



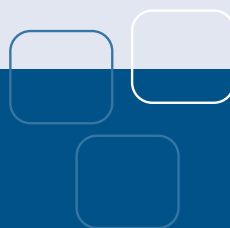
Annual Report 2006



**Injazzat Real Estate Development Co. K.S.C.**

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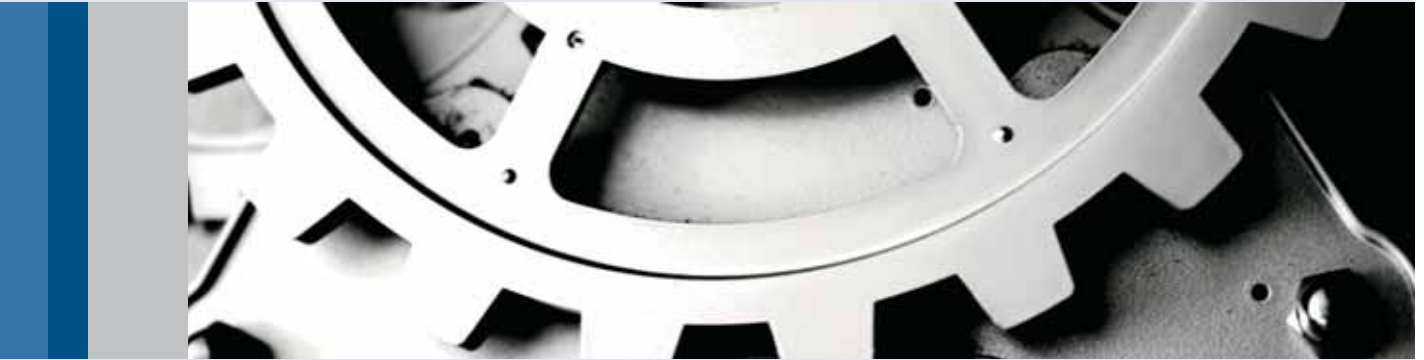
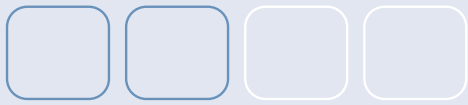
His Highness  
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah  
Amir of the State of Kuwait



His Highness  
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah  
Crown Prince



His Highness  
Sheikh Nasser Al-Mohamad Al-Ahmad Al-Sabah  
Prime Minister



BOARD OF DIRECTORS



Hamad Abdul Aziz Al-Shaya  
Chairman



Faisal Fahad Al-Shaya  
Vice Chairman



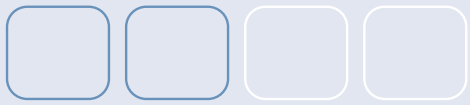
Mohammad Ibrahim Al-Farhan  
Managing Director



Khaled Abdul Mohsen Al-Saqer  
Board Member



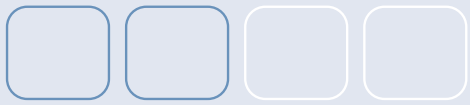
Mohamed Al Marzouk  
Board Member





## Content

Chairman's Message	1
Company's projects	3-9
Performance of the Domestic Economy	11-12
Performance of the Domestic Real Estate Sector	13-14
Company's Financial Analysis	15-16
Company's Share Performance Analysis	17-18
Auditor's Report	21
Consolidated Income Statement for the Year Ended 31 <sup>st</sup> December 2006	22
Consolidated Balance Sheet at 31 <sup>st</sup> December 2006	23
Consolidated Statement of Changes in Shareholders Equity for the Year Ended 31 <sup>st</sup> December 2006	24-25
Consolidated Statement of Cash Flows for the Year Ended 31 <sup>st</sup> December 2006	26
Notes to the Consolidated Financial Statement	27-39



Dear Shareholders,

It gives me great pleasure to welcome you, on behalf of my fellow members of the board, and present to you Injazzat Real Estate Development Company's annual report for the fiscal year ended on 31st December 2006, including an account of our activities during the period in question. As clearly manifested in this report, the company was active throughout the year. The year 2006 laid witness to many outstanding achievements, most notable of which was the completion of Dhow Tower (the company's headquarters) highlighting a milestone in both real estate and investment.

As a continuation from previous years, the company has been progressive in its activities throughout the past year. It has sold and liquidated a number of projects and assets after realizing the targeted figures of profits. This year also coincided with the maturity of a number of investment funds such as Alpha Real Estate Fund (France), which had remarkable results. In the US, the company witnessed the liquidation of the BV NGP Program as per the targeted strategy, as well as disposing of the Verona Residential Complex. Along with these successful dispositions, the company made many auspicious purchase and investment deals, including investment in a new promising market, the Republic of Bulgaria. The company also invested in REITs through ROCA Real Estate Fund. Additionally, it acquired more assets in UAE, Qatar, USA and Kuwait, which together with the continuing development projects and management of its income-generating assets, marked an active year on the whole.

Such a remarkable activity in every aspect of the business at international, regional and local levels, inherently reflected on the company's balance sheet, with the assets level rising from KD 73.8 million in 2005 to KD 98.1 million in 2006, an increase of 33%. Shareholders equity grew from KD 46.7 million in 2005 to KD 53.6 million in 2006, up by 15%.

Furthermore, revenue reached KD 13.6 million at the end of 2006 versus KD 17.9 million in 2005, marking a decrease of 24%. Total expenses increased to KD 2.5 million as at the end of 2006 against KD 2.1 million in 2005, which is an increase of 18%. Overall, the net profit as of December 31, 2006 was KD 10.7 million versus KD 15 million in the previous year, which represents an EPS of 38 fils per share. The figures show a decrease in the net revenues compared to the last year. This decrease is attributed to a deal that included a portfolio of real estates held by the company for several years, and was sold last year realizing exceptional profits.

The continued active performance throughout the year was also reflected on the company's credit worthiness and reputation. Many banks rushed to compete in offering the company credit facilities with easy and special terms, allowing for a streamlined structuring of its facilities for longer maturities at a reduced cost of funding. At the same time, the company made good progress in the issue of US\$ 60 million in Sokouk (Islamic bonds), which will be utilized for financing the company's projects and investments.

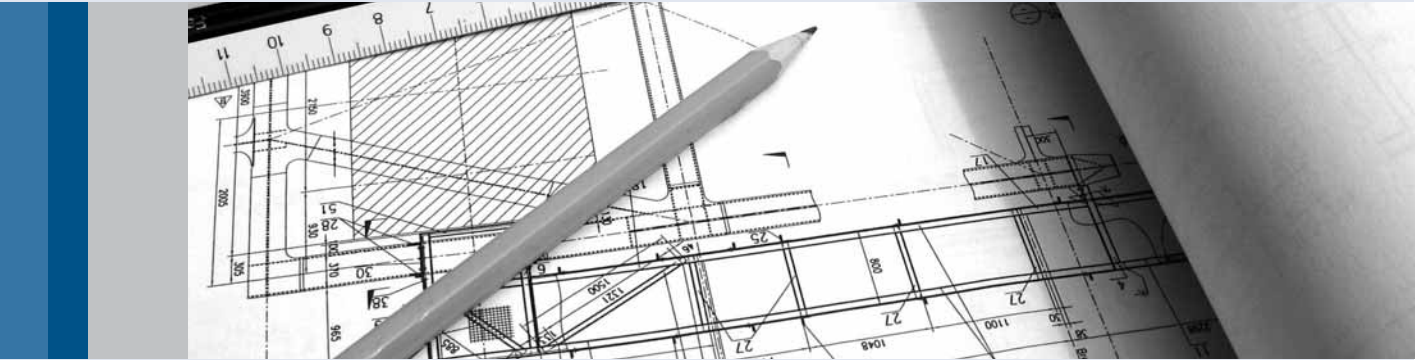
The company still has many plans and projects for the forthcoming year. It will be focused on developing its property investments located in Kuwait, GCC, Europe and United States of America. In the meantime, it will continue investigating new attractive investment opportunities in current and new markets driven by strategic alliances that assist in achieving the company's objectives and sustaining its prestigious and leading stature in the real estate market.

In summary, I would like to extend, in my own name, and on behalf of my fellow members of the board and staff, our sincere gratitude and appreciation to the company's shareholders for their continued support and trust. I also express our real appreciation to the management and staff for the effort exerted by each and every one of them for their contribution toward the company's achievements.

Sincerely,



**Hamad Abdul-Aziz Al Shaya**  
Chairman of the Board



### Introduction

Since inception, Injazzat Real Estate Development Company (Injazzat) has been striving to build for itself a distinguishable image in the real estate development and investment market. It employs the highest professional and quality standards and works diligently to effectively enhance the Company's asset value, as well as client and shareholder resources by offering diversified real estate services leading to promising asset investments to capitalize equity and achieve added value to the investment assets at all local, regional and international levels.

Injazzat's strategy is focused on achieving geographical and qualitative diversification, thereby creating a balance between income-generating assets and other development investments, through land trading, commercial and residential developments, investing in the hotel and entertainment sector, and BOT projects.

### Local Level

In Kuwait, Injazzat adopted a multifaceted strategy to ensure the desired diversification of assets covering ownership of land, income producing properties and carrying out profitable real estate projects.



#### Dhow Tower

The Dhow Tower is a pioneering real estate and investment project for Injazzat. It marks a remarkable achievement and innovation for Injazzat because it is the first of its kind in the Kuwait Real Estate market, providing a unique and new investment vehicle to own commercial office space. It successfully satisfies the needs of the local market and also serves as Injazzat's new prestigious headquarters that suits its stature and allows for future expansion.

