



الجمهورية العربية السورية
مجلس الدولة

Stock Exchange Building - 5th Floor
Tel: 242 9010 - Fax: 242 9020

Contents

Board Of Directors	4 - 5
Board Of Directors Report	6 - 8
Activities Management Report	9 - 12
Sharia'as Committee Report	13
Independent Auditors' Report	16
Balance Sheet	18
Statement Of Income	19
Statement Of Changes In Shareholders' Equity	20
Statement Of Cash Flows	21
Notes To The Financial Statements	23 - 52

Allah bless and protect our country



His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir Of The State Of Kuwait



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



His Highness
Sheikh Nasser Al-Muhammed Al-Ahmad Al-Sabah
The Prime Minister

Board Of Directors



Sheikh Salman Dawoud Al-Salman Al-Sabah
Chairman



Sami Al-Bader Al-Jena'ai
Chief Executive - Director



Mr. Hassan Salem Al-Ammari
Vice Chairman



Mr. Abdul Hamid M. Nather
Director



Mr. Omar H. Al-Harazi
Director



Mr. Jamal F. Al-Nafisi
Director



Mr. Mohammad A. Latif Bu Qais
Director



Mr. Faisal A. Al-Busairi
Director

Mr. Husam N. Al-Kahtani
Director

Board of Directors Report

Praise is due to Allah. Blessings and Peace be upon His most honest Messenger, Prophet Mohamed, his Family and Companions

Dear Shareholders

I'm pleased on behalf of members of the Board of Directors, the Executive Management team and company personnel, to welcome you to our annual meeting to review the Board's report on the business of International Investment Group for the financial period ended 31.12.2005

One year has passed full of economic events, developments and activities at the local, regional and international levels. Last year was characterized for distinctive performance achieving GDP average ratio of 30%. This was evidence that the State's financial position has improved as a result of the continued increase of oil prices. It positively affected the capital expenditure on the public projects and supported all other activities. Consequently, the market experienced a positive boom represented by remarkable growth of the investment conditions and overall performance of the private sector's companies at the Stock Exchange Market maintaining its hike for the third consecutive year as the price index reached 78%, weighted index 67% and the market value exceeded KD 42 billion. The economic activity availed of the interactive future vision that brought about a flourishing economic environment during 2005 with defined features considering record high oil prices and revenues. The most significant feature of last year was the noticeable strategic switch of Kuwaiti companies' trends towards regionalism and globalization. International Investment Group was among the companies that kept pace with such developments and enhanced its investments qualitatively and geographically.

Dear Shareholders

I'm pleased to review the achievements fulfilled by International Investment Group that are worthy of appreciation and commending. These achievements are true and genuine translation of the ambitious investment corporate policy and strategy. The strict implementation of the policy and strategy was followed by the existing developments, challenges and commitments for the future. They were engineered to keep pace with the accelerating strides prevailing within the local and regional markets.

The Company maintained its mandate that were carefully planned last year starting with the present investments thus creating new opportunities for restructuring and developing processes at the subsidiaries level which were listed on Kuwait Stock Exchange Market. The most prominent was Gulf Petroleum Investment Company "PetroGulf" engaged in oil and energy sector and conducted its business activities in compliance with Islamic provisions. PetroGulf became independent and continued to attain its objectives and endeavored to be one of the leading companies in oil sector. It intends to expand its operations in exploration and discovery operations following its acquisition of Kuwait International Company for Oil and Environment Services and Consultancy "KIOC". KIOC is specialized in exploration and discovery operations. International Investment Group was also successful in delivering a distinctive model for the Kuwaiti market by listing Grand Real Estate Projects Company "Grand". Grand has performed consistently with an unprecedented efficiency through its regional expansion efforts, acquisition of leading strategic projects and concluding major and high ranking alliances.

Dear Shareholders

International Investment Group witnesses a remarkable phase of prosperity with strength and power stemming from solid investments in various leading sectors due to planned diversification policy that ensure balance of returns and secures continuity. We believe that success is a continued process and endeavor to take the initiative and explore new and promising opportunities and markets that are characterized for political and economic stability and growth. Therefore, the Company undertook diversified investments the most prominent were in the oil sector, real estate development and communication through Kuwait National Telecom Company, financing through Ajal Company, insurance through Takaful Insurance Company and services through Equipment and Machinery Leasing Company (Ta'jeer) operating in the Kingdom of Saudi Arabia.

Let me assure you that your Company has a clear vision in respect of diversification of investments and geographical distribution in order to achieve integration among such investments to serve one another and mitigate risks.

International Investment Group also aspires to enhance its investments to engage in promising sectors together with oil, storage and related services as well as petrochemicals. It also intends to expand in the services sector in general. International

Board of Directors Report - Continued

Investment Group is in the process of listing both Investors Bank and Gulf Monetary Group with Bahrain Stock Exchange Market to be followed by Kuwait Stock Exchange.

Dear Shareholders

These positive developments witnessed in the company's business performance reflected favorably on its financial results. In 2005 the IIG's net profits amounted to KD 26,784,652 with a Earnings Per Share of 123.61 Fils, Growth ratio for 2004 accomplished 787% , Returns on assets increased by 36.567% compared to 9.478% in 2004, And Shareholder's Equity were 54.942% exceeding that of 2004 by 40.496%.

Dear Shareholders

I would like to express my profound gratitude and sincere appreciation to the Executive Management team lead by Mr. Sami Al-Bader, Chief Executive Officer and his associates who were successful in achieving such glorious and brilliant results during a record time.

I also like to express my regards and appreciation to the respected scholars Members of the Shariah Control Committee for their praiseworthy efforts and effective contribution in ascertaining that the Company business activities and transactions were in compliance with the provisions of the Islamic Sharia'a.

We are optimistic and full of aspirations to achieve a prosperous economic era under the leadership of High Highness Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, Amir of Kuwait, His Highness Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, the Crown Prince and High Highness Sheikh Nasser Al-Mohamed Al-Ahmed Al-Sabah, Prime Minister.

Sheikh Salman Daoud Al-Salman Al-Sabah
Chairman

Activities Management Report

Introduction

The following is a brief financial and operational illustration based on the audited financial statements of 2004 and 2005.

Revenues

Revenues amounted to KD 31,747,949 in 2005 exceeding that of 2004 amounting KD 6,747,346 by KD 25,000,603 .

This is mainly attributed to an increase of the Net Income from investments of KD 23,188,496 and an increase of company's share of profit from Associates amounting to KD 4,427,923 in addition to Gain on Sale of Investment in associate for KD 3,882,775 .

