AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)
AND ITS SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
WITH
INDEPENDENT AUDITORS' REPORT

AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)
AND ITS SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
WITH
INDEPENDENT AUDITORS' REPORT

CONTENTS

	Pages
Independent Auditors' report	
Consolidated balance sheet	3
Consolidated statement of income	4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	6
Notes to consolidated financial statements	7 – 32

Independent Auditors' report

The Shareholders
Aerated Concrete Industries Co. K.S.C. (Closed)
State of Kuwait

Report on the financial statements

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

We did not audit the financial statements of the subsidiary, Ghassan Ahmed Sauod Al-Khaled & Co. – W.L.L. and its subsidiaries, whose total assets and revenue constitute 9.71% and 42.41% of the respective consolidated totals. The financial statements of the above mentioned subsidiary for the year ended December 31, 2006 were audited by other auditor, whose report was provided to us and our opinion in so far as it relates to the amounts included in the consolidated financial statements related to for this subsidiary, is based solely on the report of the other auditor.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion and based on the report of the other auditor, the consolidated financial statements present fairly ,in all material respects, the financial position of Aerated Concrete Industries Co. K.S.C. (Closed) as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

Also in our opinion, the consolidated financial statements include the disclosures required by the Commercial Companies Law and the Parent Company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Director's Report is in agreement with the Parent Company's books. According to the information available to us, there were no contraventions during the year ended December 31, 2006 of either the Commercial Companies Law or the Parent Company's Articles of Association which might have materially affected the Group's financial position or results of its operations.

Abdul Rahman Mubarak Al-Qaoud
Licence No. 25-A
Abdul Rahman Al-Qaoud & Partners
Public Accountants

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

State of Kuwait
February 13, 2007

AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED) AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2006
(All amounts are in Kuwaiti Dinars)

ASSETS	Note	2006	2005
Current assets:			
Cash and cash equivalents	3	3,168,622	498,051
Investments at fair value through income statement	4	3,008,512	1,561,376
Accounts receivable and other debit balances	5	10,595,356	10,051,973
Gross amount due from customers for contract work	6	2,313,190	1,707,407
Due from related parties	7	8,037,322	1,506,277
Inventories	8	2,507,071	2,629,170
Lands under development	9	147,104	9,394,807
Total current assets		29,777,177	27,349,061
Investment available for sale	10	-	2,460,598
Investments in associates	11	644,658	644,658
Investments in unconsolidated subsidiaries	12	1,175,334	11,215,260
Investment properties	13	11,626,347	4,000,000
Right of utilization of leasehold	14	895,438	1,574,074
Goodwill	15	2,250,506	3,158,661
Projects under construction	16	48,215,882	14,138,870
Fixed assets	17	14,415,272	15,775,721
Total assets		109,000,614	80,316,903
LIABILITIES AND EQUITY			
Current liabilities:			
Due to banks	18	3,411,542	8,543,451
Accounts payable and other credit balances	19	5,887,905	6,700,036
Due to related parties	7	877,459	169,726
Short term loans	20	3,798,210	10,500,329
Current portion of long term loans	20	10,113,595	2,953,704
Dividends payable to shareholders		205,347	225,556
Total current liabilities		24,294,058	29,092,802
Provision for employees' end of service indemnity	21	722,510	547,920
Non-current portion of long term loans	20	17,267,948	7,495,441
Due to shareholders of a company under liquidation	12	12,061,787	-
Equity:			
Share capital	22	14,684,371	12,497,337
Share premium	23	16,245,253	11,558,752
Statutory reserve	24	4,705,127	3,313,780
Treasury shares	25	(605,684)	(96,169)
Gain on sale of treasury shares		2,479,912	2,458,046
Cumulative changes in fair value		-	460,598
Foreign currency translation adjustments		(50,544)	-
Retained earnings		15,967,691	12,029,084
Total equity attributable to parent company's shareholders		53,426,126	42,221,428
Minority interest		1,228,185	959,312
Total equity		54,654,311	43,180,740
Total liabilities and equity		109,000,614	80,316,903

The accompanying notes (1) to (38) form an integral part of the consolidated financial statements.