Strategically situated in Sharq area of Kuwait City, the 33 floor tower, completed at the end of 2006, occupies an area of approximately 2,000 square meters with a total building area of about 24,129 square meters.

### Al Mal & Aqar Joint Projects Company

Al Mal & Aqar Joint Projects Company was established in the 3rd quarter of 2005, in cooperation with Aqar Real Estate Investment Company (Aqar). The new company merged Injazzat's two plots with Aqar's plot in Sharq covering an area of 3,000 sqm. The intention is to develop an office tower with total built up area of nearly 35,000 sqm. Injazzat holds 66.6% of equity in the new company while Aqar holds 33.3%. Work is currently in progress, developing the final designs and obtaining the required licenses. It is anticipated that this property will make a significant addition to the area, which witnesses continued development, enhancing its stature as an area of commercial focus.

## The Company Projects

### Injazzat Tower

Keen to ensure further development and enhancement of the area around the Dhow Tower to attract more companies, banks and investment and financial institutions, Injazzat is currently taking the required arrangements and obtaining the necessary licenses for the development of an office building on the land behind Dhow Tower opposite Al Mutannabi Street, covering an area of approximately 1,000 sqm. The tower consists of 28 floors with total built up area of about 15,750 sqm.



### Al Dajeej Building



In 2003, the Company acquired Al Dajeej office building in the Farwaniya area. The property has a total area of 10,634 sqm of office space, and is fully occupied by ministry authorities under long-term leases. The building is an example of the strategy to expand locally by investing in strategically located income producing properties owned and operated by the Company.



### Ikaros Real Estate

The Company also took interest in Public Sector Development projects, which aim to promote internal tourism and provide entertainment services for nationals and residents alike.

When the Kuwait Touristic Enterprises Company offered the Failaka Touristic Park Project on a B.O.T basis, the Company submitted a bid with an outstanding and innovative design using a traditional Greek architectural style designed by both local and foreign professionals. Ultimately, the Company was awarded the project and subsequently established Ikaros Real Estate Company in partnership with a group of investors to undertake the endeavor.

The Ikaros Project covers an area of 1.7 million square meters. The resort,

with a five kilometer long waterfront, will be situated on the southern side of Failaka Island opposite the Kuwait shore. The Project includes a 100- room hotel, 500 chalets of varying sizes, a health resort, Aqua Park, entertainment facilities, restaurants, shops and a marina. The Project is due to be completed in 30 months towards the end of 2008.

### Future Projects

The conception of achievement and the need for continued distinction among its peers, demonstrate that the Company's agenda is studded with a spectrum of innovative ideas and future projects. At present, the Company is looking into the best ways to capitalize on the strategic locations of several well situated plots of land it holds in Sharq, Shuwaikh and Maidan Hawalli. The Company will continue to investigate the best local real estate and investment opportunities, which are expected to provide potentially generous revenue for the Company and its shareholders.



### GCC Countries

As a continuum of its strategy to achieve geographical diversification and to maximize appreciation of all investment opportunities outside the local market, the Company extended its activities to several Gulf countries, which so far include Kingdom of Bahrain, Qatar and United Arab Emirates. The Company is continuously seeking to acquire promising real estate opportunities with value added appreciation.

### Kingdom of Bahrain

Bahrain is one of the major promising markets across the Arabian Gulf. The Bahrain market is experiencing a boom in activity and prosperity due to the government's efforts to improve and develop both the infrastructure and the transport network as well as relaxing some of its laws in order to encourage transformation of this strategically situated country into an economic and financial center and attract foreign investment.

In light of these developments, Injazzat has been actively contributing to Bahrain's promising economy through many real estate development projects as well as in the construction sector.

### Dhow Real Estate Company



Established in 1999 and wholly owned by Injazzat, Dhow Real Estate Company invests, develops and trades in Bahrain's real estate sector. The Company has acquired many strategically located land plots in Bahrain in the areas of Al Seef, Sar, Al Juffair, Al Janabeah and Ras Zuwaid. The Company plans to develop or trade these blocks to generate rewarding profits.

The Company is currently conducting the necessary studies for Al Janabeah and Ras Zuwaid lands with plans to develop them into rewarding residential and industrial projects.

### First Real Estate Company

Established by Injazzat in 2002, and shared equally with a qualified and expert Bahraini investor, First Real Estate Company focuses on the construction and development of residential complexes. Since incorporation, First Real Estate Company has completed the development of Al Juffair Complex I & Al Juffair Complex II Projects, in addition to trading and purchasing land plots.

In the 3rd quarter of 2005, the Company underwent restructuring. The Company increased its capital to BD 30 million through additional assets and allowing for the entry of new investors. Injazzat maintained a 12.5% ownership interest in the restructured Company. The Company is expanding its activities to the extent that it maintains the quality and performance of its current income-generating assets, which have high occupancy rates. In addition, the Company continues to invest in new promising projects such as the development of lands and assets it holds in strategic locations.

### United Arab Emirates

As part of its well-planned strategy focusing on diversity of income resources and spread of risks, the Company has made an advantageous entry into the region's major markets, taking advantage of the increasing growth seen in these areas and the property ownership laws favorable to Arab and foreign investors. As such, the Company recently purchased several lands in the United Arab Emirates, namely in the Al Qouz and Al Barsha Al Oula areas of Dubai in addition to a land in Um Al Quwain.

#### Al Qouz Residential Project

In partnership with foreign investors, the Company initiated the Al Qouz Residential Project in Dubai, covering an area of 100,000 sqm. The estimated total building area of the project is approximately 224,180 sqm. Completion of the project is expected around the second quarter of 2007. Recognizing the significance of this area, the Company has purchased two new plots, and has already worked out the necessary designs to obtain the required licenses for developing one of the plots into a similar residential project.



#### Al Barsha Real Estate Company

The Company sought alliance with Akar Real Estate Co. and Project Analysis Systems Co. – Projacs, which resulted in the establishment of Al Barsha Real Estate Co. in December 2006. The goal is to utilize a 34,675 sqm area of land owned under this alliance to develop an office building.

### Qatar



In recent years, Qatar has been experiencing considerable growth in economic performance thanks to the reforms that encouraged various investors to invest in the private sector, especially in real estate. This activity generated remarkable investment opportunities in this arena. Keen to take part and contribute in this activity, the Company purchased several lands in Lusail area for development and trading, availing of the expected appreciation in value. It has also participated in a Qatari company which holds land in a strategic and promising area.

### International Level

At the international level, Injazzat targeted some significant real estate opportunities in certain countries in Europe and North America. These include both direct investments in land and projects under development and indirect investments through real estate funds that provide investors with fixed income and capital growth. These investments are put in the hands of experienced partners who are well positioned to manage property assets to ensure proper management and achievement of the targeted revenues.

### France

#### Al-Mal Real Estate S.A.S – France

Incorporated in 2000, Al Mal Real Estate France began operations by trading in residential and commercial opportunities on short and medium term basis in cooperation with French partners. Since then, the Company has successfully acquired many residential and commercial properties, held them for varied periods and sold most of them, realizing rewarding returns.

#### Alpha Real Estate Fund (Sold during the year)

Established in 2001, with the objective of investing and trading in commercial offices in major French cities, the fund has achieved great success. The fund was liquidated in the 2nd quarter of 2006.



#### Alpha Leasing Fund

In 2003, the Company launched a unique Islamic real estate fund focused on investing in commercial offices and warehouses in various major French cities between Paris and Marseilles. The holding period of this investment is anticipated to end by 2010.

### Bulgaria

In December 2006, Injazzat invested, through ARC Global Partners and Euro Capital, in a land acquisition program on the western side of Sofia city in an area called Luilin. The aim of this investment is to merge the purchased lands for trading and or development into residential units or multi-purpose projects.

### USA

#### Verona (Sold during the year)

In 2001, the Company, in cooperation with local and foreign investors, constructed the Verona residential complex in Dallas, Texas. It includes a single high-rise tower and two adjacent mid-rise buildings totaling 274 residential units. This complex was sold by the end of the 2nd quarter in 2006.



#### BV-NGP (Sold during the year)

In the second half of 2002, the BV NGP Fund was launched and the Company acted as the marketing agent for the fund in Kuwait. It invests solely in new buildings which are leased exclusively under long term contracts to US government entities with semi-stable revenues. The buildings are located in major metro or suburban areas. These variables provide a stable, risk averse fund with substantial potential for appreciation at maturity. The Asset Manager started the fund liquidation procedures during the 2nd quarter of 2006.

### Eldorado



In January 2004, the Company acquired a major share of a land plot in Texas (McKinney City) that was intended to be divided and sold. The land is strategically located in a newly developing area near main roads. It is expected to yield rewarding profits for the Company.

#### Shmael U.S. Real Estate Fund

In the second half of 2004, partnering with Al-Shall Investment (Fund Managers) and Grosvenor Investment Management US Inc. (Fund Asset Manager), Injazzat incorporated Shmael U.S. Real Estate Fund in compliance with Islamic Shari'ah guidelines. The fund invests in the USA major metro area office building sector to achieve a stable operational income in addition to the future benefit of increased value.

### Preston Creek

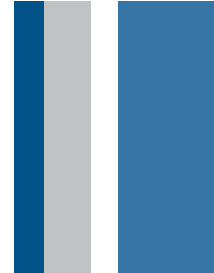
In January 2005, Injazzat acquired a major share of a strategic land plot in Plano, Texas, planning to develop it into a commercial complex for future sale or lease. The plot is strategically located between the cities of Plano and Frisco, both of which are in the midst of an economic boom. The project will be developed in two stages. The first stage commenced in January 2006. The second stage is expected to start in the second quarter of 2007 and is expected to be completed by the end of year 2007.