Significant revenue elements are represented in the following table:

Company's Share of prefit from Associated

	2005	2004
	<u>KD,000</u>	<u>KD,000</u>
Net Income from Investments	23,188	1,514
Company's share of profit from Associates	4,428	1,067
Company's share of profit from unconsolidated subsidiary	-	589
Gain on sale of investment in associates	3,883	2,863
Management remunerations and consultancy	189	147
Consultancy	-	20
provision for Doubtful debts and joint ventures no longer required	-	406
Other Income	<u>60</u>	<u>141</u>
	<u>31,748</u>	<u>6,747</u>

Activities Management Report

Expenses

Total increase of the operating expenses amounted to KD 1,236,726 in 2005 thus reaching KD 4,963,297 in 2005 compared to KD 3,726,571 in 2004.

Most significant elements of the overhead and administrative expenses are represented in the following table:

	2005	2004
	<u>KD,000</u>	<u>KD,000</u>
Staff Costs	1,468	567
Legal fees	128	43
Rents	53	55
Professional fees and consultancy	23	64
Auditing charges	20	23
Travel expenses	29	50
Advertising	53	10
Communications	25	15
Computer cost	2	3
Printing and stationary	10	2
Others	237	264
	<u>2,049</u>	<u>1,097</u>

Profitability

Net profit amounted to KD 26,784,652 in 2005 compared to KD 3,020,775 in 2004. Increase of profits is basically attributed to the increase of investment revenues. Earnings Per Share Accomplished 123.61 Fils, in 2005 compared to Fils.13.94 in 2004.

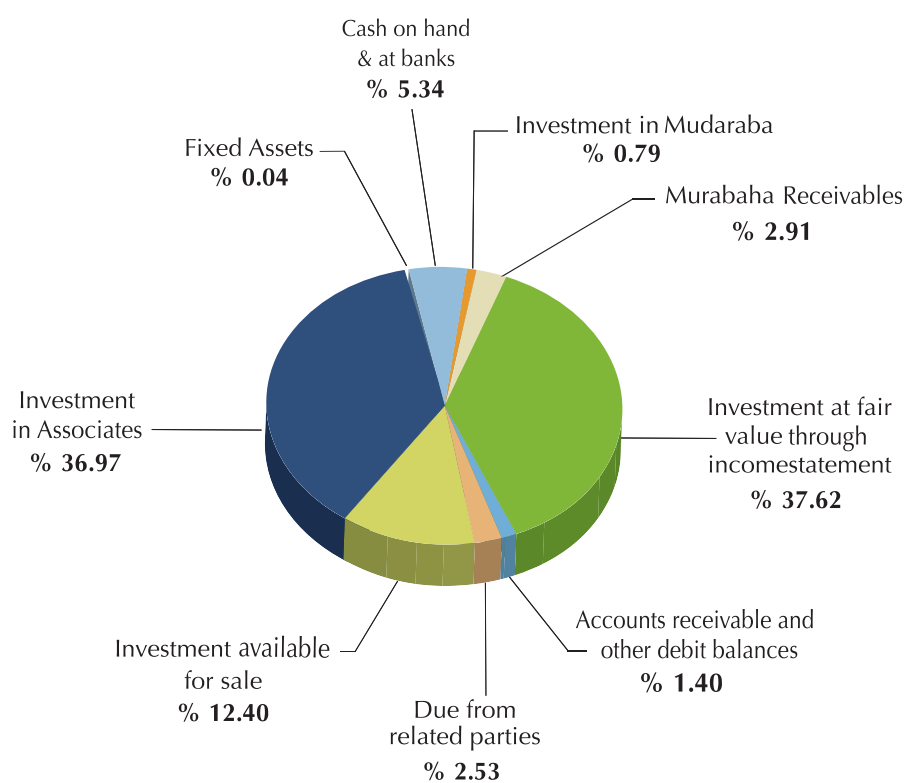
Activities Management Report

11

Assets

Total assets amounted to KD 73,246,323 in 2005 exceeding that of 2004 amounting to KD 31,870,894 by KD 41,375,429 . Such increase is mainly attributed to the company's holding considerable increase at the fair value and the increase of the investment in subsidiaries, in addition to an increase of investments offered for sale.

Assets Distributions

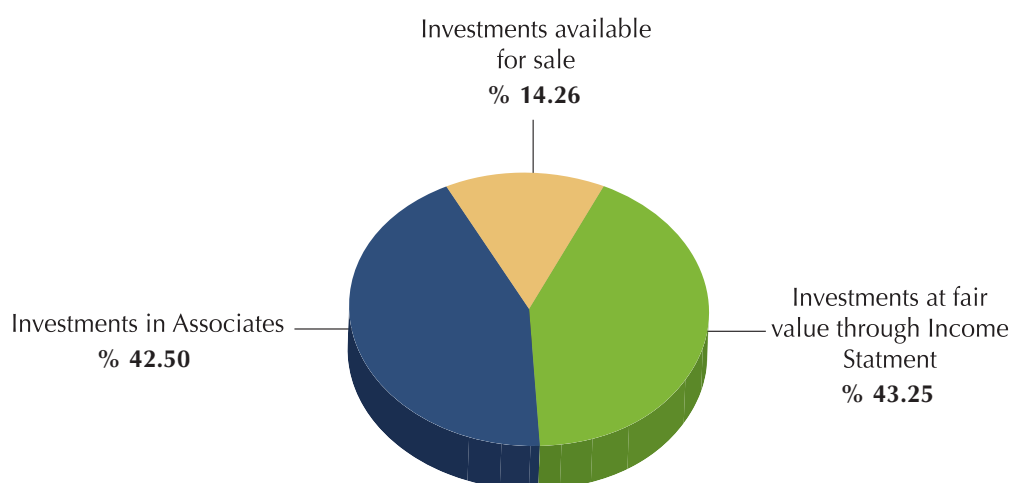


Activities Management Report

investments

Total investments represented 87% of the total assets. Value of the total investment increased by KD 40,042,234 to reach KD 63,721,767 in 2005 compared to KD 23,679,533 in 2004. Such increase is basically attributed to Increase of Investment at fair value through Income Statement and increase of the investments in Associates.

Investment Distributions



Fiduciary Assets

The Company acts as an agent on behalf of others. Total assets and related deposits held by the Company in trust or in fiduciary Capacity as at December 31, 2005 to KD 59,200,154 compared to KD 39,350,000 in 2004.