Ghassan Ahmed Al-Khaled
Chairman

AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006
(All amounts are in Kuwaiti Dinars)

	Note	2006	2005
Operating income	26	54,491,602	34,028,533
Operating costs	26	(43,738,769)	(23,655,505)
Gross profit from operations		10,752,833	10,373,028
General and administrative expenses		(2,292,938)	(1,653,236)
Selling expenses		(660,190)	(972,053)
Depreciation	17	(360,966)	(420,142)
Amortization	14	(100,598)	(109,227)
Income from operations		7,338,141	7,218,370
Gain on sale of investment property		-	1,171,508
Gain on sale of projects under construction	16	5,023,116	-
Change in fair value of investment properties	13	3,106,545	300,000
Investment income	27	226,364	986,000
Rental income		338,189	281,611
Interest income		63,321	-
Other income	28	493,124	615,538
Finance charges		(1,823,861)	(1,785,094)
Provision for doubtful debts		(4,767)	(3,133)
Provision for slow moving inventory		(82,679)	(60,000)
Foreign currency exchange loss		(21,046)	(7,410)
Profit for the year before contribution to Kuwait Foundation for Advancement of Sciences and National Labor Support Tax and Board of Directors' remuneration		14,656,447	8,717,390
Contribution to Kuwait Foundation for the Advancement of Sciences	29	(125,221)	(74,231)
National Labor Support Tax	30	(347,837)	(181,597)
Board of Directors' remuneration	31	(95,000)	(85,000)
Net profit for the year		14,088,389	8,376,562
Attributable to:			
Parent company's shareholders		13,345,415	7,907,054
Minority interest		742,974	469,508
Net profit for the year		14,088,389	8,376,562
		Fils	Fils
Earnings per share	32	92.36	58.96

The accompanying notes (1) to (38) form an integral part of the consolidated financial statements.

AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006
(All amounts are in Kuwaiti Dinars)

	Attributable to parent company's shareholders'										
	Share capital	Share premuim	Statutory reserve	Treasury shares	Gain on sale of treasury shares	Cumulative changes in fair value	Foreign currency translation adjustments	Retained earnings	Total equity attributable to parent company's shareholders	Minority Interest	Total equity
Balance as of December 31, 2004	11,902,226	11,528,752	2,518,992	(96,169)	2,458,046	-	-	10,541,241	38,853,088	1,023,627	39,876,715
Effect of implementiopn of IFRS 3 from January 1, 2005	-	-	-	-	-	-	-	339,911	339,911	113,304	453,215
Restated balance as of December 31, 2004	11,902,226	11,528,752	2,518,992	(96,169)	2,458,046	-	-	10,881,152	39,192,999	1,136,931	40,329,930
Change in fair value of investment available for sale (Note 10)	-	-	-	-	-	460,598	-	-	460,598	-	460,598
Net income recoginized directly in equity	-	-	-	-	-	460,598	-	-	460,598	-	460,598
Net profit for the year	-	-	-	-	-	-	-	7,907,054	7,907,054	469,508	8,376,562
Total recognized income for the year	-	-	-	-	-	460,598	-	7,907,054	8,367,652	469,508	8,837,160
Cash dividend (45% - 2004)	-	-	-	-	-	-	-	(5,339,223)	(5,339,223)	-	(5,339,223)
Bonus shares (5% - 2004)	595,111	-	-	-	-	-	-	(595,111)	-	-	-
Cash dividend (subsidiary)	-	-	-	-	-	-	-	-	-	(647,127)	(647,127)
Share premium seperated from statutory reserve	-	30,000	(30,000)	-	-	-	-	-	-	-	-
Transfer to reserve	-	-	824,788	-	-	-	-	(824,788)	-	-	-
Balance as of December 31, 2005	12,497,337	11,558,752	3,313,780	(96,169)	2,458,046	460,598	-	12,029,084	42,221,428	959,312	43,180,740
Change in fair value of investment available for sale (Note 10)	-	-	-	-	-	(404,534)	-	-	(404,534)	-	(404,534)
Total loss recognized directly in equity	-	-	-	-	-	(404,534)	-	-	(404,534)	-	(404,534)
Effect of sale of available for sale investment	-	-	-	-	-	(56,064)	-	-	(56,064)	-	(56,064)
Net profit for the year	-	-	-	-	-	-	-	13,345,415	13,345,415	742,974	14,088,389
Total revenues and expenses for the year	-	-	-	-	-	(460,598)	-	13,345,415	12,884,817	742,974	13,627,791
Cash dividend –(50%)	-	-	-	-	-	-	-	(6,219,086)	(6,219,086)	-	(6,219,086)
Bonus shares– (5%)	624,867	-	-	-	-	-	-	(624,867)	-	-	-
Cash dividend (subsidiary)	-	-	-	-	-	-	-	-	-	(468,524)	(468,524)
Right shares issued – 12.5%	1,562,167	4,686,501	-	-	-	-	-	-	6,248,668	-	6,248,668
Due to a company under liquidation (Note 12)	-	-	-	-	-	-	-	(1,171,508)	(1,171,508)	-	(1,171,508)
Foreign currency translation adjustments	-	-	-	-	-	-	(50,544)	-	(50,544)	-	(50,544)
Purchase of treasury shares	-	-	-	(725,177)	-	-	-	-	(725,177)	-	(725,177)
Sale of treasury shares	-	-	-	215,662	-	-	-	-	215,662	-	215,662
Gain on sale of treasury shares	-	-	-	-	21,866	-	-	-	21,866	-	21,866
Transfer to statutory reserve	-	-	1,391,347	-	-	-	-	(1,391,347)	-	-	-
Effect of sale of a subsidiary	-	-	-	-	-	-	-	-	-	(5,577)	(5,577)
Balance as of December 31, 2006	14,684,371	16,245,253	4,705,127	(605,684)	2,479,912	-	(50,544)	15,967,691	53,426,126	1,228,185	54,654,311