## The Company Projects

### ROCA Real Estate Securities Fund, L.P. ("ROCA")

Through ARC Global and ROCA Advisors LP and under the management of ROCA Management LLC, the ROCA fund began in July 2006 as an investment vehicle formed to pursue investment opportunities in Real Estate Investment Trusts (REITs) and Real Estate Operating Companies in the USA with equity market capitalizations under \$1 billion, with a special emphasis on REITs with capitalizations under \$500M. The Fund's strategy will be focused on purchasing positions in companies trading at below their Net Asset Value (NAV), or potential targets for ROCA's consolidation strategy (ROCA II). This investment has a three year anticipated holding period.



### Monterrey Village – San Antonio – Texas – USA

In October 2006, Injazzat has invested in a 232 acre mixed-use development project ("Monterrey Village") located in a growing area of San Antonio, Texas USA. The project includes a blend of multi-family residential units, retail and pad sites, offices, and a hospitality component. Initial investment in this project is via a mezzanine loan structure. ARC Communities will be developing the property along with Trammel Crow Company (NYSE:TCC), a well known national real estate development and services group.

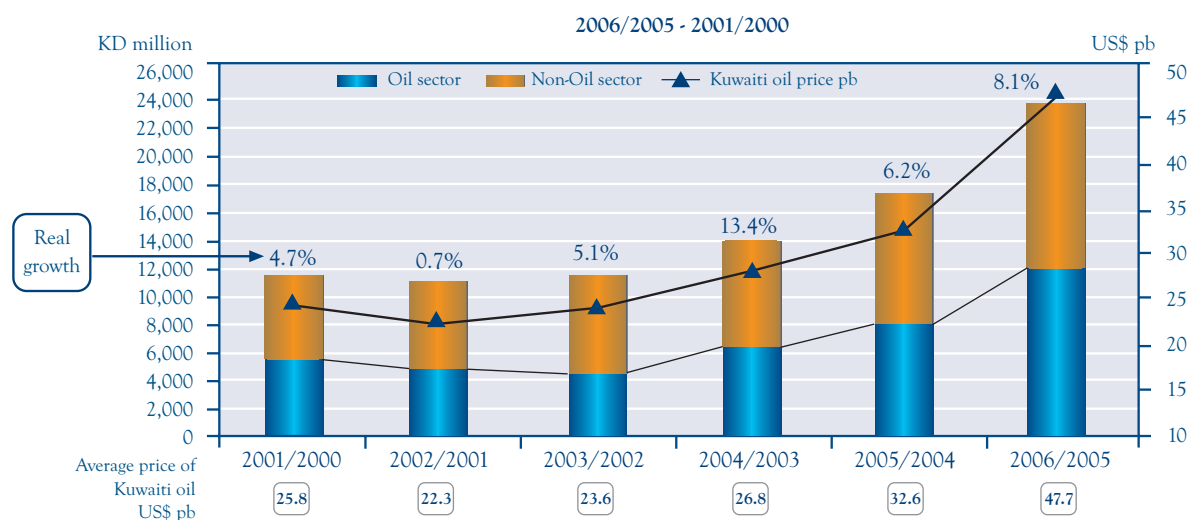


### Performance of the Local Economy

Strong nominal growth continued in 2006, with the gross domestic product realizing a two-digit growth for the fourth year in a row. According to the EIU review of December 2006, it is expected to achieve a growth rate of 13.6%. On the other hand, the real growth increased to about 8.1%, compared to the expected rate of 5.6%. The strength of both the nominal and the real growth rates is attributed to the strong performance of the oil market in 2006.

While Kuwait oil price per barrel rose by about 60.3% between December 2004 average and December 2005 average, it further rose by about 9.4% for December 2006 average compared to December 2005 average. Kuwait continued to produce 2.5 million barrel per day till the end of October 2006 when it started to apply OPEC resolution to reduce the actual oil production by about 4.4%. Theoretically, this means that Kuwait reduced its production by about 100 thousand barrels per day (bpd) to 2.4 million bpd. Initial indicators, however, show that OPEC is not strictly complying with the announced reduction.

GDP in current prices and average price per barrel of Kuwait Oil



Oil market indicators showed some slacking and prices dropped about 16.5% from highest levels reached in July 2006. OPEC announced possible intents of another reduction of production by February 2007. Continued rise in oil prices and concerns about short supply as well as doubts about the size of fixed reserves led to more investments in the sector and in alternatives, which in turn, caused more non-OPEC production, coupled with some slackness on the demand side after the decline in the US economic growth rates, which represents about 30% of the global economy. Nevertheless, the EIU bulletin anticipates that the Kuwaiti economy in 2007 will continue to record an actual growth rate of about 5.6%. Despite the signs of weakness, oil prices are not expected to go below the level of US\$ 50 per barrel, which will be sufficient on the long run to support high growth rates.

The strength of the oil market was positively reflected on the public surplus, with the closing account of the fiscal year 2005/2006 showing a record surplus of about KD 6.866 billion as at the end of March 2006, rising by about KD 2.647 billion over the previous fiscal year. The actual surplus for the fiscal year 2006/2007 is expected to fall to about KD 5 billion, due to record increase in the volume of public expenditure estimated in the current budget 2006/2007 at about KD 11.119 billion or higher by about KD 3.887 billion than the expenditure estimated in the previous fiscal year. This high level of expenditure is exceptional as it includes about KD 2.4 billion of accrued payments due on the government under the social security system. Accordingly, it is expected to go down by about KD 2 billion in the fiscal year 2007/2008. This tendency to reduction could be

backed up by possible downfall in the oil market. However, the absence of a clear vision of the objectives of the developmental financial policy remains a persisting shortcoming factor leading to a multitude of projects that deplete it uselessly.

Kuwait's external balances also realized record surpluses. Kuwait's external trade figures for the three quarters of 2006 indicate a new record surplus of about KD 11.9 billion on an annualized basis. It is higher than the 2005 surplus of KD 7.995 billion by about 48.8%. The EIU estimates indicate that Kuwait is likely to realize a surplus in its current account in the order of KD 9.527 billion, marking a new record surplus.

Because the year 2006 was the year of rectifying asset prices, and with the easing concerns over inflation in US economy and the lowering of the frequency of US dollar basic interest rate increases from 8 times in 2005 to 4 times in 2006, and also discontinuation of increasing the US dollar interest rates from mid 2006 and the fixing of the KD discount rate since 3/7/2006, the time of recessive monetary policies seems to be over after the US dollar interest rate stood at 5.25% and KD discount rate at 6.25%.

KD interest rates are expected to remain fixed over 2007, with an increasing possibility of reducing them if the stable prices of assets continue and the US dollar gives signs of weaker exchange rates.

In conclusion, and despite the contradictory indicators of weaker oil prices and reduction of production levels and the adverse impact on all internal and external balances, the price and production levels will remain comfortable as to ensure high nominal and actual growth and the internal and external balances will continue to realize comfortable surpluses in 2007. With some reformation policies, though with varying levels among the region's countries, business in the region's markets is expected to be attractively rewarding, albeit different or more difficult than the time of absolute great demand when the purchase of assets and waiting was sufficient.

### Performance of the local real estate sector

The highest liquidity level in the local real estate sector was realized in 2003, when a set of factors joined to support it. The change in the Iraqi regime opened the door for expanding economy northward, coupled with the breaking of the security fear barrier and further supported by a sharp increase in oil price and production, inflows of abundant liquidity from compensation payments, continued decrease in interest rates—funding costs, and rapid increases in population growth. Since then, the market activity continued, but at a decreasing pace. The market liquidity decreased in 2004 by about 2.5% compared to 2003 liquidity level. In 2005, it decreased by 19.1% compared to 2004, but remained at high liquidity levels as the rates of most of its constituents remained consistent. The 2006 liquidity figures indicate that the market is moving to recover the 2004 levels or a figure close to the second highest level of market liquidity. Contract and agency dealings totaled some KD 2,729 million. Liquidity in the first half of the year amounted to about KD 1,178 million and about KD 1,551 million in the second half. This indicates an upward trend of liquidity, though it serves only an initial indicator of possible continuum of the same trend.

This growth in liquidity came after two years of slowdown and a partial correction of the real estate sector constituents such as the investment housing. This was also accompanied by the corrective movement in Kuwait Stock Exchange, which was probably a reason for the return of some speculators back to fixed income generating assets, after some of them had quit the market totally or partially. It was also synchronized with the discontinuation of the accelerating increases in KD interest rates, which were expected to remain fixed in the worst scenarios and to possibly go down at a later time, which all reduced the attraction of holding liquid funds and cut down the cost of funding.

Highly liquid real estate market can maintain its appeal, which also means that high liquidity of the market is not necessarily associated with the corrective movement in KSE if the economic and security general environments are not favorable. High liquidity suggests that the dose of the investment dimension in the dealers' investment decision is higher, which is a good indicator that the local real estate market will likely maintain its appeal.

### Private Housing

The private housing activity took up about 54.1% of the real estate sector liquidity, with dealings of about KD 1,477.4 million. This percentage, though high, remains less than the activity's average share over the past five years ranging between 62% and 65%. This shift occurred despite the sharp rise in the private housing prices to sometimes unjustifiable levels. This also means that the balances or wealth available for investment in real estate as an income generating asset increase at a higher pace or that the private housing prices need a corrective movement.

The private housing is still minimally influenced by the real estate market cycle and the macro economic and security adverse changes. The supply of lands for this type of housing remains limited, given the fact that 53% of Kuwaiti population (one million for the first time last year) falls under 21 years of age. This age bracket is by far, the most influential in terms of demand for private housing.