Sharia'as Committee Report

In the Name of Allah, The Merciful, The Compassionate

16 Safar 1426 A.H.
16 March 2006 A.D.

Dear Shareholders of International Investment Group Company,

Peace be upon you all,

According to the General Assembly Meeting instructions, we have to submit the following report:

we have observed the applied and contracts related to the dealing and applications made by the company during the respective period. We have carried out the necessary monitoring work to give an opinion whether the company has complied with the provisions and principles of Islamic Sharia'a as well as the specified opinions, decisions and instruction that we issued.

The responsibility for verifying that the company is operating according to the provisions and principles of islamic sharia'a shall be assumed by its management. Our responsibility is limited to give an independent opinion according to our monitoring of the company's operations and to prepare a report for you. We have carried out our monitoring which includes the inspection of the documentation and the applicable procedures followed by the company on the basis of testing every kind of the operations. We have planned and carried out our monitoring in order to obtain all the information and interpretations that we deemed necessary to provide us with sufficient evidences to give us a reasonable confirmations that the company has not breached the provisions and principles of islamic Sharia'a.

In Our Opinion:

- 1) The contracts, operations and dealings made by the company during the year ended on 31/12/2005 that we reviewed, were carried out in accordance with the provisions and principles of Islamic Sharia'a.
- 2) Distribution of profits and debiting the loss to investment accounts is compatible with the basis approved by us in accordance with the provisions and principles of Islamic Sharia'a.
- 3) All profits achieved from sources or by methods prohibited by the provisions and principles of Islamic Sharia'a were disposed in charitable purposes.
- 4) The company is not authorized to give Zakat (alms). Giving Zakat is the responsibility of the shareholders.

We ask Almighty Allah to grant us rationality and success
Peace be upon all of you.
The 16th Safar 1427 A.H. corresponding to 16th March 2006 A.D.



Dr. Mohammed Fawzi Faidhalla
Member



Dr. Abdul Sattar Abu Ghudah
President of Committee



Dr. Yousuf Hassan Al-Sharrah
Member

INTERNATIONAL INVESTMENT GROUP
K.S.C. (CLOSED)
STATE OF KUWAIT

THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005
WITH
INDEPENDENT AUDITORS' REPORT

CONTENTS

INDEPENDENT AUDITORS' REPORT

	<u>Exhibit</u>
Balance Sheet	A
Statement Of Income	B
Statement Of Cash Flows	C
Statement Of Changes In Shareholders' Equity	D
Notes To Th Financial Statements	<u>Page</u> 23 - 52

Independent Auditors' Report

The Shareholders
International Investment Group
K.S.C. (Closed)
State of Kuwait

We have audited the accompanying balance sheet of International Investment Group Company - K.S.C. (Closed) as of December 31, 2005 and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on the audit.

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

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

Furthermore, in our opinion proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Board of Directors relating to these 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 financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Company's Articles of Association, that an

inventory was duly carried out and that, to the best of our knowledge and belief, no violation of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended December 31, 2005 that might have had a material effect on the business of the Company or on its financial position.

We further report that, during the course of our examination, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the year ended December 31, 2005 that might have had a material effect on the business of the Company or on its financial position.



Ali A. Al-Hasawi
Licence No. 30-A
BDO Burgan
International Accountants



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

March 23, 2006
State of Kuwait

International Investment Group K.S.C. (Closed)
 State of Kuwait
 Balance sheet as of December 31, 2005
 "All amounts are in Kuwaiti Dinars"

Balance Sheet

Exhibit (A)

	Note	2005 K.D	2004 KD
<u>Assets</u>			
Cash on hand and at banks	3	3,910,406	127,511
Investment in Mudarba	4	576,527	577,133
Murabaha receivables	5	2,134,082	2,202,653
Investments at fair value through income statement	6	27,557,312	3,700,906
Accounts receivable and other debit balances	7	1,027,756	1,125,270
Due from related parties	8	1,849,958	3,797,639
Investments available for sale	9	9,083,697	2,096,673
Investment in associates	10	27,080,758	11,047,635
Investment in unconsolidated subsidiary	11	-	6,834,319
Joint ventures	12	-	350,000
Fixed assets	13	25,827	11,155
Total assets		73,246,323	31,870,894
<u>Liabilities and equity</u>			
<u>Liabilities</u>			
Murabha payable	14	2,850,000	-
Mudarba payable	15	7,497,128	2,107,197
Accounts payable and other credit balances	16	9,488,201	2,018,734
Due to related parties	8	4,660,862	6,834,520
Total liabilities		24,496,191	10,960,451
<u>Equity</u>			
Capital	17	21,944,000	21,944,000
Statutory reserve	18	2,996,868	350,947
Treasury shares	19	(350,947)	(350,947)
Cumulative changes in fair value		1,055,037	-
Retained earnings (accumulated losses)		23,105,174	(1,033,557)
Total equity		48,750,132	20,910,443
Total liabilities and equity		73,246,323	31,870,894



Salman Daoud Al Salman Al Sabah
 Chairman



Sami Bader Al-Jena'ai
 Managing Director and Chief Executive

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

Statement of Income

Exhibit (B)

	Note	2005 K.D	2004 KD
Revenues:			
Net income from investments	20	23,188,496	1,513,872
Company's share of profit from associates	10	4,427,923	1,067,471
Company's share of profit from unconsolidated subsidiary		-	588,795
Gain on sale of investment in an associate	10	3,882,775	2,863,066
Provision for doubtful debt and joint ventures no longer required		-	406,363
Management & consulting fees	21	188,994	166,811
Other income		59,761	140,968
Total revenue		<u>31,747,949</u>	<u>6,747,346</u>
Expenses:			
General and administrative expenses	22	2,048,568	1,175,602
Provisions	23	2,195,974	2,361,523
Others	24	10,642	154,459
Contribution to KFAS	25	196,338	-
National Labor Support Tax	26	511,775	34,987
Total expenses		<u>4,963,297</u>	<u>3,726,571</u>
Net profit for the year		<u>26,784,652</u>	<u>3,020,775</u>
		Fils	Fils
Earnings per share	27	<u>123.61</u>	<u>13.94</u>

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

International Investment Group K.S.C. (Closed)

State of Kuwait

Statement of Changes In Shareholders Equity for the year ended December 31, 2005

"All amounts are in Kuwaiti Dinars"