The accompanying notes (1) to (38) form an integral part of the consolidated financial statements.

	2006	2005
Cash flows from operating activities:		
Profit for the year before Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax and Board of Directors' remuneration	14,656,447	8,717,390
Adjustments:		
Depreciation	1,534,114	1,552,022
Amortization	100,598	109,227
Finance charges	1,823,861	1,785,094
Realized gain from investments at fair value through income statement	(5,500)	-
Interest income	(63,321)	-
Provision for employees' end of services indemnity	235,227	164,403
Fixed assets written off - Net	532,192	-
Gain on sale of fixed assets	(31,426)	(4,020)
Gain on sale of investment property	-	(1,171,508)
Gain on sale of projects under construction	(5,023,116)	-
Dividend income	(164,800)	(500,000)
Change in fair value of investment property	(3,106,545)	(300,000)
Unrealized gain from investments at fair value through income statement	-	(486,000)
Gain on sale of lands under development	(717,702)	(791,031)
Foreign currency translation adjustments	27,094	-
Gain on sale of investment available for sale	(56,064)	-
Provision for doubtful debts	4,767	3,133
Provision for slow moving inventory	82,679	60,000
Operating profit before changes in working capital	9,828,505	9,138,710
Increase in accounts receivable and other debit balances	(1,086,001)	(2,432,598)
(Increase) decrease in due from customers for contract work	(605,783)	1,501,389
(increase) decrease in due from related parties	(4,236,489)	14,808
Decrease (increase) in inventories	39,420	(617,410)
Paid for purchase of lands under development	(3,750,265)	(3,769,984)
Proceed from sale of lands under development	13,715,670	8,701,343
(Decrease) increase in accounts payable and other credit balances	(1,484,240)	1,895,422
(Decrease) increase in due to related parties	(353,623)	169,726
Payment for employees' end of service indemnity	(60,637)	(38,425)
Payment for Kuwait Foundation for Advancement of Sciences	(17,536)	(168,626)
Payment for National Labor Support Tax	(18,768)	(203,372)
Payment for Board of Directors' remuneration	(85,000)	(85,000)
Net cash generated from operating activities	11,885,253	14,105,983