Continued low liquidity coupled with high prices in this segment can be taken as an indicator of possible future decrease in prices or putting them down to minimum limit. The impact of the oil market changes on the public finance will accelerate the wheel towards this direction, if this impact was adverse and noticeable.

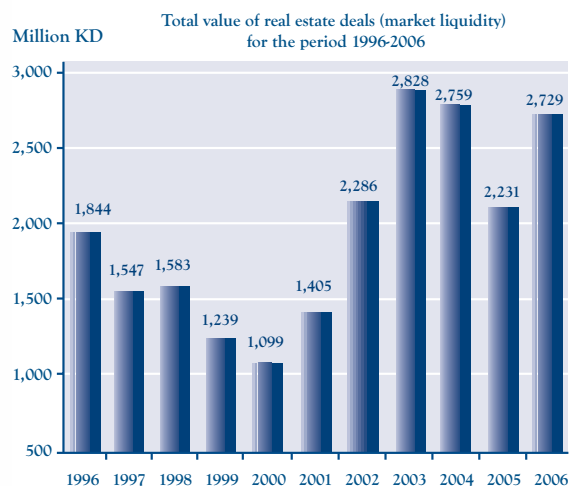
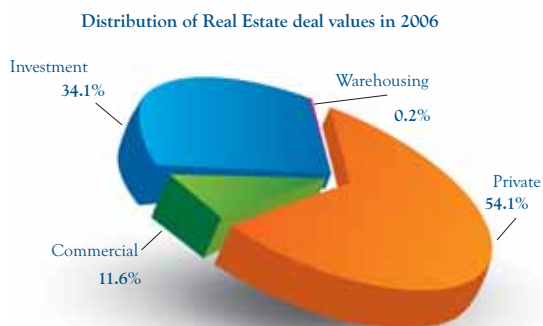
### Investment Housing

After it had lost about 34.3% of its liquidity in 2005 versus 2004, investment housing regained most of its losses in 2006 with liquidity rising up by about 42% compared to 2005 with transactions of about KD 930.2 million.

This level of liquidity ranks as the third highest recorded level for this type of activity, which culminated in 2004 with dealings of KD 973.4 million and KD 969.6 million in 2003. As its liquidity rose, the activity's contribution to real estate market increased from 28.7% in 2005 to 34.5% maintaining its high weightage as the second larger constituent of the real estate market dealings and counting, with the private housing, for about 88.2% of the total real estate market liquidity. Because investment housing is the most sensitive activity in the real estate investment arena, its positive developments seem to be an indicator of the real estate market health, though it needs to wait for some time to assure such trends.

### Commercial Real Estate

Commercial real estate, which includes offices, commercial complexes and warehousing, accounted for a share in the market liquidity of about 11.6% or KD 316.6 million. At this level, the activity marks a record figure rising by about 66.1% over last year's record level of KD 192.9 million. This jump can be attributed to the continued shortfall in the supply, basically the office units. Growth in the demand for commercial property still exceeds the supply. The value per deal for office and commercial complexes rose from an average of KD 1,658 million in 2005 to KD 2,1534 million in 2006. This rise partly reflects the rise in prices, but is clearly another indicator of the continuing imbalance between supply and demand. It is anticipated that supply shortages will continue in 2007. To properly measure the supply/demand imbalance over the long term, monitoring of building licenses and projects completed will be required on an on-going basis.



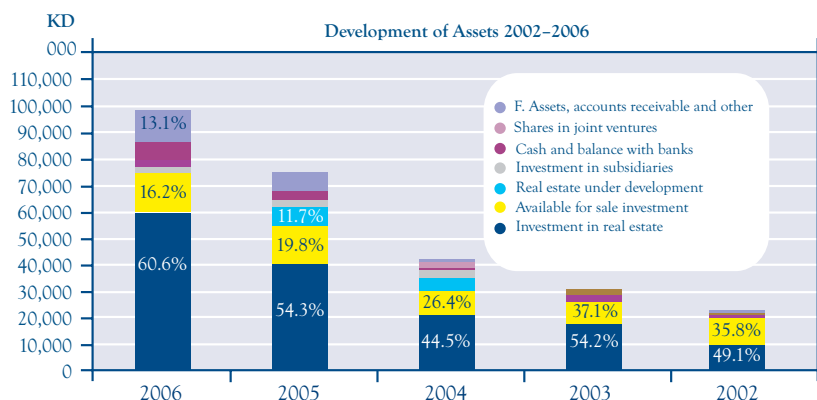
## The Financial Position

The company's asset growth continued in 2006, which is in accordance with the long term strategic plan set by the Board focusing on real estate investment and development.

The company's assets increased by KD 24.2 million by the end of the year representing an annual growth rate of 32.8%, reaching total assets of KD 98.1 million in 2006 over KD 73.8 million in the previous year. This increase in the company's assets was due to the increase in the value of most of the investment and real estate assets by 19.7% to about KD 78.6 million from KD 65.9 million in 2005. These assets counted for about 80.2% of the company's total assets in 2006 versus 89.0% in 2005.

Investment Properties counted for the highest share in the company's assets, amounting to 60.6% in 2006 against 54.3% in 2005 soaring from KD 40.1 million to about KD 59.4 million. By comparison, the available for sale investments decreased minimally by 1.5% down to about KD 14.4 million in 2006 against KD 14.6 million at the end of the previous year. Thus the real estate assets combined (including investment properties, available for sale investments, investments in associates, investments at fair value and investment in real estate under development) realized at the end of 2006 a considerable growth of 37.8% compared to 2005.

The company continued to finance its investment assets through lending from local banks. Loans at the end of 2006 amounted to about KD 28.0 million versus KD 18.5 million in 2005. Liabilities at the end of 2006 amounted to about KD 39.5 million rising by KD 16.8 million, or 74.2% over total liabilities in 2005 which amounted to about KD 22.6 million.



The ratio of total liabilities to total assets in 2006, amounted to about 40.2% which is higher than the ratio recorded in 2005, which was 30.7%. Liabilities versus shareholders equity also rose to about 73.6% against 48.5% in 2005. These indicators demonstrate continued positive financial results, and an ability to continue asset growth under various leveraging options.

**Geographical distribution of the company's assets as at the end of 2006**



### Financial Performance

Despite the corrective movements in most of the regional stock exchanges, including the local one, which impacted the real estate investment, the company realized net profits of about KD 10.2 million, marking the second highest figure recorded by the company since inception. The company had realized record net profits in 2005, part of which were exceptional. The net profits for 2006 fell by about KD 5 million or 33% due to the downfall in the operating profits by about 24.9% coupled with a mild increase in expenses by about 19% and despite the decrease in the average total profit margin to about 81.7% from 87.0% at the end of 2005. Despite the decrease, company performance is still strong and marks the second highest profit margin realized in the company's history.

Total revenues declined to KD 13.6 million compared to KD 17.9 million, which is mainly derived from the company's real estate activities. The profits resulting from the change in the fair value of investment properties contributed to 54.4% of the total revenues, amounting to KD 7.407 million compared to KD 9.620 million in 2005. The Company, though, adopts a conservative revaluation policy in order to avoid fluctuations in real estate prices. The Company also sold all 22 floors allocated for sale in Dhow Tower, which was completed by the end of 2006 for realized profits of KD 2.504 million. This contributed to about 18.4% of total revenue. Six floors have been retained for leasing and three floors will be utilized for corporate headquarters.

Expenses had minimal increases of 19% from KD 2.113 million in 2005 to KD 2.502 million in 2006, which is mainly due to the rise in funding costs by KD 206.9 thousand or about 20.7% when compared to 2005 due to the rise of funding by 51.3% in 2006. Operating costs declined by about 54.9% as a result of selling part of the company's investment assets in 2005.

The company realized net profits of about KD 10.2 million, with the EPS standing at 38 fils after it reached 58 fils in 2005. Return on assets (ROA) was about 10.4% in 2006 compared to about 20.6% in 2005. Return on Equity (ROE) was about 19% compared to 32.6% in 2005. The share book value showed minimal decline to 196.3 fils at the end of 2006 from 196.5 fils in 2005.

Despite the decline in the Company's revenues compared to 2005, most of its indicators showed better curves than other real estate companies enlisted on Kuwait Stock Exchange. It has maintained a good position on the list of 29 enlisted real estate companies as at the end of 2006, and had the highest P/E and return on equity.

Financial indicators	Injazzat	Average Real estate companies enlisted on KSE*
P/E	7.4	38.2
P/B	1.4	1.6
ROE %	19%	17.5%
ROA %	10.9%	11.2%
Turnover %	114.3%	74.4%

\*Average of 28 companies enlisted on KSE, which had financials available as on 30/9/2006 on an annualized basis.

