(3,787,500)	-	(3,595,545)	-	(3,595,545)
Cash dividends (2005 - 25 fils per share) (Note 27)	-	-	-	-	-	-	(3,595,545)	-	(6,057,220)	-	(6,057,220)
Purchase of treasury shares	-	-	-	-	-	-	-	(6,057,220)	(6,057,220)	-	(6,057,220)
Sale of treasury shares	-	-	-	-	-	-	-	1,712,294	1,712,294	-	1,712,294
Effect of consolidating newly consolidated subsidiary (Note 1)	-	-	-	-	-	1,038,731	(1,332,502)	(1,297,660)	(1,591,431)	-	(1,591,431)
Share of minority from newly consolidated subsidiary (Note 1)	-	-	-	-	-	-	-	-	-	3,442,228	3,442,228
Balance at December 31, 2006	28,501,242	32,758,688	4,514,191	4,514,191	97,258	1,038,731	23,290,875	(7,013,148)	87,802,028	3,827,704	91,629,732

The accompanying notes (1) to (32) are an integral part of the consolidated financial statements

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(All amounts are in Kuwaiti Dinars)

Notes	December 31, 2006	December 31, 2005
<b>Cash flows from operating activities:</b>		
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax and Board of Directors' remuneration	24,792,879	14,418,394
Adjustments for:		
Change in fair value of investments properties	(3,307,995)	-
Net investments income	(740,289)	(6,003,573)
Share of loss from joint venture	19,973	-
Depreciation	57,815	22,900
Interest income	(67,065)	(165,819)
Finance charges	940,353	639,469
Loss on disposal of fixed assets	23,277	-
Operating profit before working capital changes	21,718,948	8,911,371
Increase in accounts receivable and other debit balances	(10,242,268)	(6,598,967)
Decrease in rights to certain properties	-	738,833
Decrease in property held for sale	-	5,326,064
(Increase) decrease in properties under development	(2,339,871)	595,492
Increase in accounts payable and other credit balances	15,229,290	1,971,714
Increase in deferred consideration on acquisition of properties	20,279,003	1,054,429
Cash generated from operations	44,645,102	11,998,936
Paid to Kuwait Foundation for the Advancement of Sciences (KFAS)	(129,766)	(56,627)
Paid to National Labor Support Tax	(280,199)	-
Board of Directors' remuneration paid	-	(50,000)
Net cash generated from operating activities	44,235,137	11,892,309
<b>Cash flows from investing activities:</b>		
Increase in term deposits	-	903,000
Purchase of investments at fair value through income statement	(3,465,319)	(1,747,200)
Proceeds from sale of investments at fair value through income statement	612,296	1,685,303
Amount paid to acquire the unconsolidated subsidiaries	-	(8,994,603)
Cash dividend received	225,000	-
Interest income received	76,249	129,309
Purchase of investment properties	(39,517,155)	(400,925)
Amount paid for work in progress	-	(1,749,013)
Purchase of fixed assets	(233,008)	(73,225)
Proceed from sale of fixed assets	22,290	-
Net cash used in investing activities	(42,279,647)	(10,247,354)

**AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
(All amounts are in Kuwaiti Dinars)

	Notes	December 31, 2006	December 31, 2005
<b>Cash flows from financing activities:</b>			
Term loan received		3,500,000	830,000
Paid up capital		4,307,909	150,000
Share premium received		10,769,771	30,000
Paid for purchase of treasury shares		(6,057,220)	(1,370,562)
Cash dividends paid		(3,127,768)	(2,854,600)
Finance charges paid		(751,713)	(729,069)
Murabaha paid		-	(4,548,250)
Wakala received		-	6,000,000
Proceeds from sale of treasury shares		1,809,552	-
Net cash generated from (used in) financing activities		<u>10,450,531</u>	<u>(2,492,481)</u>
Net cash relating to newly consolidated subsidiary		460,283	-
Net increase (decrease) in cash and cash equivalents		12,406,021	(847,526)
Cash and cash equivalents at the beginning of the year		3,230,198	4,077,724
Cash and cash equivalents at the end of the year	3	<u>16,096,502</u>	<u>3,230,198</u>

The accompanying notes (1) to (32) are an integral part of the consolidated financial statements.

**AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

(All amounts are in Kuwaiti Dinars)

1. Establishment and activities of the Group

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 Parent Company is at Sahlia complex, Fahed Al Salem Street, P.O. Box 3546, Safat 13036, Kuwait.