	2006	2005
Cash flows from investing activities:		
Paid for purchase of Investments at fair value through income statement	(1,444,428)	(1,029,421)
Paid for purchase of investment in associate	-	(160,748)
Paid for purchase of investment available for sale	(207,296)	-
Paid for purchase of investment properties	(2,202,347)	(4,920,548)
Proceeds from sale of investments at fair value through income statement	16,500	-
Proceeds from sale of investment properties	-	16,387,425
Proceeds from sale of projects under construction	10,371,007	-
Disposal of right of utilization of leasehold	578,038	-
Disposal of goodwill	908,155	-
Paid for purchase of fixed assets	(930,085)	(3,096,642)
Proceeds from sale of fixed assets	129,797	63,258
Paid for projects under construction	(18,421,347)	(4,255,850)
Paid for purchase of investments in unconsolidated subsidiaries	(1,175,344)	(12,361,000)
Dividend income received	164,800	160,000
Interest income received	43,538	-
Net cash used in investing activities	(12,169,012)	(9,213,526)
Cash flows from financing activities:		
(Paid to) proceeds from due to banks	(5,131,909)	1,635,807
Net proceeds from term loans	7,681,872	1,404,811
Finance charges paid	(1,823,861)	(1,785,094)
Payment of cash dividends to shareholders	(6,239,295)	(5,203,870)
Decrease in minority interest (subsidiary)	(5,577)	-
Cash dividend (subsidiary)	(468,524)	(647,127)
Proceeds from increase in capital	1,562,167	-
Proceeds from share premium	4,686,501	-
Purchase of treasury shares	(533,075)	-
Proceeds from sale of treasury shares	237,528	-
Net cash used in financing activities	(34,173)	(4,595,473)
Net (decrease) increase in cash and cash equivalents	(317,932)	296,984
Cash and cash equivalents attributable to a company under liquidation (Note 12)	2,988,503	-
Cash and cash equivalents at the beginning of the year (Note 3)	498,051	201,067
Cash and cash equivalents at the end of the year (Note 3)	3,168,622	498,051

The accompanying notes (1) to (38) form an integral part of the consolidated financial statements.

1. Incorporation and activities

Aerated Concrete Industries Co. K.S.C. (Closed) was incorporated authenticated at the Ministry of Justice – Real Estate Registration and Authentication Department under Ref. No. 16540 on June 23, 1990 and registered on Commercial register under Ref. No. 41903 dated July 17, 1991.

The main objectives of the Company include the establishment of a factory for the production of all types and sizes of aerated concrete and non-concrete and all its construction requirements, import and export of all building materials. The Company is considered the sole agent in the Middle East for manufacturing 'Hebel' international products.

The Company's objectives also include owning, buying and selling real estates, land and lands for development for the benefit of the Company either inside or outside Kuwait, dealing in industrial companies' shares and bonds relating to the main objective of the Company for the benefit of the Company only either inside or outside Kuwait, preparing and submitting the studies and consultancy and also organizing the industrial exhibitions for the Company's projects.

The Company may have interests or participate in any aspect in other firms conducting similar activities or which may assist the Company in achieving its objectives in Kuwait or abroad. The Company may also acquire such firms or participate in their equity.

The address of the Company is Sharq – Ahmed Al-Jaber Street – Raed Center, 5th floor, P.O. Box 24079, Safat, 13101 - State of Kuwait.

The financial statements were authorized for issue by the Board of Directors on February 13, 2007. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

2. Accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention, except for, investments at fair value through income statement, available-for-sale investments and investment properties which are stated at fair value. The accounting policies applied by the Group are consistent with those used in the previous year.

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

b) IASB standard issued but not yet effective

At the date of authorization of these financial statements, the following IASB Standard have been issued but is not yet effective:

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.

c) Basis of consolidation

The consolidated financial statements include the financial statements of Aerated Concrete Industries Company - K.S.C. (Closed) and the following subsidiary:

Name of Subsidiary	Country of incorporation	Percentage of ownership
Ghassan Ahmed Sauod Al-Khaled & Co. – W.L.L. and its subsidiaries	Kuwait	75 %

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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

d) Cash and cash equivalents

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

e) Investments

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

(i) Investments at fair value through income statement
This category has two sub-categories: investments 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 investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in the other category. 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 Group commits to purchase. 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 Group establishes fair value by using valuation techniques. These include the use of recent arm's length transaction, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstance.

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 income statement – is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on available for sale equity instruments are not reversed through the consolidated income statement.

f) Receivables

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

g) Due from (to) customers for contract work

The gross amount due from (to) customers for contract work represents the net amount of costs incurred plus recognized profits, less the sum of recognized losses and progress billings for all contracts in progress. Cost comprises direct materials, direct labor and an appropriate allocation of overheads. For contracts where progress billings exceed costs incurred plus recognized profit (less recognized losses), the excess is included under liabilities.

h) Inventories

Inventories are valued at the lower of cost or net realizable value after providing allowances for any obsolete or slow-moving items. Cost comprises direct materials and direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis.

Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses.

i) Lands under development

Land under development and real estate projects in progress are valued at the actual cost, while land and real estate that are ready for sale are valued at the lower of cost or net realizable value. Any resulting differences are included in the statement of income.

j) Investment in associate

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policy decisions. The consolidated financial statements include the Group'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 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 consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group'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 Group's interest in that associate which includes any long-term interests that, in substance, form part of the Group'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 Group's interest in the associate.

Any excess of the cost of acquisition over the Group'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 Group'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 consolidated profit or loss.

k) Investment property

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

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

l) Rights of utilization

Rights of utilization are stated at historical cost. Rights of utilization have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of rights of utilization over their estimated useful lives (17 years).

m) Goodwill

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

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

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

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investment in associates' in note 2(j).

Where there is an excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, the Group is required to reassess the identification and measurement of the net identifiable assets and measurement of the cost of the acquisition and recognize immediately in the consolidated statement of income any excess remaining after that remeasurement.

n) Fixed assets

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

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

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

	Useful life years
Buildings	20
Machinery and equipment	3 - 20
Motor vehicles	3
Tools and equipment	3
Furniture and fixtures	3 - 5

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

o) Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

p) Payables

Accounts payable are stated at their cost.

q) Provision for employees' end of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law. 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.

r) 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 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.

s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods
Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when significant risks and rewards of ownership of goods are transferred to the buyer.

Rendering of services
Revenue from service contracts is recognized when the service is rendered.

Construction contracts
Revenue from construction contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. Profit is only recognized when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments are included in the determination of contract profit when approved by contract owners. Anticipated losses on contracts are recognized in full as soon as they become apparent.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

Interest income
Interest income is recognized on a time-proportion basis using the effective interest method.

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

Rent
Rental income is recognized, when earned, on a time apportionment basis.

Gain on sale of investments
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.

t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in net profit or loss in the period in which they are incurred.

u) Provisions

A provision is recognized when the Group 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 the expenditures expected to be required to settle the obligation

v) Foreign currency

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 settlements of monetary items or on the retranslation of monetary items are included in income statement 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 consolidated statement of changes in equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

w) Contingencies

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

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

x) Financial instruments

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

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

y) Critical accounting estimates and judgments

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

a) Judgments

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

(i) Revenue Recognition

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

(ii) Determination of contract cost

Determination of costs which are directly related to the specific contract or attributable to the contract activity in general requires significant judgment. The determination of contract cost has a significant impact upon revenue recognition in respect of long term contracts. The Group follows guidance of IAS 11 for determination of contract cost and revenue recognition.

(iii) Provision for doubtful debts and inventory

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

(iv) Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

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

(v) Impairment of investments

The Group treats investments "available for sale" as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment.

b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimating 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.

(i) Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

(ii) Impairment of Goodwill

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

(iii) Long term contracts

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

(iv) Provision for doubtful debts and inventory

The extent of provision for doubtful debts and inventories involves estimation process. Provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventory are subject to management approval.

z) Segment reporting

A segment is a distinguishable component of the Group 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 and cash equivalents

	2006	2005
Cash on hand and at banks	907,198	498,051
Fixed deposits	2,261,424	-
	3,168,622	498,051

The effective interest rate on the short term bank deposit ranged from 3.25% to 4.78% per annum (2005 – Nil), this deposit has an average maturity of 90 days.

4. Investments at fair value through income statement

	2006	2005
Held for trading	344,720	103,376
Designated at fair value through income statement	2,663,792	1,458,000
	3,008,512	1,561,376

The movement of investments at fair value through income statement was as follows:

	2006	2005
Balance at the beginning of the year	1,561,376	45,955
Additions	1,444,428	1,029,421
Unrealized gain from investments at fair value through income statement	-	486,000
Disposals	(1,458,000)	-
Transferred from a company under liquidation	535,708	-
Transferred from accounts receivable	925,000	-
Balance at the end of the year	3,008,512	1,561,376

Transferred from accounts receivable represent subscription paid during the year ended December 31, 2005 for which shares were granted to the company during the current year.