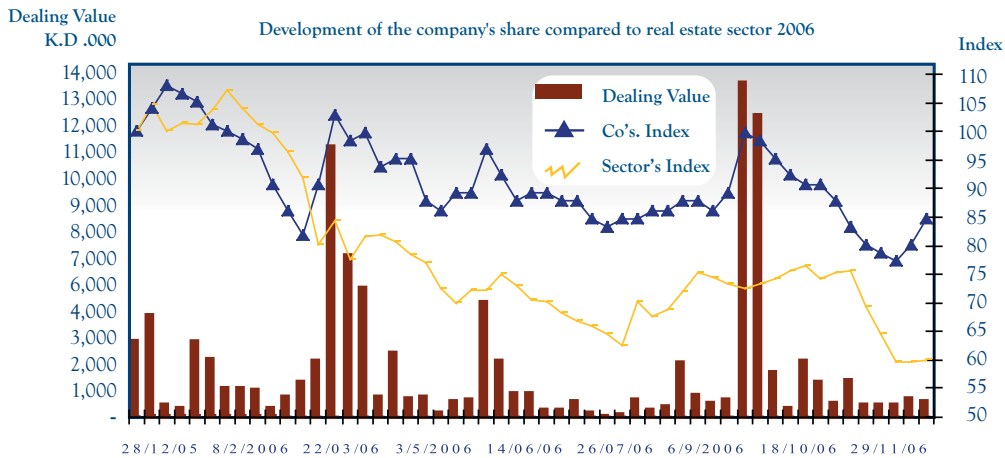
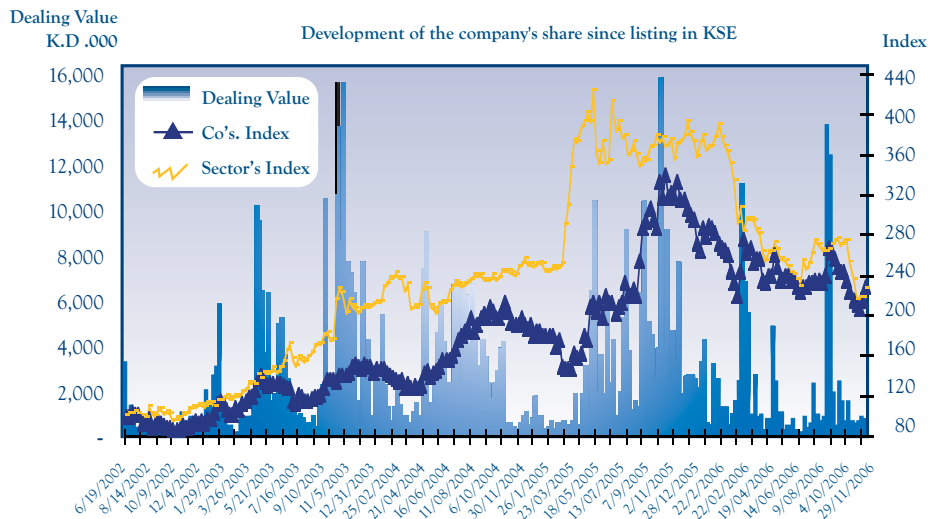
In order to enhance shareholders' trust in the company's continuing distinguished performance, the Board of Directors recommended distributing cash dividends of about 15% and bonus shares of about 10% for 2006. Accordingly, the cash yield will be about 5.4%, which is higher than the company cash yield for 2005 of 2.5%. Overall, the Company's cash yield is significantly higher than the average real estate sector cash yield of 2.7% (2005).

## Company's Share Performance Analysis

The performance of the local stock exchange in general and the real estate sector in specific declined in 2006, which adversely affected enlisted real estate companies. But the Company's share price declined by a lesser degree than the overall real estate sector index.

This chart shows the development of the company's share price since enlisting in 2002, indicating a downward swing of the share price due to the corrective movement in KSE. But the Company's share price decline was less percentage wise than the real estate sector index. It is worth noting that the company distributed 10% in dividends and 15% in bonus shares (for 2005 profits) and the new shares have been put into dealing on 21 /2/2006.

The company's share closed by year-end at 280 fils, marking a decrease of 30.9% compared to the closing of 405 fils in 2005. Taking into consideration the impact of the bonus shares distributed in 2006, the capital loss realized over 12 months period fell down to 15.3%. The highest market price in 2006 was attained on 29/01/2006 marking 415 fils, while the lowest price attained on 04/12/2006 was 240 fils.




## Company's Share Performance Analysis

The P/E declined by the end of 2006 making 7.4 times against about 6.98 times in 2005, because the decline in the earning per share was higher than the decline in its price. But this index remains at a good level compared to the average index of the market and the real estate sector. Meanwhile, the P/B rose to about 1.4 times against about 2.1 times at the end of 2005 due to the minimal rise in the share book value to about 196.3 fils at the end of 2006 with the decline in the company's market share price.

The total value of traded shares during 2006 amounted to about KD 171.1 million, with an average daily trading of KD 0.707 million, marking a growth rate of 2.4% compared to 2005. The traded shares value counted for about 3.1% of the total dealings in real estate sector in 2006. The quantity of traded shares amounted to about 478.9 million shares with an average daily trading of 2.0 million shares marking a growth of about 1.8% compared to 2005. Accordingly, share turnover was about 114.3% compared to the previous year where it amounted to about 201.6%. The total market value rose to about KD 76.5 million, counting for about 2.6% of the real estate sector market value. This was lower by about KD 19.7 million than the market value realized at the end of 2005.

2006	Value of traded shares KD million	Quantity of traded shares Million shares	No. of deals Thousand deals	Capital market value KD million
No. of trading days	249			
Injazzat Co.	168	471	15	96
Total real estate sector	5,576	13,134	479	3,893
Total market	28,421	52,245	1,955	41,499
Ratio of total real estate sector	3.01%	3.58%	3.04%	2.47%
Ratio of total market	0.59%	0.90%	0.74%	0.23%
Share turnover rate (on an annual basis)	114.3%			



**Auditor's Report  
and Consolidated Financial Statements  
for the year ended 31<sup>st</sup> December 2006**



To the shareholders of  
Injazzat Real Estate Development Company – KSC (Closed)  
[Formerly Al Mal Real Estate Company – KSC (Closed)]  
Kuwait

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Injazzat Real Estate Development Company (A Kuwaiti Closed Shareholding Company) [Formerly: Al Mal Real Estate Company KSC (Closed)] (“the parent company”) and Subsidiaries (“the group”) which comprise the consolidated balance sheet as at 31 December 2006, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Consolidated Financial Statements*

The parent company's 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' 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 auditor's

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 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.

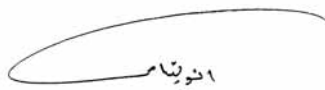
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

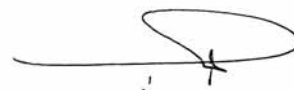
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the group and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of Commercial Companies Law, as amended, nor of the parent company's articles of association have occurred during the year that might have had a material effect on the business of the group or on its financial position.



Anwar Y. Al-Qatami, F.C.C.A.  
(Licence No. 50-A)  
of Grant Thornton – Anwar Al-Qatami & Co.  
Kuwait  
17 January 2007



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

## Consolidated statement of income

Income	Note	Year ended 31 Dec.2006 KD	Year ended 31 Dec.2005 KD
Rental income		385,020	738,875
Profit on sale of developed properties	4	2,504,247	-
Income from sale of trading property		-	437,657
Unrealised gain from investments at fair value through statement of income		47,787	-
Income from sale of available for sale investments		977,759	-
Distribution income from available for sale investments		976,277	558,945
Income from sale of investment properties		814,903	3,859,140
Change in fair value of investment properties	10	7,407,138	9,619,879
Management and placement fees		537,039	1,796,801
Share of profit of joint venture		-	1,059,455
Share of profit of associates		64,160	77,530
Provision for impairment of available for sale investments		-	(248,625)
Provision for impairment of investment in associate		(500,000)	-
Foreign exchange gain/(loss)		122,213	(65,866)
Other income		298,767	84,950
		<u>13,635,310</u>	<u>17,918,741</u>
<b>Expenses</b>			
Real estate operating costs		88,353	195,857
Staff costs		775,890	671,448
General and administrative expenses		256,706	134,363
Consultancy and professional fees		175,883	113,338
Finance costs		1,204,826	997,963
		<u>2,501,658</u>	<u>2,112,969</u>
<b>Profit before KFAS, NLST and board of directors remuneration</b>		<b>11,133,652</b>	<b>15,805,772</b>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(95,843)	(142,252)
National Labour Support Tax (NLST)		(266,230)	(350,199)
Board of directors remuneration		(75,000)	(75,000)
<b>Profit for the year</b>		<b><u>10,696,579</u></b>	<b><u>15,238,321</u></b>
<b>Attributable to:</b>			
Shareholders of the parent company		10,212,136	15,238,321
Minority interest		484,443	-
		<u>10,696,579</u>	<u>15,238,321</u>
<b>BASIC &amp; DILUTED EARNINGS PER SHARE</b>	<b>5</b>	<b>38 Fils</b>	<b>58 Fils</b>

The notes set out on pages 27 to 39 form an integral part of these consolidated financial statements.