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 Gulf co-operation council countries.

The consolidated financial statements include the financial statements of Al Mazaya Holding Company - K.S.C. (Closed) (the parent company) and the following subsidiaries (the Group):

Subsidiaries	Place of incorporation	Percentage of holding	
		2006 %	2005 %
Al Mazaya Real Estate Development Company - K.S.C. (Closed)	Kuwait	100	100
Al Mazaya Real Estate FZ/LLC	U.A.E.	100	100
Al Mazaya Al Khalijia for General Trading - Khalid S. Esbaitah and Partners - W.L.L.	Kuwait	100	-
Al Mazaya Al Arabia Real Estate Company - Khalid S. Esbaitah and Partners - W.L.L.	Kuwait	100	-
Al Mazaya International for Projects Management - Khalid S. Esbaitah and Partners - W.L.L.	Kuwait	100	-
Mazaya Lebanon Holding - S.A.L. (Holding)	Lebanon	100	-
Mazaya Lamartien - S.A.L.	Lebanon	100	-
Al Dana Real Estate Limited	U.A.E.	100	-
Al Rayhan Real Estate Limited	U.A.E.	100	-
First Dubai for Real Estate Development Company - K.S.C. (Closed)	Kuwait	90	-

**AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

(All amounts are in Kuwaiti Dinars)

The accompanying consolidated balance sheet of the group as of December 31, 2006 and related consolidated statement of income for the year then ended include the following information relating to Al Mazaya Al Khalijia for General Trading – Khalid S. Esbaitah and Partners – W.L.L., Al Mazaya Al Arabia Real Estate Company – Khalid S. Esbaitah and Partners – W.L.L., Al Mazaya International for Projects Management – Khalid S. Esbaitah and Partners – W.L.L., Mazaya Lebanon Holding - S.A.L. (Holding) and Mazaya Lamartien - S.A.L., newly incorporated consolidated subsidiaries, while the comparative accounts for the previous year do not include such information:

**Balance sheet:**

Cash and cash equivalents	197,264
Properties under development	833,750
Investment properties	855,116

**Income statement:**

Administrative expenses	3,917
Finance charges	78

In addition, the accompanying consolidated balance sheet of the group as of December 31, 2006 and related consolidated statement of income for the year then ended include the following information pertaining to Al Dana Real Estate Limited and Al Rayhan Real Estate Limited while the comparative amounts for the year ended December 31, 2005 do not include such information, since these subsidiaries were previously accounted for as investments in unconsolidated subsidiaries

**Balance sheet:**

Properties under development	9,747,032
Accounts payable and other credit balances	957,120
Deferred consideration on acquisition of properties	2,631,305

**Income statement:**

Marketing expenses	21,535
Administrative expenses	3,682
Finance charges	55,368

Moreover, based on the General Assembly meeting held on July 9, 2006, the registered shareholders approved to increase the authorized capital by KD 5,500,000 through issue of 55,000,000 new shares to acquire First Dubai for Real Estate Development Company - K.S.C. (Closed) with a nominal value of 100 fils each and premium amounting to 410 fils each and to be allocated to new shareholders. During the year 2006, the parent company acquired additional 80% interest in the equity of First Dubai for Real Estate Development Company - K.S.C. (Closed) for an amount of KD 27,369,917. The goodwill resulting from the acquisition of this subsidiary is as follows:

Consideration paid	55,167
Value of shares issued	27,314,750
Less: The group's share of fair value of identifiable assets and liabilities at the date of acquisition	(26,449,821)
Goodwill	<u>920,096</u>

**AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
 (All amounts are in Kuwaiti Dinars)

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The accompanying consolidated balance sheet of the group as of December 31, 2006 and related consolidated statement of income for the year then ended include the following information relating to First Dubai for Real Estate Development Company - K.S.C. (Closed) while the comparative accounts for the pervious year do not include such information:

**Balance sheet:**

Cash and cash equivalents	367,031
Investments at fair value through income statement	10,246,305
Accounts receivable and other debit balances	3,879,607
Properties under development	37,316,437
Investment properties	6,780,670
Fixed assets	30,225
Accounts payable and other credit balances	13,020,553
Term loan	4,000,000
Deferred consideration on acquisition of properties	4,546,685
Assets revaluation surplus	1,038,731
Retained earnings	1,332,502
Treasury shares	1,297,660
Minority interest	3,827,704