Statement Of Changes In Shareholders' Equity

Exhibit (C)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Capital KD	Statutory reserve KD	Treasury shares KD	Cumulative changes in fair value KD	Retained earnings (Accumulated losses) KD	Total equity KD
Balance as of December 31, 2003	21,944,000	350,947	(350,947)	-	(4,054,332)	17,889,668
Net profit for the year	-	-	-	-	3,020,775	3,020,775
Balance as of December 31, 2004	21,944,000	350,947	(350,947)	-	(1,033,557)	20,910,443
Cumulative change in fair value	-	-	-	1,055,037	-	1,055,037
Net income recognized directly in equity	-	-	-	1,055,037	-	1,055,037
Net profit for the year	-	-	-	-	26,784,652	26,784,652
Total recognized revenue for the year	-	-	-	1,055,037	26,784,652	27,839,689
Transferred to statutory reserve	-	2,645,921	-	-	(2,645,921)	-
Balance as of December 31, 2005	21,944,000	2,996,868	(350,947)	1,055,037	23,105,174	48,750,132

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

Statement Of Cash Flows

Exhibit (D)

	2005 KD	2004 KD
Cash flows from operating activities:		
Net profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences and National Labor Support Tax	27,492,765	3,055,762
Adjustments for:		
Depreciation for the year	8,468	9,182
Amortization for the year	-	135,615
Provision for doubtful debt and joint venture no longer required	-	(406,363)
Provision for end of service indemnity	34,096	46,538
Provision for doubtful other receivable, other debit balances and mudaraba and murabaha receivable	93,485	1,146,892
Provision for lawsuit	1,752,489	1,214,631
Company's share of profit from unconsolidated subsidiary	-	(588,795)
Provision for joint ventures	350,000	-
Company's share of profit of associates	(4,427,923)	(1,067,471)
Profit from sales of associates	(3,870,775)	(2,863,066)
Cash dividends	(122,843)	(134,945)
Unrealized gain from investment at fair value through income statement	(7,626,063)	(964,931)
Realized gain from investment at fair value through income statement	(15,439,590)	(291,514)
Gain of change in fair value of investment available for sale	-	(134,207)
Loss on sale of investments available for sale	-	11,725
Operating loss before changes in working capital	(1,755,891)	(830,947)
Decrease in mudaraba receivables	1,285	6,418
Decrease (increase) in murabaha receivables	25,018	(2,202,653)
Paid for purchase of investments at fair value through income statement	(62,441,478)	-
Proceeds from sale of investments at fair value through income statement	65,505,064	1,066,008
Decrease in accounts receivables and other debit balances	47,514	1,960,342
Decrease in due from related parties	1,947,681	-
Decrease in due to related parties	(2,173,658)	-
Increase in accounts payable and other credit balances	5,054,841	550,655
Cash generated from operations	6,210,376	549,823
Payment for end of services indemnity	(18,911)	(18,637)
Payment of National Labor Support Tax	(61,161)	-
Net cash generated from operating activities	6,130,304	531,186

International Investment Group K.S.C. (Closed)
 State of Kuwait
 Statement of Cash Flows for the year ended December 31, 2005
 "All amounts are in Kuwaiti Dinars"

Statement Of Cash Flows

Exhibit (D) Contd.

	2005 KD	2004 KD
Cash flows from investing activities:		
Paid to purchase of investments available for sale	(5,932,598)	(652,653)
Proceeds from sale of investments available for sale	-	455,105
Paid to purchase of investment in unconsolidated subsidiary	-	(3,359,356)
Paid for purchase of associates	(15,558,066)	-
Proceeds from profit of investment in associates	-	128,897
Proceeds from sale of investment in associates	10,803,621	2,281,412
Cash dividends received	122,843	227,663
Purchase of fixed assets	(23,140)	(4,275)
Net cash used in investing activities	<u>(10,587,340)</u>	<u>(923,207)</u>
Cash flows from financing activities:		
Increase in murabaha payables	2,850,000	-
Increase in mudarba payables	5,389,931	-
Net cash generated from financing activities	<u>8,239,931</u>	<u>-</u>
Net increase (decrease) in cash on hand and at banks	3,782,895	(392,021)
Cash on hand and at banks at beginning of the year	127,511	519,532
Cash on hand and at banks at end of the year (Note 3)	<u>3,910,406</u>	<u>127,511</u>

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

Notes To Financial Statements

23

1- Incorporation and nature of activities

The International Investment Group Company is a Kuwaiti closed shareholding company registered in Kuwait and is listed on the Kuwait Stock Exchange. It is engaged in investments and related financial services. All company's activities are approved by the Fatwa and Sharia'a Supervisory Board and are conducted in accordance with Islamic Sharia'a.

The Company's registered address is P.O. Box 29448 Safat, 13155 - State of Kuwait.

The financial statements were authorized for issue by the Board of Directors on March 23, 2006. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

2- Significant accounting policies

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee and local laws requirements. Significant accounting policies are summarized as follows:

a) Basis of preparation

The financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention, except for investments at fair value through income statement and certain available for sale investments which are stated at fair value.

The accounting policies applied by the company are consistent with those used in the previous year except for:

Notes To Financial Statements

- The changes due to implementation of revised IAS 39: Financial Instruments Recognition and Measurement.
- The changes due to implementation of IFRS 3: Business Combinations

IAS 1

IAS 1 (revised) has affected the presentation and disclosure of the Balance Sheet, Statement of Income and Statement of changes in equity. The comparative figures have been reclassified to conform to current year presentation.

IAS 39

Effective January 1, 2005, the Company has implemented the revised IAS 39: Financial Instruments – Recognition and Measurement. This has resulted in the company classifying its investments as Investments at fair value through income statement and investment available for sale. The accounting policy for these are specified in Note 2(e).

As per the revised IAS 39, unrealized gains and losses from investments available for sale are now recognized under 'Cumulative changes in fair value' under equity. This has resulted in change in accounting policy since previously unrealized gains and losses from available for sale investments were recognized in income statement.

The opening balance of accumulated losses and comparative figures are not restated since the unrealized gain from available for sale investments recognized in prior years represent reversal of impairment losses.

IFRS 3, IAS 36, IAS 38

Effective January 1, 2005, the Company has implemented the IFRS 3 'Business Combinations', IAS 36 'Impairment of Assets (revised)', and IAS 38 'Intangible Assets (revised)' prospectively.

As a result, goodwill relating to past business combinations is not amortized

Notes To Financial Statements

and is carried at the net amount after setting off accumulated amortization against gross goodwill amount less accumulated impairment. This has resulted in increasing the net profit for the year ended December 31, 2005 with KD 135,615.