## Consolidated balance sheet

	Note	Year ended 31 Dec.2006 KD	Year ended 31 Dec.2005 KD
<b>Assets</b>			
Cash and bank balances	6	6,581,386	2,623,504
Accounts receivable and other assets	7	10,878,323	5,485,257
Investments at fair value through statement of income	8	1,493,252	-
Available for sale investments	9	14,426,331	14,649,978
Investment properties	10	59,422,105	40,077,573
Investment in associates	11	3,304,676	2,327,530
Property under development	12	-	8,661,072
Property and equipment	13	1,969,047	18,313
<b>Total assets</b>		<b>98,075,120</b>	<b>73,843,227</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to banks	6	547,591	227,204
Accounts payable and other liabilities	14	10,957,650	3,940,141
Bank loans	15	27,953,564	18,481,684
<b>Total liabilities</b>		<b>39,458,805</b>	<b>22,649,029</b>
<b>Equity attributable to shareholders of the parent company</b>			
Share capital	16	27,324,000	23,760,000
Treasury shares	17	(943,605)	(249,860)
Share premium		2,869,130	2,869,130
Statutory reserve	18	3,873,656	2,808,735
Voluntary reserve	18	1,936,828	1,404,368
Gain on sale of treasury shares reserve		261,468	172,526
Foreign currency translation reserve		(2,023)	236,316
Cumulative changes in fair value		672,875	739,564
Retained earnings		17,639,543	14,953,419
		53,631,872	46,694,198
Minority interest		4,984,443	4,500,000
<b>Total equity</b>		<b>58,616,315</b>	<b>51,194,198</b>
<b>Total liabilities and equity</b>		<b>98,075,120</b>	<b>73,843,227</b>



Hamad Abdulaziz Al-Shaya  
Chairman



Mohammad Ibrahim Al-Farhan  
Managing Director

The notes set out on pages 27 to 39 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in Shareholders equity

	Equity attributable to shareholders of the parent company												
	Share capital KD	Treasury shares KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Gain on sale of treasury shares reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Retained earnings KD	Sub-total KD	Minority interest KD	Total KD	
<b>Balance at 1 January 2006</b>	23,760,000	(249,860)	2,869,130	2,808,735	1,404,368	172,526	236,316	739,564	14,953,419	46,694,198	4,500,000	51,194,198	
Change in fair value of available for sale investments	-	-	-	-	-	-	-	710,926	-	710,926	-	710,926	
Realised on sale of available for sale investment	-	-	-	-	-	-	-	(777,615)	-	(777,615)	-	(777,615)	
Foreign currency translation adjustments	-	-	-	-	-	-	(238,339)	-	-	(238,339)	-	(238,339)	
Net expense recognised directly in equity	-	-	-	-	-	-	(238,339)	(66,689)	-	(305,028)	-	(305,028)	
Profit for the year	-	-	-	-	-	-	-	10,212,136	10,212,136	484,443	10,696,579		
<b>Total recognised (expense)/income for the year</b>	-	-	-	-	-	-	(238,339)	(66,689)	10,212,136	9,907,108	484,443	10,391,551	
Issue of bonus shares (Note 16)	3,564,000	-	-	-	-	-	-	(3,564,000)	-	-	-	-	
Cash dividend (Note 19)	-	-	-	-	-	-	-	(2,364,631)	(2,364,631)	-	-	(2,364,631)	
Purchase of treasury shares	-	(981,816)	-	-	-	-	-	-	(981,816)	-	-	(981,816)	
Sale of treasury shares	-	288,071	-	-	-	88,942	-	-	377,013	-	-	377,013	
Transfer to reserves	3,564,000	(693,745)	2,869,130	1,064,921	532,460	88,942	-	(1,597,381)	(2,969,434)	-	-	(2,969,434)	
<b>Balance at 31 December 2006</b>	<b>27,324,000</b>	<b>(943,605)</b>	<b>2,869,130</b>	<b>3,873,656</b>	<b>1,936,828</b>	<b>261,468</b>	<b>(2,023)</b>	<b>672,875</b>	<b>17,639,543</b>	<b>53,631,872</b>	<b>4,984,443</b>	<b>58,616,315</b>	

The notes set out on pages 27 to 39 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in Shareholders equity

	Equity attributable to shareholders of the parent company											
	Share capital KD	Treasury shares KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Gain on sale of treasury shares reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Retained earnings KD	Sub-total KD	Minority interest KD	Total KD
<b>Balance at 1 January 2005 as restated</b>	18,000,000	-	169,130	1,228,158	614,079	21,985	481,882	1,232,217	4,245,964	25,993,415	-	25,993,415
Change in fair value of available for sale investments	-	-	-	-	-	-	-	(492,653)	-	(492,653)	-	(492,653)
Foreign currency translation adjustments	-	-	-	-	-	-	(245,566)	-	-	(245,566)	-	(245,566)
Net expense recognised directly in equity	-	-	-	-	-	-	(245,566)	(492,653)	-	(738,219)	-	(738,219)
Profit for the year	-	-	-	-	-	-	-	-	15,238,321	15,238,321	-	15,238,321
<b>Total recognised (expense)/ income for the year</b>	-	-	-	-	-	-	(245,566)	(492,653)	15,238,321	14,500,102	-	14,500,102
Issue of bonus shares	2,160,000	-	-	-	-	-	-	-	-	(2,160,000)	-	-
Increase in share capital	3,600,000	-	2,700,000	-	-	-	-	-	-	6,300,000	-	6,300,000
Purchase of treasury shares	-	(447,163)	-	-	-	-	-	-	-	(447,163)	-	(447,163)
Sale of treasury shares	-	197,303	-	-	-	150,541	-	-	-	347,844	-	347,844
Transfer to reserves	-	-	-	1,580,577	790,289	-	-	-	(2,370,866)	-	-	-
Capital paid by minority equity holders	-	-	-	-	-	-	-	-	-	-	4,500,000	4,500,000
	5,760,000	(249,860)	2,700,000	1,580,577	790,289	150,541	-	(4,530,866)	6,200,681	4,500,000	10,700,681	
<b>Balance at 31 December 2005</b>	<b>23,760,000</b>	<b>(249,860)</b>	<b>2,869,130</b>	<b>2,808,735</b>	<b>1,404,368</b>	<b>172,526</b>	<b>236,316</b>	<b>739,564</b>	<b>14,953,419</b>	<b>46,694,198</b>	<b>4,500,000</b>	<b>51,194,198</b>

The notes set out on pages 27 to 39 form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

	Note	Year ended 31 Dec.2006 KD	Year ended 31 Dec.2005 KD
<b>OPERATING ACTIVITIES</b>			
Profit before KFAS, NLST and board of directors remuneration		11,133,652	15,805,772
Adjustments for:			
Depreciation		10,251	7,992
Profit on sale of developed properties		(2,504,247)	-
Unrealised gain from investments at fair value through statement of income		(47,787)	-
Income from sale of available for sale investments		(977,759)	-
Distribution income from available for sale investments		(976,277)	(558,945)
Income from sale of investment properties		(814,903)	(3,859,140)
Change in fair value of investment properties		(7,407,138)	(9,619,879)
Foreign exchange (gain)/loss on non operating assets and liabilities		(58,430)	24,225
Share of profit of joint venture		-	(1,059,455)
Share of profit of associates		(64,160)	(77,530)
Provisions for impairment		500,000	248,625
Interest income		(242,005)	(84,950)
Finance costs		1,204,826	997,963
		(243,977)	1,824,678
Changes in operating assets and liabilities:			
Accounts receivable and other assets		2,396,554	(3,842,646)
Accounts payable and other liabilities		(9,898)	988,856
Cash from/(used in) operations		2,142,679	(1,029,112)
KFAS paid		(142,252)	(41,923)
National Labour Tax paid		(350,199)	(101,267)
Board of directors' remuneration paid		(75,000)	(50,000)
<b>Net cash from/(used in) operating activities</b>		<b>1,575,228</b>	<b>(1,222,302)</b>
<b>INVESTING ACTIVITIES</b>			
Additions to property and equipment		(107,151)	(8,190)
Investment at fair value through statement of income		(1,445,465)	-
Additions to available for sale investments		(5,805,660)	(2,843,073)
Proceeds from redemption/sale of available for sale investments		6,940,377	348,152
Additions to investment properties		(7,615,206)	(15,513,215)
Proceeds from sale of investment properties		3,269,430	11,123,160
Addition to property under development		(4,245,160)	(3,028,157)
Proceeds from sale of property under development		4,598,599	-
Distribution income received from available for sale investments		976,277	558,945
Investment in associates		(457,427)	-
Distribution from joint venture		-	960,037
Interest income received		242,005	84,950
<b>Net cash used in investing activities</b>		<b>(3,649,381)</b>	<b>(8,317,391)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		-	6,300,000
Dividend paid		(2,364,631)	-
Purchase of treasury shares		(981,816)	(447,163)
Sale of treasury shares		377,013	347,844
Murabaha payables		-	(1,564,002)
Loans obtained		21,000,000	17,116,014
Loans repaid		(11,469,690)	(8,575,642)
Repayment of finance lease		-	(1,143,676)
Finance costs paid		(849,228)	(805,897)
<b>Net cash from financing activities</b>		<b>5,711,648</b>	<b>11,227,478</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,637,495</b>	<b>1,687,785</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>2,396,300</b>	<b>708,515</b>
<b>Cash and cash equivalents at end of the year</b>	<b>6</b>	<b>6,033,795</b>	<b>2,396,300</b>

The notes set out on pages 27 to 39 form an integral part of these consolidated financial statements.

## 1- Incorporation and Activities

Injazzat Real Estate Development Company – KSC (Closed) [formerly Al Mal Real Estate Company – KSC (Closed)], (the parent company) was established in August 1998 and listed on the Kuwait Stock Exchange on 17 June 2002. The parent company and subsidiaries (the group) are primarily engaged in real estate development and investment activities. Details of subsidiaries are included in note 3.

In the annual general assembly held on 20 February 2006 the shareholders approved to change the parent company's name from Al Mal Real Estate Company – KSC (Closed) to Injazzat Real Estate Development Company – KSC (Closed).

The address of the parent company's registered office is PO Box 970, Safat 13010, State of Kuwait.

The board of directors of the parent company approved these consolidated financial statements for issuance on 17 January 2007. The general assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

## 2- Significant accounting policies

### Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments at fair value through statement of income, available for sale investments and investment properties.

The accounting policies are consistent with those used in the previous year except for the new accounting policy adopted for "revenue recognition for pre-completion real estate sale".

### IASB Standard issued but not yet effective

The following IASB Standard has been issued but not yet effective, and has not yet been adopted by the group.