**Income statement:**

Profit from sale of properties under development	1,022,343
Net investment income	742,703
Gain from sale of properties held for sale	1,430,564
Changes in fair value of investment properties	1,017,668
Foreign currency exchange gain	45,754
Marketing expenses	(61,374)
Administrative expenses	(212,894)
Depreciation	(2,480)
Interest income	719
Finance charges	(104,966)
Loss on disposal of fixed assets	(23,277)

The consolidated financial statements of Al Mazaya Holding Company - K.S.C. (Closed) (the parent company) for the year ended December 31, 2006 were authorized for issue in accordance with a resolution of the Directors on February 5, 2007. The shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2006  
(All amounts are in Kuwaiti Dinars)

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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 Standard 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 that investments at fair value through income statement and investment properties are stated at their fair value. The accounting policies applied by the Group are consistent with those used in the previous year.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(c).

b) Recognition / derecognition of financial assets and financial liabilities

A financial asset or a financial liability is recognized when the group becomes a party to the contractual provisions of the instrument. Financial asset (in whole or in part) is de-recognized 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 derecognized when the obligation specified in the contract is discharged, cancelled or expired.

c) Critical accounting estimates and judgments

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, 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.

a) Judgments

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

**AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
(All amounts are in Kuwaiti Dinars)

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(ii) 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.

(iii) Provision for doubtful debts

The determination of the recoverability of the amount due from customers and the factors determining the impairment of the receivable involve significant judgment.

(iv) Classification of investments

On acquisition of an investment, the Group classifies the investments as investment at fair value through statement of income. The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at inception, provided their fair values can be reliably estimated.

**AL MAZAYA HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
(All amounts are in Kuwaiti Dinars)

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b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which 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. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

(ii) Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset or the cash-generating unit to which the goodwill is allocated. Estimating a value in use requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present-value of the cash-flows.

(iii) Long term contracts

Revenue from long term contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. The revenue recognition as per the above criteria should correspond to the actual work completed. The determination of estimated costs and the application of percentage of completion method involve estimation. Further, the budgeted cost and revenue should consider the claims and variations pertaining to the contract.

(iv) Provision for doubtful debts

The extent of provision for doubtful debts involves estimation process. Provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of receivables are subject to management approval.

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d) Principles of consolidation

The consolidated financial statements incorporate the financial statements of Al Mazaya Holding Company K.S.C. (Closed) (the Parent Company) and the subsidiaries (the Group) identified in Note (1).

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group 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. Inter-company balances and transactions, including inter-company profits and unrealized 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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

e) Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks 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) Investments at fair value through income statement

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

This category has two sub-categories: investments held for trading, and those designated at fair value through statement of income at inception. An investment is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Investments in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

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

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After initial recognition, investments at fair value through income statement are subsequently carried at fair value. The fair values of quoted investments are based on current bid prices. If the market for an investment 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 investments at fair value through income statement are included in the income statement.

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 an objective evidence that a financial asset or a group of financial assets is impaired.

g) Receivables

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

h) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where a Group undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

The Group reports its interests in jointly controlled entities using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in joint ventures are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments.

Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

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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) Investment properties

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 consolidated statement of income for the period in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses arising on the retirement or disposal of an investment property are recognized in the consolidated statement of income.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

k) 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. Expenditures 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 expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are 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 from the accounts and any gain or loss resulting from their disposal is included in the statement of income.

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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 fixed assets.

l) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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.

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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 the consolidated 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 the consolidated statement of income, 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) Account payable and accruals

Accounts payable are stated at their cost.

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) 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 shareholders' 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.

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r) 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 recognize 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.

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s) 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.

t) 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 retranslated 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 profit or loss 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 prevailing at the balance sheet date.

u) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, receivables, investments, bank borrowings, payables and Wakala payable. 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.

v) Contingencies

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

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

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3. Cash and cash equivalents

	<u>2006</u>	<u>2005</u>
Cash on hand and at banks	2,359,581	3,230,198
Fixed deposits	13,587,173	-
Short term money market fund	149,748	-
	<u>16,096,502</u>	<u>3,230,198</u>

Fixed deposits earn an average interest rate of 5.25% (December 31, 2005: Nil) per annum.

Investment in short term money market fund is managed by an investment house (related party).