The accounting policy for goodwill is mentioned in Note 2(h).

b) Cash and cash equivalents

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

c) Murabaha receivables

Receivables from murabaha relate to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. These receivables are stated at amortized cost.

d) Investment in Mudaraba

Mudaraba is a contract between the Company and a client, whereby the Company extends a certain amount of money to the client to be invested in a project or certain activity against a fixed share of the profit representing the total profit for the project less the client's share as a Mudarib. Balances relating to these contracts are stated net of provisions for impairment losses if any.

e) Investments

The Company classifies its investments in the following categories: financial assets at fair value through income statement, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired and is determined at initial recognition by the management.

Notes To Financial Statements

(i) Financial assets at fair value through income statement

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement.

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

Realized and unrealized gains and losses from financial assets at fair value through income statement are included in the income statement. Unrealized gains and losses arising from changes in the fair value of available-for-

Notes To Financial Statements

sale financial assets are recognized in cumulative changes in fair value in statement of changes in equity.

When an available-for-sale investment is disposed off or impaired, any prior fair value earlier reported in equity is transferred to the statement of income.

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

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in statement of income – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on available for sale equity instruments are not reversed through the income statement.

f) Receivables

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

g) Investment in associates

Associates are those enterprises in which the Company has significant influence, but not control, over the financial and operating policy decisions. The financial statements include the Company's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is

Notes To Financial Statements

classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are not recognized.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Company's interest in the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in income statement.

h) Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit,

Notes To Financial Statements

the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the income statement on disposal.

The Company's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' in note 2(g).

i) Joint ventures

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

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

j) Fixed assets

The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are

Notes To Financial Statements

normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets.

Depreciation is computed on a straight-line basis over the estimated useful lives of items of fixed assets as follows:

Asset category	Useful life in years
Furniture & fixtures	4
Vehicles	4

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

k) Impairment of tangible and intangible assets excluding goodwill

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

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In addition, in accordance with Central Bank of Kuwait instruction, a minimum general provision of 2% had been accounted on all credit facilities, net of certain categories of collaterals, which are in accordance with Central Bank of Kuwait guidelines.

Notes To Financial Statements

31

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

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

l) Payable

Accounts payable are stated at their cost.

m) Provision for end of service indemnity

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

n) Treasury shares

Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are

Notes To Financial Statements

credited to a separate account in equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves.

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

o) Revenue recognition

- Income from Murabaha and Mudaraba is recognized as it is earned, on a time apportionment basis.
- Dividend income is recognized when the right to receive payment is established.
- Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.
- Other categories of income are recognized when earned, at the time the related services are rendered and/or on the basis of the terms of the contractual agreement of each activity.

p) Provisions

A provision is recognized when, and only when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of

Notes To Financial Statements

the expenditures expected to be required to settle the obligation.

q) Foreign currencies

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

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

r) Contingencies

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

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

s) Fiduciary assets

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

Notes To Financial Statements

t) Financial instruments

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

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

v) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

3 - Cash on hand and at banks

	2005	2004
	KD	KD
Cash on hand	466	300
Cash at banks	<u>3,909,940</u>	<u>127,211</u>
	<u>3,910,406</u>	<u>127,511</u>

Cash at banks amounting to KD 2,794,669 are blocked against letter of guarantee regarding lawsuit – Note 28.

The company's accounts in Non-Islamic Banks are current accounts bearing no interest.

Notes To Financial Statements

4 - Investment in Mudarba

	2005 KD	2004 KD
Investment in Mudarba	588,848	590,133
Less: impairment loss for investment in Mudarba	(12,321)	(13,000)
	<u>576,527</u>	<u>577,133</u>

5 - Murabaha receivables

	2005 KD	2004 KD
Murabaha receivables with financial institutions	2,177,635	2,202,653
Murabaha receivables with individuals	433,599	433,599
Less: provision for impairment	(477,152)	(433,599)
	<u>2,134,082</u>	<u>2,202,653</u>

Movement of provision for impairment is as follows:

	Specific provision 2005 KD	General provision 2005 KD	Total 2005 KD
Balance at beginning of the year	433,599	-	433,599
Provided during the year	-	43,553	43,553
Balance at end of the year	<u>433,599</u>	<u>43,553</u>	<u>477,152</u>

The impairment provision for Murabaha complies in all material respects with the specific provision requirements of the Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, a general provision of 2% had been accounted on all credit facilities, net of certain restricted categories, which are in accordance with Central Bank of Kuwait guidelines.

The Company's Murabaha receivables are principally concentrated on GCC.

Notes To Financial Statements

6 - Investments at fair value through income statement

	2005 KD	2004 KD
Local quoted securities – held for trading	21,969,257	836,274
Foreign quoted securities – held for trading	-	2,864,632
Portfolio managed by others – held for trading	5,588,055	-
	<u>27,557,312</u>	<u>3,700,906</u>

The movement of investment in the fair value through income statement is as follows:

	2005 KD
Balance at beginning of the year	3,700,906
Additions during the year	62,441,478
Reclassified from investment in associates - Note 10	3,854,339
Changes in fair value for investments at fair value through income statement	7,626,063
Disposals during the year	(50,065,474)
Portfolio expenses	-
	<u>27,557,312</u>

Investment in portfolio are pledged against Murabha payable – Note 14.

7- Accounts receivable and other debit balances

	2005 KD	2004 KD
Trade receivables	2,836,983	2,919,582
Provision for doubtful debts	(2,076,648)	(2,026,648)
	<u>760,335</u>	<u>892,934</u>
Accrued income	176,725	159,898
Staff receivable	10,647	9,401
Prepaid expenses	37,062	20,050
Letters of guarantee	42,987	42,987
	<u>1,027,756</u>	<u>1,125,270</u>

Notes To Financial Statements

37

Amount paid for investment in subsidiary represent the amounts paid for investment in International Chemical Group – K.S.C. (Closed) – a subsidiary. The Company did not classify it as investment in subsidiary since the legal procedures are in progress as of the balance sheet.