#### IFRS 7 Financial Instruments: Disclosures

The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2006, and the financial statements of its subsidiaries prepared to that date, or to a date not earlier than three months of the parent company's year end using consistent accounting policies.

Subsidiaries are those enterprises controlled by the group and are fully consolidated from the date on which control is transferred to the group. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

All significant inter-company balances and transactions are eliminated on consolidation.

Minority interest represents the portion of profit or loss and net assets not held by the Group and is presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to the shareholders of the parent company.

### Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Revenue recognition on pre-completion real estate sale*

Revenue is recognised on the basis of percentage completion, based on an independent survey of work performed or cost incurred to date as a proportion of total estimated cost, as and when all of the following conditions are met:

- A sale has been consummated and the contract signed;
  - 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 buyer is irrevocably committed;
  - The aggregate sales proceeds and costs can be reliably estimated;
- and
- The seller has no continuing involvement after construction is complete.

#### *Income from sale of properties*

Income from the sale of properties is recognised when significant risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably.

#### *Interest income*

Interest income is recognised on a time proportion basis, taking in to account the principal outstanding and the rate applicable.

#### *Rental income*

Rental income is recognised on an accrual basis.

#### *Dividend income*

Dividend income is recognised when the right to receive payment is established.

### Investment properties

Investment properties are initially recorded at cost, being the purchase price and any directly attributable expenditure for a purchased investment property and cost at the date when construction or development is complete for a self-constructed investment property. Subsequent to initial recognition, investment properties are re-measured at fair value on an individual basis based on a valuation by an independent, registered real estate valuer. Changes in fair value are taken to the consolidated statement of income.

Investment properties are derecognised 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. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of income in the year of retirement or disposal.

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.

### Property under development

Property under development is stated at the lower of cost and net realisable value.

### Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairment losses. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed recoverable amounts assets are written down to their recoverable amount.

### Depreciation

Depreciation is provided on all property and equipment at rates calculated to write off the cost of each asset on a straight line basis over its estimated useful life as follows:

- Buildings 20 years
- Furniture, fixtures and other equipment 3-5 years

### Investments

The group classifies investments upon initial recognition into the following categories:

- Investments at fair value through statement of income
- Available for sale investments

#### *Investments at fair value through statement of income*

Investments at fair value through statement of income are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs. These investments are either "held for trading" or "designated" as such on initial recognition.

Held for trading investments are acquired principally for the purpose of selling or repurchasing them in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Designated investments are non-trading investments which are initially designated as investments at fair value through statement of income.

Subsequent to initial recognition, investments at fair value through statement of income are re-measured at fair value and changes in fair value are recognised in the consolidated statement of income.

#### *Available for sale investments*

Available for sale investments are initially recognised at cost, being the fair value of the consideration given, plus transaction costs that are directly attributable to the acquisition.

Subsequent to initial recognition, available for sale investments are re-measured at fair value unless fair value cannot be reliably measured in which case they are carried at cost less impairment.

Changes in fair value of available for sale investments are recognised as a separate component in equity under "cumulative changes in fair value" account until the investment is either derecognised or is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recognised in equity is included in the consolidated statement of income.

#### *Fair values*

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

#### *Trade and settlement date accounting*

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place concerned.

#### *Recognition and derecognition of financial assets and liabilities*

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised either when the group has transferred substantially all the risk and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards, but no longer has control over the asset or a proportion of the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

### Investment in jointly controlled assets

Investment in jointly controlled assets are accounted for under the method of proportionate consolidation whereby the group recognises its interest in assets, liabilities, income and expenses relating to the assets on a line-by-line basis.

### Interest in joint venture

A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control. Interest in joint venture is accounted for under the equity method of accounting. Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognise the group's share of profits or losses and other changes in equity of the joint venture. Distributions received from the joint venture reduce the carrying amount of the investment.

### Investment in associates

An associate is a company over which the group has significant influence usually evidenced by holding of 20% to 50% of the voting power of the investee company. The consolidated financial statements include the group's share of the associates' results using the equity method of accounting.

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the investee. The group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date the influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate, arising from changes in the associates equity that have not been recognised in the associate's statement of income. The group's share of those changes is recognised directly in equity. The financial statements of the associates are prepared either to the reporting date of the parent company or to a date not earlier than three months of the parent company's reporting date, using consistent accounting policies.

Unrealised gains on transactions with associates are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

### Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value; and
- (b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for reversal of impairment losses related to equity instruments classified as available for sale, all other impairment reversals are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Impairment reversals in respect of equity instruments classified as available for sale are recognised in the cumulative changes in fair value reserve.

### Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the consolidated income statement. 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 (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

### Treasury shares

The parent company's holding in its own shares is accounted for as treasury shares. Such shares are stated at cost as a deduction within shareholders' equity and no cash dividends are distributed on these shares.

Gains resulting from the parent company trading in treasury shares are taken directly to equity under "gain on sale of treasury shares reserve". Should the reserve fall short of any losses from the sale of treasury shares, the difference is charged to retained profits then reserves. Subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves then retained profits equal to the loss previously charged to these accounts.

### Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) resulting from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

### Provision for end of service indemnity

Provision for end of service indemnity is calculated on the employees' accumulated periods of service at the balance sheet date in accordance with the Kuwait labour law for the private sector and the company's bye-laws.

### Finance costs

Finance costs are recognised on a time proportion basis taking into account the outstanding balance payable and applicable interest rate.

Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances and short-term deposits maturing within three months from the date of inception net of balances due to banks.

## Foreign currencies

### *Functional and presentation currency*

The consolidated financial statements are presented in Kuwaiti Dinars, which is the parent company's functional and presentational currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

### *Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to "foreign exchange gain/loss" in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

### *Group companies*

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into the parent company's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the balance sheet date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation reserve within equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

## Judgements

In the process of applying the group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

### *Classification of real estate property*

Management decides on acquisition of a real estate property whether it should be classified as trading, property held for development or investment property.

The group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The group classifies property as property under development if it is acquired with the intention of development.

The group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

### *Classification of investments*

Management decides on acquisition of an investment whether it should be classified as held for trading, designated at fair value through statement of income, or available for sale.

The group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as designated at fair value through statement of income depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of the statement of income in the management accounts, they are classified as designated at fair value through statement of income. All other investments are classified as available for sale.

#### *Impairment of investments*

The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires considerable judgement. In addition, the group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the 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:

#### *Valuation of unquoted equity investments*

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm’s length market transactions;
- current fair value of another instrument that is substantially the same ; or
- an earnings multiple ;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined, and as a result investments with a carrying amount of KD8,935,863 (2005: KD5,682,927) are carried at cost.

### 3- Subsidiary companies

The consolidated subsidiaries are as follows:

	Country of incorporation	Percentage ownership 2006	Percentage ownership 2005
Al-Mal Entertainment Enterprises – KSC (Closed)	Kuwait	100%	100%
Al-Mal Real Estate – France	France	100%	100%
Al-Mal Real Estate – Belgium	Belgium	100%	100%
Dhow Real Estate Company – WLL	Bahrain	100%	100%
Al-Dhow International Real Estate Company – KSC (Closed)	Kuwait	100%	100%
Al-Mal and Aqar Joint Project Company – WLL	Kuwait	67%	67%
Al-Mal Real Estate Company – KSC (Closed)	Kuwait	100%	-

### 4- Profit on sale of developed properties

	2006 KD	2005 KD
Revenue from sale of property	14,249,176	-
Cost of sales (see note 12)	(11,744,929)	-
	<u>2,504,247</u>	<u>-</u>

### 5- Basic and diluted earnings per share

Earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year as follows:

	2006	2005
Profit for the year attributable to the shareholders of the parent company (KD)	10,212,136	15,238,321
Weighted average number of shares outstanding during the year (excluding treasury shares)	271,312,954	264,691,092
Basic and diluted earnings per share	38 Fils	58 Fils

The weighted average number of shares outstanding during the year ended 31 December 2005 has been restated due to the issue of bonus shares during the year ended 31 December 2006.

### 6- Cash and cash equivalents

	2006 KD	2005 KD
Cash and bank balances	6,581,386	2,623,504
Less: due to banks	(547,591)	(227,204)
Cash and cash equivalents	6,033,795	2,396,300

Cash and bank balances include call accounts which yield interest rates ranging from 1% p.a. to 4% p.a. (2005: 1% p.a. to 3% p.a.). Due to banks are subject to interest rates ranging from 7.5%p.a to 8%p.a (2005: 8%p.a to 10%p.a).

### 7- Accounts receivable and other assets

	2006 KD	2005 KD
Due from related party	1,292,137	1,936,038
Due on sale of developed properties	7,789,620	-
Payments towards share subscription	610,000	610,000
Payments towards property purchases	220,000	2,145,499
Other assets	966,566	793,720
	10,878,323	5,485,257

### 8- Investments at fair value through statement of income

	2006 KD	2005 KD
Designated on initial recognition:		
Investment in mutual fund (investing in foreign quoted "Real Estate Investment Trusts")	1,493,252	-

### 9- Available for sale investments

Available for sale investments represent unquoted investments and include investments in real estate entities with a carrying value of KD2,413,056 (2005: KD6,936,614). These entities represent temporary special purpose entities established to facilitate the group's investments in certain foreign real estate projects. These projects are managed by independent specialist property development managers. As a result investments in these entities have been classified as available for sale investments.

## 10- Investment properties

	2006 KD	2005 KD
Carrying value at 1 January	40,077,573	18,486,658
Arising on consolidation	-	4,500,000
Additions during the year	12,332,674	15,514,213
Disposals during the year	(3,410,086)	(8,036,508)
Transfer on completion of development (see note 12)	3,144,853	-
Change in fair value	7,407,138	9,619,879
Foreign currency translation adjustment	(130,047)	(6,669)
Carrying value at 31 December	59,422,105	40,077,573

The group's investment properties were revalued at 31 December 2006 by independent professionally qualified valuers with experience in the respective real estate markets based on open market value and income yield method.