4. Investments at fair value through income statement

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

	<u>2006</u>	<u>2005</u>
Quoted securities at fair value through income statement	8,569,540	732,250
Unquoted securities designated at fair value through income statement	13,246,443	13,109,220
	<u>21,815,983</u>	<u>13,841,470</u>

The management has determined the fair value of the unquoted securities amounting to KD 9,122,500 based on the recent transaction price of those securities as advised by the investment house (related party) that brokered those transactions in December 2006. Further the investment house has indicated that the last transaction prices are sustainable in the current market. The remaining unquoted securities are stated at cost since they were relatively recently acquired and the management believes the fair value of these unquoted securities will not be significantly different from their carrying value as of the balance sheet date.

Unquoted securities include an amount of KD 207,000 as of the consolidated balance sheet date pledged against a term loan (December 31, 2005: KD 207,000) (Note 13).

The movement during the year is as follows:

	<u>2006</u>	<u>2005</u>
Balance at beginning of the year	13,841,470	7,776,000
Additions	3,465,319	1,747,200
Addition relating to newly consolidated subsidiary	4,606,201	-
Disposal	(619,335)	(1,650,859)
Unrealized gain on investment at fair value through income statement	522,328	5,969,129
Balance at end of the year	<u>21,815,983</u>	<u>13,841,470</u>

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5. Accounts receivable and other debit balances

	<u>2006</u>	<u>2005</u>
Trade receivable	10,141,238	4,439,067
Advances to contractors	5,731,030	2,198,094
Amount due from related parties (Note 26)	7,342,323	209,124
Staff receivable	27,510	15,980
Other receivable	325,527	141,394
	<u>23,567,628</u>	<u>7,003,659</u>

Amount due from related parties mainly represents amount generated from sale of properties under development (Note 21).

6. Rights to certain properties

During the years 2004 and 2005, the parent company had made payments to acquire rights to certain land under development (along with certain related parties). As of December 31, 2005 and 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 16 months amounting to KD 11,201,667 (net after the amounts relating to the related parties).

However, the final agreement had been signed between the seller and the parent company for acquiring these rights as of June 30, 2006, and accordingly the management considered the full future scheduled payments amounting to KD 4,862,287 as deferred consideration on acquisition of properties (Note 15) and recognized the value of the lands amounting to KD 15,300,318 as properties under development (Note 8).

7. Investment in joint venture

During the year, the group sold 50% of its 100% interest in the equity of Al Wahda Real Estate Investment Limited, which resulted in cease of control over the company and commencement of a joint venture. This investment was previously recorded as investment in unconsolidated subsidiary as of December 31, 2005. Therefore, the group classifies its remaining 50% interest in the equity of Al Wahda Real Estate Investment Limited as Investment in joint venture.

The movement during the year is as follows:

	<u>2006</u>	<u>2005</u>
Balance at beginning of the year	-	-
Transfer from investment in unconsolidated subsidiary	19,974	-
Group's share of loss from joint venture	(19,973)	-
Balance at end of the year	<u>1</u>	<u>-</u>

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The Group investment in its joint venture as of December 31, 2006 is as follows:

	Loss	Net liability
Al Wahda Real Estate Investment Limited	<u>28,625</u>	<u>8,651</u>

8. Properties under development

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

	2006	2005
Cost incurred to date plus recognized profit	<u>20,417,072</u>	13,639,546
Amount transfer from rights to certain properties (Note 6)	15,300,318	-
Addition relating to the newly consolidated subsidiaries (Note 1)	47,063,469	-
Transfer from work in progress	3,599,318	3,036,012
Less: Progress billings	<u>(27,189,117)</u>	<u>(5,409,156)</u>
Total properties under development	<u>59,191,060</u>	<u>11,266,402</u>

9. Investment properties

	2006	2005
Balance at the beginning of the year	<u>400,925</u>	-
Additions during the year	32,736,485	400,925
Addition relating to the newly consolidated subsidiaries (Note 1)	6,780,670	-
Changes in fair value of investment properties	<u>3,307,995</u>	-
Balance at the end of the year	<u>43,226,075</u>	<u>400,925</u>

10. Work in progress

	Freehold Land	Capital Work in progress	Total
Cost at December 31, 2005	<u>3,474,734</u>	1,200,063	4,674,797
Transfer to properties under development	(2,457,171)	(1,142,147)	(3,599,318)
Cost at December 31, 2006	<u>1,017,563</u>	<u>57,916</u>	<u>1,075,479</u>