8 - Related parties transactions

Related parties represent the company's major Shareholders, associates, subsidiaries, members of the Board of Directors, parties related to them and senior management. There were certain transactions conducted with related parties during the year by the Company in the normal course of its business and have been included in the financial statements as follows:

Balance sheet

	2005 KD	2004 KD
Due from related parties	4,239,019	6,186,700
Provision for doubtful debts	(2,389,061)	(2,389,061)
	1,849,958	3,797,639
Investment in Mudarba	588,848	590,133
Murabaha receivables	2,177,635	2,202,653
Investments at fair value through income statement	26,702,210	-
Investment available for sale	1,776,675	1,290,528
Purchase of investment in associate	13,412,903	-
Accrued revenue	167,121	60,396
Due to related parties	4,660,862	6,834,520
Mudarba payable	5,430,285	-
Fiduciary assets payables	2,242,914	56,238
Investment fund payables	2,005,286	-

Income statement

Management fees	176,258	159,727
Unrealized gain from investment at fair value through income statement	6,796,988	-
Realized gain from investment at fair value through income statement	11,975,265	-
Gain on sale of investment available for sale	7,999,516	-
Company's share of income from associates	4,427,923	-

Notes To Financial Statements

Compensation to key management personnel

	2005 KD
Short-term benefits	216,600
Long-term benefits	18,050
Management incentive	782,989

9 - Investments available for sale

	2005 KD	2004 KD
Balance at beginning of the year	2,096,673	1,776,643
Additions	5,932,598	652,653
Disposals	-	(466,830)
Cumulative changes in fair value	1,055,037	134,207
Impairment losses for investments available for sale	(611)	-
Balance at the end of the year	<u>9,083,697</u>	<u>2,096,673</u>

Investments available for sale include the following:

	2005 KD	2004 KD
Quoted securities	6,501,489	-
Unquoted securities	1,832,833	1,832,833
Investment in funds	3,763,007	2,707,970
Portfolio managed by others	83,761	652,653
Impairment loss for investment available for sale	(3,097,393)	(3,096,783)
	<u>9,083,697</u>	<u>2,096,673</u>

It was not possible to reliably measure the fair value of quoted securities since they were suspended for more than one year in Bahrain Stock Exchange. Also, the Company is in process of listing that securities in Kuwait Stock Exchange, so the Company decided not to value the securities until it has market price In the active market, accordingly, they were stated at cost.

Notes To Financial Statements

39

Also, it was not possible to reliably measure the fair value of unquoted securities, certain investments in funds amounting to KD 3,886,689 due to non-availability of a reliable method that could be used to determine the fair value of such investments, accordingly, they were stated at their cost less impairment losses, if any.

During the year ended December 31, 2005, the Company settled a loan for the benefit of a related party from a local bank accordingly the Company received 46,140,00 share of the Gulf Monetary Group – B.S.C (related party) for an amount of KD 5,848,836.

10 - Investment in associates

	Country of incorporation	Percentage of ownership	
		2005	2004
Ta'jeer Company S.S.C. Grand Real Estate Projects Company - K.S.C.C.	Saudi Arabia	27.79%	27.79%
Gulf Petroleum Company – K.S.C.C.	Kuwait	20%	36.75%
Ajal Holding Company – K.S.C. (Closed)	Kuwait	20%	-
		42.83%	-

The movement of the investment in the associates is as follows:

	2005 KD	2004 KD
Balance at beginning of the year	11,047,635	8,040,476
Cash dividends received	-	(128,897)
Additions	15,558,066	792,890
Disposal	(6,932,846)	-
Company's share from profit of associates	4,427,923	1,122,617
Transferred from unconsolidated subsidiary–Note11	6,834,319	1,776,643
Transferred to investment at fair value through income statement – Note 6	(3,854,339)	-
Goodwill	-	1,220,549
Balance at end of the year	27,080,758	11,047,635

Notes To Financial Statements

The carrying value of each individual associate is as follows:

	2005 KD	2004 KD
Ta'jeer Company S.S.C - Saudi Arabia	3,468,402	3,219,982
Grand Real Estate Projects Company K.S.C.(Closed)	7,068,719	7,827,653
Gulf Petroleum Company – K.S.C.(Closed)	3,130,734	-
Ajal Holding Company – K.S.C. (Closed)	13,412,903	-
	<u>27,080,758</u>	<u>11,047,635</u>

The company's share from the associate's operating results is computed after eliminating gains resulting from intercompany transactions to the extent of the company's share in the associates.

Goodwill amounting to KD 527,404 (2004 - KD 527,404) and KD 366,326 (2004 - KD 693,145) is included in the investment in Ta'jeer Company S.S.C – Saudi Arabia and in the investment of Grand Real Estate Projects Company – K.S.C.C respectively.

The market value of the shares of Grand Real Estate Projects Company – K.S.C.C. and Gulf Petroleum Company – K.S.C.C at December 31, 2005 amounted to KD 28,350,000 and KD 17,000,000 respectively.

The company interests in its associates as of December 31, 2005 were as follows:

	Assets KD	Liabilities KD	Revenues KD	Results KD
Ta'jeer Company S.S.C. Saudi Arabia	7,660,329	4,748,005	705,703	248,420
Grand Real Estate Projects Company – K.S.C.C.	6,891,555	189,387	3,143,694	3,576,796
Gulf Petroleum Company - K.S.C.C.	3,927,147	411,995	583,564	602,707
				<u>4,427,923</u>

Notes To Financial Statements

The investment in Gulf Petroleum Company K.S.C.C, used to be classified as investment in unconsolidated subsidiary company since the company owned a percentage of 60.23% at December 31, 2004, but the company has sold 26.17% of this investment during the year for KD 6,015,621 generating profit of KD 2,010,699. Also, the company reclassified a portion of the investment during the year that is equivalent to 14% of investments at fair value through income statement based on the Board of Directors' decision as the company is involved in sale and purchase transactions of this portion of investment (Note 6). The balance at the end of the year as investment in associated company of 20% is recorded in the books according to equity method based on the latest available financial statements for the period ended September 30, 2005 (Unaudited).

During the year the company sold a portion of the investment in Grand Real Estate Projects Company (K.S.C.C) that is equivalent to 11% of the investment for KD 4,800,000 generating profit of KD 1,872,076 also the company reclassified a portion or the investment that is equivalent to 7% of investments at fair value through income statement based on the Board of Directors' decision as the company is involved in selling and buying transactions of this portion of investment (Note 6). The balance at end of the year in associated company of 20% is recorded in the books according to equity method based on the latest available audited financial statements for the year ended December 31, 2005.

During the year, the company had determined its share in the equity of Ta'ajeer company S.S.C - Saudi Arabia - based on the financial statements for the period ended June 30, 2005 (unaudited).