5. Accounts receivable and other debit balances

	2006	2005
Trade receivables	7,158,746	8,133,164
Provision for doubtful debts	(379,828)	(384,959)
	6,778,918	7,748,205
Letters of credit	532,389	19,332
Prepaid expenses	754,023	105,313
Accrued dividend income	-	360,000
Advance payments for subcontractors	2,190,663	407,302
Amount paid for subscription	-	925,000
Refundable deposits and others	339,363	486,821
	10,595,356	10,051,973

6. Gross amount due from customers for contract work

	2006	2005
Contract cost incurred to date plus recognized profits less recognized losses	2,659,082	8,648,228
Less: Progress billings	(345,892)	(6,940,821)
	2,313,190	1,707,407

7. Related party transactions

The Group has entered into various transactions with related parties, i.e. shareholders, key management personnel, associates and other related parties in the normal course of its business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. Significant related party transactions and balances are as follows:

Balance sheet:	2006	2005
Due from related parties	8,037,322	1,506,277
Investment available for sale	-	2,460,598
Due to related parties	877,459	169,726
Accounts receivable and other debit balances	542,874	842,603
Accounts payable and other credit balances	2,286,719	522,682

Due from (to) related parties mainly represent loans granted to related parties and sales between them.

	2006	2005
Transactions:		
Operating income	7,343,467	9,667,452
Operating costs	7,065,690	9,333,604
Selling expenses	277,777	333,848
Gain on sale of investment property	-	1,171,508
Gain on sale of investment available for sale	56,064	-
Gain on sale of lands under development	207,375	-
Management fees	119,915	-

.

8. Inventories

	2006	2005
Raw materials	628,645	945,543
Finished goods	1,132,230	1,214,738
Spare parts	896,325	536,339
	2,657,200	2,696,620
Provision for slow-moving inventory	(150,129)	(67,450)
	2,507,071	2,629,170

9. Lands under development

	2006	2005
Balance at the beginning of the year	9,394,807	13,535,135
Additions	3,750,265	3,769,984
Disposals	(12,997,968)	(7,910,312)
Balance at the end of the year	147,104	9,394,807

During the year, the parent company had sold lands under development with an amount of KD 13,715,670 resulted in a gain of KD 717,702 to other and related parties.

Lands under development are not registered in the name of the Company. However, the Company has the right to sell and dispose the land according to the authorization from the owner of the land.

10. Investment available for sale

	2006	2005
Balance at the beginning of the year	2,460,598	2,000,000
Additions	207,296	-
Changes in fair value	(404,534)	460,598
Disposal	(2,263,360)	-
Balance at the end of the year	-	2,460,598

Investment available for sale include the following:

	2006	2005
Investment in real estate fund	-	2,460,598

11. Investment in associates

The investment in associates consists of the following:

	Country of Incorporation	Percentage of ownership	2006	2005
Aerated Concrete Industries Company - Saudi Arabia W.L.L.	Saudi Arabia	45%	483,910	483,910
Aerated Concrete Industries Company - Qatar W.L.L.	Qatar	49%	160,748	160,748
			644,658	644,658

The Group had not accounted its share of results from the above associates since they have not yet issued financial statements.

12. Investment in unconsolidated subsidiaries

	Country of Incorporation	Percentage of ownership	2006	2005
ACICO International for Real Estate Devlopment – K.S.C.C.	Kuwait	49.44%	-	11,215,260
ACICO International Contracting – L.L.C.	UAE	75%	175,334	-
Al-Masaken International for Real Estate Development W.L.L.	Kuwait	100%	1,000,000	-
			1,175,334	11,215,260

The movement in investment in unconsolidated subsidiaries was as follows:

	2006	2005
Balance at the beginning of the year	11,215,260	-
Additions	1,175,334	12,361,000
Disposals	(10,043,752)	-
Gain on sale of land to unconsolidated subsidiary	(1,171,508)	(1,145,740)
Balance at the end of the year	1,175,334	11,215,260

ACICO International for Real Estate Development K.S.C. (closed) was established on March 21, 2005, The parent company's 53.43% ownership amounted to KD 13,358,213. As of December 31, 2005 this investment was classified as investment in unconsolidated subsidiary by an amount of KD 11,215,200 and classified the remaining amount as investment at fair value through income statement.