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11. Fixed assets

	Furniture and equipment	Computers and software	Motor Vehicles	Total
<b>Cost</b>				
At December 31, 2005	89,812	32,393	22,754	144,959
Additions	167,538	36,843	28,627	233,008
Addition relating to the newly consolidated subsidiary	34,451	-	-	34,451
Disposals	(60,231)	-	-	(60,231)
<b>At December 31, 2006</b>	<b>231,570</b>	<b>69,236</b>	<b>51,381</b>	<b>352,187</b>
<b>Accumulated depreciation</b>				
At December 31, 2005	16,016	13,045	5,594	34,655
Charge for the year	31,804	19,551	6,460	57,815
Related to disposals	(14,664)	-	-	(14,664)
<b>At December 31, 2006</b>	<b>33,156</b>	<b>32,596</b>	<b>12,054</b>	<b>77,806</b>
<b>Net book value</b>				
At December 31, 2006	198,414	36,640	39,327	274,381
At December 31, 2005	73,796	19,348	17,160	110,304

12. Accounts payable and other credit balances

	2006	2005
Trade payable	8,442,293	2,877,121
Advances received from customers	12,165,477	1,185,527
Due to related parties (Note 26)	6,156,006	1,928,153
Dividend payable	605,209	145,400
Other payables and accrued expenses	2,916,642	749,611
	<b>30,285,627</b>	<b>6,885,812</b>

13. 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 (2005 - 2.5%).

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 4).

14. Wakala payable

Wakala payable represents Wakala agreements entered with a related party and maturing during the year of 2007. The average cost rate attributable to Wakala payable during the period was 6.5% (December 31, 2005 - 6.5%) per annum.

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15. Deferred consideration on acquisition of properties

	<u>2006</u>	<u>2005</u>
Balance at the beginning of the year	5,964,853	4,910,424
Additions during the year	19,057,313	1,054,429
Amount transfer from rights to certain properties (Note 6)	4,862,287	-
Addition relating to the newly consolidated subsidiaries (Note 1)	7,177,990	-
Consideration paid during the year	(3,640,597)	-
Balance at the end of the year	<u>33,421,846</u>	<u>5,964,853</u>

16. Capital

The General Assembly meeting held on March 22, 2006, approved to increase the parent company's capital by 25% from KD 15,150,000 to KD 18,937,500 by an increase of KD 3,787,500 (37,875,000 shares with nominal value of 100 fils each) equivalent to 25 shares for every 100 shares of the parent company's paid-up capital, as bonus shares for the parent company's shareholders as of the General assembly date.

In addition to that, the General Assembly held on March 22, 2006 approved to increase the authorized and paid up capital by 30% totaling to 45,450,000 shares with nominal value of 100 fils each and premium of 250 fils. As of June 30, 2006, only 43,079,090 shares out of 45,450,000 shares were subscribed.

Additionally, the General Assembly held on July 9, 2006 approved the following:

- A. Decrease the authorized capital by 2,370,910 shares from 234,825,000 shares to 232,454,090 shares.
- B. Increase the authorized capital by KD 5,500,000 through issuing 55,000,000 new shares to complete the acquisition procedure of First Dubai for Real Estate Development Company K.S.C. (Closed) with nominal value of 100 fils each and premium amounting to 410 fils each and to be allocated to new shareholders.
- C. The registered shareholders as of the date of the General Assembly meeting waive their right in subscription to the new shareholders.
- D. Amending the 6th item of the Article of Incorporation and 5th item of Article of Association of the parent company to become:

The company's authorized capital is KD 28,745,409 distributed over 287,454,090 shares with nominal value of 100 fils each.

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As of December 31, 2006, only 53,558,330 shares were issued to acquire First Dubai for Real Estate Development Company - K.S.C. (Closed), and hence the authorized, issued and paid up capital is as follows:

	2006	2005
Number of authorized shares (shares)	287,454,090	151,500,000
Authorized capital (KD)	28,745,409	15,150,000
Number of issued and paid up shares (shares)	286,012,420	151,500,000
Issued and paid capital (KD)	28,601,242	15,150,000
Number of unsubscribed shares (shares)	1,441,670	-

17. Share premium

Based on the capital increase approved by the shareholders in the General Assembly meeting held on March 22, 2006 and the General Assembly meeting held on July 9, 2006, the share premium generated from the subscribed capital increase amounted to KD 32,278,688 (Note 16). The share premium is not distributable except under specific circumstances as provided in Kuwait Commercial Companies Law.