Investment properties with a carrying value of KD5,050,000 (2005: KD9,394,911) and KD15,000,000 (2005: Nil) are secured against bank loans and bank guarantees respectively.

Investment properties include jointly controlled investment properties with a carrying value of KD16,482,820 (2005: KD9,820,264) and properties under development which are intended for continued future use as investment property with a carrying value of KD2,125,550 (2005: Nil).

## 11- Investment in associates

The associates of the group are as follows:

	Country of incorporation	Percentage ownership 2006 KD	Percentage ownership 2005 KD
Ikaros Real Estate Company - KSC (Closed)	Kuwait	45%	45%
Al Bersha Real Estate Company - KSC (Closed)	Kuwait	35%	-
Al Bersha Real Estate Company - WLL	Bahrain	35%	-

The principal activity of the associates is real estate development.

### Share of associates' assets and liabilities:

	2006 KD	2005 KD
Assets	3,323,574	2,328,505
Liabilities	18,898	975

### Share of associates' revenue and profit:

	2006 KD	2005 KD
Revenue	99,919	86,304
Profit	64,160	77,530

The fair value of the associates cannot be reliably measured since they are unquoted.

## 12- Property under development

	2006 KD	2005 KD
Carrying value at 1 January	8,661,072	5,632,915
Additions	8,082,544	3,028,157
Transfer to investment properties	(3,144,853)	-
Transfer to property and equipment	(1,853,834)	-
Disposals on completion of development (see note 4)	(11,744,929)	-
Carrying value at 31 December	-	8,661,072

This represents the land, construction and other costs related to developing an office complex located in Kuwait which was principally for sale in the ordinary course of business. The cost of the property includes capitalised borrowing costs amounting to KD597,408 (2005: KD156,707). In December 2006, the group completed the development of the office complex and concluded the sale of a significant number of floors therein which resulted in a profit of KD2,504,247 (see note 4) being recognized in the consolidated statement of income under "profit on sale of developed properties". Out of the unsold floors, the cost of the floors intended for owner occupation have been transferred to "Property and equipment" and the cost of the remaining floors which are intended to be used for generating rental income have been transferred to "Investment properties".

## 13- Property and equipment

	Buildings KD	Furniture and fixtures KD	Office equipment and computers KD	Total 2006 KD	Total 2005 KD
Balance at 1 January, net of accumulated depreciation	-	11,095	7,218	18,313	18,115
Transfer from property under development (see note 12)	1,853,834	-	-	1,853,834	-
Additions	-	81,488	25,663	107,151	8,190
Depreciation charge for the year	-	(6,646)	(3,605)	(10,251)	(7,992)
Balance at 31 December, net of accumulated depreciation	1,853,834	85,937	29,276	1,969,047	18,313
At cost	1,853,834	155,496	61,317	2,070,647	109,662
Accumulated depreciation	-	(69,559)	(32,041)	(101,600)	(91,349)
Net carrying amount at 31 December	1,853,834	85,937	29,276	1,969,047	18,313

## 14- Accounts payable and other liabilities

	2006 KD	2005 KD
Accounts payable	3,837,384	-
Advances from customers	-	1,860,957
Due on purchase of investment properties	4,717,468	-
Accrued expenses	987,080	1,157,203
Other liabilities	1,415,718	921,981
	10,957,650	3,940,141

Included within "due on purchase of investment properties" is an amount of KD3,265,939 which is due after more than one year.

15- Bank loans	Effective interest rate	Security	2006 KD	2005 KD
Local banks - Kuwaiti Dinar	CBK discount rate + 1.25%	Unsecured	12,000,000	6,637,880
Local banks - Kuwaiti Dinar	CBK discount rate + 1.5% - 2.0%	Unsecured	11,000,000	2,000,000
Local banks - U.S. Dollars	LIBOR + 1.75% - 2.5%	Secured	4,953,564	7,516,704
Foreign banks - Bahraini Dinar	BIBOR + 1.5%	Secured	-	2,327,100
			<b>27,953,564</b>	<b>18,481,684</b>

The loans are due for repayment as follows:

	2006 KD	2005 KD
Within one year	15,953,564	12,500,055
One to five years	12,000,000	5,981,629
	<b>27,953,564</b>	<b>18,481,684</b>

Loans from foreign banks are secured by investment properties with a carrying value of KD5,050,000 (2005: KD9,394,911) (see note 10).

## 16- Share capital

The general assembly meeting of the shareholders of the parent company held on 20 February 2006 approved an increase in the share capital from KD23,760,000 to KD27,324,000 by way of issuance of 15% bonus shares amounting to KD3,564,000.

At 31 December 2006 the authorised issue and paid-up capital of the parent company comprised 273,240,000 (2005: 237,600,000) shares of 100 fils each.

## 17- Treasury shares

At 31 December 2006 the parent company held 3,697,320 (2005: 1,136,800) of its own shares, equivalent to 1.56% (2005: 0.48%) of the total issued share capital at that date. The market value of these shares at the balance sheet date was KD1,035,250 (2005: KD460,404). Reserves of the parent company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

## 18- Statutory and voluntary reserves

As required by the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year before KFAS, NLST and board of directors remuneration but after minority interest is transferred to the statutory reserve until the balance reaches 50% of the company's issued and paid-up capital. Any transfer to the statutory reserve thereafter is subject to approval from the general assembly. No transfer is required in a year when losses are made. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the distribution of a dividend of that amount.

Subject to the approval of the general assembly, the parent company's board of directors propose to transfer 5% of the profit for the year before KFAS, NLST and board of directors remuneration but after minority interest, to the voluntary reserve.

## 19- Dividend distribution

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the parent company's board of directors propose a cash dividend of 15 Fils (2005: 10 Fils) per share and the issue of 10% (2005: 15%) of the paid-up share capital as at 31 December 2006 as bonus shares.

Following approval by the annual general assembly on 20 February 2006 the parent company made a cash distribution of 10 Fils per share amounting to KD2,364,631 and issued 15% bonus shares amounting to KD3,564,000 for the year ended 31 December 2005.

## 20- Employees share purchase scheme

At the annual general assembly held on 23 February 2004, the shareholders approved an employees' share purchase scheme. Under this scheme, which has a duration of 9 years, the company may issue shares for cash to eligible employees by increasing its share capital. The total capital increase during the 9 year period to meet the requirements of the scheme may not exceed 9% of the share capital as at 31 December 2005.

During the year, no shares were either granted or issued.

## 21- Segmental analysis

The group primarily operates in one business segment: real estate investments.

Although management of the group is based primarily on one business segment, the group operates in two geographical segments: Domestic and International (Kingdom of Bahrain, United Arab Emirates, Qatar, France and U.S.A.). The geographical analysis of segment information is as follows:

	Domestic KD	International KD	Total KD
2006			
Income	9,690,166	3,945,144	13,635,310
Profit before KFAS, NLST and board of directors remuneration	7,241,338	3,892,314	11,133,652
Total assets	54,351,477	43,723,643	98,075,120
Total liabilities	(34,534,240)	(4,924,565)	(39,458,805)
Net assets	19,817,237	38,799,078	58,616,315
Capital expenditure	8,649,138	11,873,231	20,522,369
2005			
Income	6,881,462	11,037,279	17,918,741
Profit before KFAS, NLST and board of directors remuneration	4,854,596	10,951,176	15,805,772
Total assets	39,910,069	33,933,158	73,843,227
Total liabilities	(20,032,788)	(2,616,241)	(22,649,029)
Net assets	19,877,281	31,316,917	51,194,198
Capital expenditure	10,941,742	7,600,628	18,542,370

## 22- Capital commitments and contingent liabilities

At the balance sheet date the group had capital commitments of KD15,213,678 in respect of available for sale investments, investments in associates and investment properties (2005: KD14,808,062).

At the balance sheet date, the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD3,600,000 (2005: KD3,958,048).

### 23- Related party transactions

Related parties represent, major shareholders, directors and key management personnel of the parent company, and companies of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the parent company's management.

Details of significant related party transactions and balances are as follows:

	2006 KD	2005 KD
Consolidated statement of income		
Management and placement fees	-	632,560
Consolidated balance sheet:		
Due from related parties (included in accounts receivable and other assets)	1,292,137	1,936,038
Compensation of key management personnel of the group		
Short-term benefits	453,314	419,605
Employees' end of service benefits	12,400	12,710

### 24- Fiduciary assets

Fiduciary assets comprise investments managed on behalf of clients amounting to KD163,090 (2005: KD319,907).

### 25- Risk management

#### Credit risk

Financial assets, which potentially subject the group to concentrations of credit risk, consist principally of cash and bank balances, short-term deposits and receivables. The group's cash and short-term deposits are placed with high credit quality financial institutions. Receivables are stated net of provision for bad and doubtful debts.

#### Interest rate risk

Calls accounts and deposits carry interests at commercial rates and mature within three months from the deposit date.

Interest on certain loans are subject to fluctuations in KIBOR and BIBOR rates.

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is a limited risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposure.

#### Market risk

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

### 26- Fair value of financial instruments

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the parent company's management, except for certain available for sale investments which are carried at cost less impairment for reasons specified in Note 2 to the consolidated financial statements (under the heading "Estimation uncertainty"), the carrying amounts of financial assets and liabilities as at 31 December 2006 and 2005 approximate their fair values.