During the year ended December 31, 2005, the Company subscribed an amount of KD 13,412,903 in the capital increase of Ajal Holding Company K.S.C. (Closed). The company's share of the associates capital is 42.83%. The company had not accounted investment in this associate based on equity method and was included in the balance sheet at cost. The Company is in the process of determining its share of the net identifiable assets and liabilities of the associate, Ajal Holding Company K.S.C. (Closed) at the date of acquisition and the related goodwill.

Notes To Financial Statements

11 - Investment in unconsolidated subsidiary

During the year, the Company sold 26.17% from investment in Gulf Petroleum Company K.S.C.C, an unconsolidated subsidiary equals to 26,175,380 shares from Company's shares for an amount of KD 6,015,621, which has resulted in a gain of KD 2,010,699. As a result, the investment during the year was reclassified as investment in associate company note (10).

12- Joint ventures

	2005 KD	2004 KD
Balance at the beginning of the year	350,000	350,000
Provision for impairment in value of joint ventures	(350,000)	(350,000)
Provision no longer required	-	350,000
Balance at the end of the year	-	350,000

During the financial year ended December 31, 2004, the Company had reversed provision no longer required amounted to KD 350,000 which was accounted based on a dispute with outside related party and the court of appeal issued a judgment on December 24, 2003 for the Company in resjudicate against outside party.

13 - Fixed assets

	Furniture and equipment KD	Vehicles KD	Total KD
Cost:			
As of December 31, 2004	349,277	12,551	361,828
Additions	11,440	11,700	23,140
As of December 31, 2005	360,717	24,251	384,968
Accumulated depreciation:			
As of December 31, 2004	338,122	12,551	350,673
Charge for the year	7,103	1,365	8,468
As of December 31, 2005	345,225	13,916	359,141
Net book value:			
As of December 31, 2005	15,492	10,335	25,827
As of December 31, 2004	11,155	-	11,155

Notes To Financial Statements

14 - Murabaha payable

Murabaha carry an annual rate of return of 4% over the Central Bank of Kuwait discount rate and matures in October 1, 2007.

Murabaha payable is secured by a portfolio managed by others – Note 6.

15 - Mudraba payable

	2005 KD	2004 KD
Mudaraba in US	2,066,843	2,107,197
Mudaraba in Bahraini Dinar	5,430,285	-
	<u>7,497,128</u>	<u>2,107,197</u>

Mudarba in Bahraini Dinar carry an annual rate of return of 7.75% over the six month LIBOR.

16 - Accounts payable and other credit balances

	2005 KD	2004 KD
Provision for lawsuit – Note 28	2,967,120	1,214,631
Investment fund payable	2,005,286	-
Fiduciary assets payable	2,242,914	56,238
Management incentive	697,470	14,384
Accrued expenses	59,583	80,837
Provision for end of service indemnity	208,403	193,218
Kuwait Foundation for the Advancement of Sciences	196,338	-
National Labor Support Tax payable	546,762	96,148
Other credit balances	564,325	363,278
	<u>9,488,201</u>	<u>2,018,734</u>

Investment fund payable represents amounts received on behalf of investment funds in the United States for as introduction for their liquidation and performing required settlements.

Notes To Financial Statements

Fiduciary assets payable represents amounts received on behalf of the Company's clients.

17 - Capital

The number of authorized, issued and fully paid up shares is 219,440,000 shares as of December 31, 2005 (December 31, 2004 – 219,440,000 shares) with a face value of 100 fils each.

18 - Statutory reserve

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

19 - Treasury shares

The Company owned these shares based on the authorization granted to the Board of Directors by the General Assembly and the concerned parties approval in accordance with Article No. 115 of the companies commercial Law No. 15 of 1960 and the Ministerial Decrees No. 10 for 1987 and No. 11 for 1988. Part of the reserves equivalent to the cost of these shares is blocked and not subject to appropriation as long as the Company owns these shares.

	<u>2005</u>	<u>2004</u>
Number of shares owned	2,760,000	2,760,000
Equity percentage	1.26%	1.26%
Market value - KD	2,318,400	496,800
Cost – KD	350,947	350,947

The number of shares owned by an investment fund managed by the Company is 1,555,000 shares, and the Company owns 15.91% of this fund.

Notes To Financial Statements

20 - Net income from investments

	2005 KD	2004 KD
Cash dividends	122,843	134,945
Unrealized gain from investments at fair value through income statement	7,626,063	964,931
Realized gain from investments at fair value through income statement	15,439,590	291,514
Gain of change in fair value of investments available for sale	-	134,207
Loss on sale of investment available for sale	-	(11,725)
	<u>23,188,496</u>	<u>1,513,872</u>

21 - Management and consulting fees

	2005 KD	2004 KD
Management fees	188,994	146,811
Consultancy	-	20,000
	<u>188,994</u>	<u>166,811</u>

22 - General and administrative expenses

	2005 KD	2004 KD
Staff cost	1,468,469	567,112
Others	580,099	608,490
	<u>2,048,568</u>	<u>1,175,602</u>

23 - Provisions

	2005 KD	2004 KD
Provisions for receivables, other debit balances and mudarba receivables	93,485	1,146,892
Joint ventures impairment loss	350,000	-
Provision for lawsuits	1,752,489	1,214,631
	<u>2,195,974</u>	<u>2,361,523</u>

Notes To Financial Statements

24 - Other

	2005 KD	2004 KD
Depreciation	8,468	9,182
Amortization	-	135,615
Foreign exchange losses	2,174	9,662
	<u>10,642</u>	<u>154,459</u>

25 - Contribution to Kuwait Foundation for the Advancement of Sciences

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit for the year after deducting its share of income from shareholding subsidiaries, associates and transfer to statutory reserve.

26 - National Labor Support Tax

National Labor Support Tax is calculated at 2.5% of the profit for the year after deducting its share of income from shareholding subsidiaries, associates, contribution to Kuwait Foundation for Advancement of Sciences and transfer to statutory reserve.

27 - Earnings per share

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

	2005 KD	2004 KD
Net profit for the year	<u>26,784,652</u>	<u>3,020,775</u>
	Shares	Shares
Issued and paid-up shares	219,440,000	219,440,000
Less: Weighted average number of treasury shares	(2,760,000)	(2,760,000)
Weighted average number of shares outstanding	<u>216,680,000</u>	<u>216,680,000</u>
	Fils	Fils
Earnings per share	<u>123.61</u>	<u>13.94</u>

Notes To Financial Statements

28 - Capital commitments and contingent liabilities

Capital commitments are as follows:

	2005 KD	2004 KD
Uncalled capital of investments in unquoted securities	17,328,309	2,019,626
Letters of guarantee	2,837,656	42,987
	<u>20,165,965</u>	<u>2,062,613</u>

The Company is contingently liable for legal cases in courts under different judicial stages. On February 13, 2005 a final verdict was issued from Court of Appeal in favor of one party for an amount of USD 1,214,631. Also on June 18, 2005 a verdict was issued from the Court of First Instance in favor of one party for the amount of KD 2,585,822, regarding redemption of capital and accrued revenues of investment funds managed by the company in the United States, where a lot of cases are brought at court and no judicial verdicts have been issued as of the balance sheet date and a full provision has been taken against both cases.