18. 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.

19. 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.

20. Treasury shares

	2006	2005
Number of shares (shares)	13,728,702	3,530,000
Percentage of issued shares (%)	4.8%	2.33%
Market value (KD)	9,335,517	2,753,400
Cost (KD)	7,013,148	1,370,562

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21. Profit from sale of properties under development

	<u>2006</u>	<u>2005</u>
Revenue from sale of properties under development	37,953,520	10,783,766
Cost of sale	(18,248,473)	(8,988,283)
Profit from sale of properties under development	<u>19,705,047</u>	<u>1,795,483</u>

During the year, the group completed the construction process of two buildings and subsequently sold them to a related party for a consideration of KD 16,299,550 and recognized a profit of KD 10,481,097, these buildings were previously recorded as work in progress.

22. 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.

23. (Loss) profit from sale of rights to certain properties

The recognized sales and costs of rights to certain properties are amounting to KD 387,840 and KD 993,276 respectively.

24. Net investment income

	<u>2006</u>	<u>2005</u>
Unrealized gain from investments at fair value through income statement	522,328	5,969,129
Realized (loss) gain on sale of investments at fair value through income statement	(7,039)	34,444
Dividend income	<u>225,000</u>	-
	<u>740,289</u>	<u>6,003,573</u>

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25. Earnings per share

Earnings per share is computed by dividing profit for the year attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year.

	2006	2005
Net profit for the year attributable to equity holders of the parent company	23,431,021	14,008,429
	2006 Shares	2005 Shares
Number of issued and fully paid-up shares	201,693,402	164,224,048
Bonus shares for the year 2005	37,875,000	37,875,000
Less: weighted average number of treasury shares	(10,505,954)	(3,449,000)
Weighted average number of shares outstanding for the basic earnings per share	229,062,448	198,650,048
	Fils	Fils
Earnings per share attributable to equity holders of the parent company	102.29	70.52

The earnings per share has been recomputed as an effect from the bonus shares.

26. 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:

	2006	2005
<b>Balance sheet:</b>		
Properties under development	10,215,927	-
Accounts receivable and other debit balances	7,342,323	209,124
Accounts payable and other credit balances	6,156,006	1,928,153
Term loan	830,000	830,000
Wakala payable	6,000,000	6,000,000
	2006	2005
<b>Statement of income:</b>		
Profit from sale of properties under development	16,506,323	-
Management fees, commission and consultancy income	1,001,372	720,597
Finance charges	550,550	400,070
<b>Key management compensation:</b>		
Salaries and other short term benefits	646,449	286,100
Terminal benefits	8,449	4,499

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27. The General Assembly

The General Assembly held on March 22, 2006 approved the distribution of 25% cash dividend amounting to KD 3,595,545 (25 fils per share) and 25% bonus shares as 25 shares for every 100 shares held as of the General Assembly date, for the year ended December 31, 2005.

Further General Assembly held on March 22, 2006 and the General Assembly held on July 9, 2006, approved the increase in authorized and paid up capital (Note 16).

The General Assembly meeting held on March 6, 2005 approved the distribution of 20% cash dividend as 20 fils per share for the year ended December 31, 2004 and the increase of 1% of authorized and paid up capital totaling to 1,500,000 shares at 120 fils, including a share premium of 20 fils, under employees' share option scheme.

28. 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 balance sheet. Assets under management at December 31, 2006, amounted to KD Nil (December 31, 2005 - KD 18,490).

29. Commitments

The group has capital commitments in respect of construction of real estate for KD 64,568,622 (December 31, 2005 - KD 25,478,207).

30. Proposed dividends and bonus shares

The Board of Directors proposed the following and this proposal is subject to the approval of the shareholders' annual General Assembly:

A) Cash dividend of 50 fils per share (2005 - 25 fils)

B) Bonus shares of 10 shares for every 100 shares held (2005 - 25%)

Shareholders' annual general assembly meeting held on March 22, 2006 approved the cash dividends of 25 fils per share and 25 bonus shares for every 100 shares held for the year ended December 31, 2005.

31. Contingent liabilities

Letter of guarantee	<u>2006</u> <u>21,389,400</u>	<u>2005</u> <u>5,688,000</u>
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32. Comparative figures

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