29 - Fiduciary assets

The Company acts as agent on behalf of others. Total assets and related deposits held by the Company in trust or in a fiduciary capacity as of December 31, 2005 amounted to KD 59,200,154 (December 31, 2004 – KD 39,350,000)

30 - Financial instruments

In the normal course of business, the Company uses primary instruments such as cash on hand and at banks, investments, mudaraba receivables, accounts receivable and accounts payable and as a result, is exposed to the risks indicated below. The Company currently does not use derivative financial instruments to manage its exposure to such risks because it contradicts with the Company's commitments to Sharia'a.

Interest rate risk

According to Islamic Shariaa, interest is not accounted as debit or credit for any transaction carried by the company.

Credit risk

Credit risk is the risk that a party of financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. To limit this

Notes To Financial Statements

risk, the Company primarily deals with creditworthy financial institutions and related parties and has policies and procedures in place to limit the amount of credit exposure to any counter party other than related parties. These procedures include non-concentration of credit risk, other than related parties, by under taking transactions with a number of financial institutions and different customers in various industries.

Foreign currency risk

Foreign currency is the risk on transactions that are denominated in a currency other than Kuwaiti Dinar. The Company is not significantly exposed to currency risk as the major portion of its financial instruments are denominated in Kuwaiti Dinars, other GCC currencies or US dollars.

Liquidity risks

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and for managing these risks, the company evaluate the financial availability for it's clients periodically.

Notes To Financial Statements

The maturity profile of assets and liabilities as of December 31, 2005 was as follows:

	Within 3 months KD	3 months to 1 year KD	More than 1 year KD	Total KD
ASSETS				
Cash on hand and at banks	3,910,406	-	-	3,910,406
Investment in Mudarba	-	-	576,527	576,527
Murabaha receivables	-	-	2,134,082	2,134,082
Investments at fair value through income statement	27,557,312	-	-	27,557,312
Accounts receivable and other debit balances	10,646	37,062	980,048	1,027,756
Due from related parties	-	-	1,849,958	1,849,958
Investments available for sale	-	6,501,489	2,582,208	9,083,697
Investment in associates	-	-	27,080,758	27,080,758
Fixed assets	-	-	25,827	25,827
Total assets	<u>31,478,364</u>	<u>6,538,551</u>	<u>35,229,408</u>	<u>73,246,323</u>
LIABILITIES AND EQUITY				
Liabilities:				
Murabha payable	-	-	2,850,000	2,850,000
Mudarba payable	5,430,364	-	2,066,842	7,497,206
Accounts payable and other credit balances	3,205,062	3,039,927	3,243,134	9,488,123
Due to related parties	-	-	4,660,862	4,660,862
Total liabilities	<u>8,635,426</u>	<u>3,039,927</u>	<u>12,820,838</u>	<u>24,496,191</u>
Total equity	-	-	48,750,132	48,750,132
Total liabilities and equity	<u>8,635,426</u>	<u>3,039,927</u>	<u>61,570,970</u>	<u>73,246,323</u>

Cash flow risk

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

Notes To Financial Statements

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

i) Cash on hand and at banks

The fair value of cash on hand and at banks does not differ from the respective book values.

ii) Investments

The market value of the quoted investments has been determined on the basis of quoted market prices.

The fair value of investment funds is determined based on net unit value.

The estimated fair value of unquoted investment have been determined on the basis of discounted cash flows or net assets for each other investment. In case of unavailability of a suitable method, it can be relied upon to determine the fair value. Investment will be stated at cost after impairment losses.

iii) Mudaraba receivables and other receivables

It is the Company's intention to hold receivables to maturity. The estimated fair values of the Company's receivables are not significantly different from their respective book values.

iv) Payables

The estimated fair value is not significantly different from the respective book value due to the short maturity of payables.

Timing of repayments of amounts payable varies depending on when the amounts are claimed and repaid.

At balance sheet date, the fair values of financial instruments approximate their carrying amounts.

Notes To Financial Statements

31 - Segmental analysis

The Company's activities are in three primary business segments: direct investments, investment advisory services and investment management services. The Company operations are concentrated in G.C.C. countries.

	Direct investments		Investment advisory services		Investment management services		Unallocated		Total	
	December 31, 2005 KD	December 31, 2004 KD	December 31, 2005 KD	December 31, 2004 KD	December 31, 2005 KD	December 31, 2004 KD	December 31, 2005 KD	December 31, 2004 KD	December 31, 2005 KD	December 31, 2005 KD
Primary Segments										
Operating revenues	23,188,496	1,609,452	-	-	188,994	212,199	59,761	(9,662)	23,437,251	1,811,989
Company's share from profit of associates	4,427,923	1,067,471	-	-	-	-	-	-	4,427,923	1,067,471
Profit from sale of associates	3,882,775	2,863,066	-	-	-	-	-	-	3,882,775	2,863,066
Company's share from profit in unconsolidated subsidiary	-	588,795	-	-	-	-	-	-	-	588,795
Operating expenses	-	-	-	-	(2,153,099)	(1,225,602)	(3,222,228)	(1,306,502)	(5,375,327)	(2,532,104)
Net profit (loss) for the year	31,179,741	5,474,169	-	-	(1,260,204)	(1,232,507)	(3,170,885)	(1,220,887)	26,784,652	3,020,775
Assets	65,899,402	26,190,653	-	-	3,410,688	5,498,588	3,936,233	181,653	73,246,323	31,870,894
Liabilities	20,071,126	10,514,497	-	-	-	-	4,425,065	445,954	24,496,191	10,960,451

Notes To Financial Statements

32 - Zakat

According to State of Kuwait's laws, the companies operating in Kuwait are not subject to zakat on its annual profits. The shareholders are subject to pay zakat, where the Company is not authorized to pay zakat on behalf of the shareholders.

33 - Comparative figures

Certain comparative figures were reclassified to conform to the current year presentation.