The Extraordinary General Assembly meeting of ACICO International for Real Estate Development K.S.C. (closed) - unconsolidated subsidiary held on July 2, 2006, with 92.2% of company shareholders approved the optional liquidation of the company.

The Extraordinary General Assembly meeting of ACICO International for Real Estate Development K.S.C. (closed) - under liquidation held on October 1, 2006 approved the liquidator's report and the Financial Statements for the period from April 5, 2005 (date of final announcement) to July 2, 2006 (date of optional liquidation approval), also approved sale assets and liabilities of company (under liquidation) to Aerated Concrete Industries Co. K.S.C. (closed) by an amount KD 25,420,000.

For the purpose of settlement, 46.57% of the sale price of company's assets and liabilities as mentioned above related to the shareholders of ACICO International for Real Estate Development K.S.C. (closed) (under liquidation). The Extraordinary General Assembly meeting of Aerated Concrete Industries Co. K.S.C. (closed) was held on December 23, 2006 and approved the following:

1. Increasing the company's authorized and paid up capital amounting to KD 14,684,371 (146,843,710 shares) to KD 18,564,965 (185,649,964 shares) by issuing 38,805,939 shares representing 100 fils par value of 211 fils share premium. And to be subscribed by 46.57%.of the shareholders of ACICO International for Real Estate Development K.S.C. (closed) (under liquidation).

2. Also approved in the same meeting the waiver from the parent company's shareholders to the shareholders' of ACICO International for Real Estate Development K.S.C (Closed) for the right to subscribe in the capital increase.

The assets and liabilities transferred from the company under liquidation to the parent company due to the liquidation are as follows:

Assets:	
Cash and cash equivalents	2,988,503
Investment at fair value through income statement	727,797
Accounts receivable	203,732
Due from related parties	194,836
Investment property	2,317,455
Projects under construction	20,895,603
Fixed assets	60,353
Accumulated depreciation	(620)
	27,387,659
Liabilities:	
Loans	2,548,407
Accounts payable	225,357
Due to related parties	1,061,356
	3,835,120
The net assets transferred due to liquidation	23,552,539
Represented by:	
Investment in unconsolidated subsidiary	11,490,752
Due to the shareholders of a company under liquidation	12,061,787
	23,552,539

13. Investment properties

	2006	2005
Balance at the beginning of the year	4,000,000	21,967,102
Transferred from a company under liquidation	2,317,455	-
Additions	2,202,347	4,920,548
Transfer to project under construction	-	(9,117,474)
Disposals	-	(14,070,176)
Changes in fair value of investment properties	3,106,545	300,000
Balance at the end of the year	11,626,347	4,000,000

Investment property amounting to KD 7,490,275 with its future rental income is pledged against a long term loan (Note 20).

14. Right of utilization of leasehold

	Right of utilization of leasehold
Cost as of December 31, 2005	2,029,225
Disposal due to a subsidiary's subsidiary	(880,000)
Cost as of December 31, 2006	1,149,225
Accumulated amortization as of December 31, 2005	455,151
Attributable to disposal of a subsidiary's subsidiary	(301,962)
Charge for the year	100,598
Accumulated amortization as of December 31, 2006	253,787
Balance as of December 31, 2006	895,438
Balance as of December 31, 2005	1,574,074

This land was leased from the government for 20 years ending on June 15, 2017, which is amortized over the lease contract period.

15. Goodwill

	2006
Balance at the beginning of the year	3,158,661
Disposal due to a subsidiary's subsidiary	(908,155)
Balance at the end of the year	2,250,506

16. Projects under construction

	2006	2005
Balance at the beginning of the year	14,138,870	4,602,963
Transferred from a company under liquidation	20,895,603	-
Additions	18,421,347	4,255,850
Disposals	(5,347,891)	-
Transfer from investments property	-	9,117,474
Transfer to fixed assets	-	(3,837,417)
Transfer from fixed assets	145,546	-
Foreign currency translation adjustment	(37,593)	-
Balance at the end of the year	48,215,882	14,138,870

Projects under construction amounting to KD 31,630,373 are pledged against long term loans (Note 20). During the year, the Parent company sold a project under construction for KD 10,371,007 resulting in a gain of KD 5,023,116.

17. Fixed assets

	Lands & buildings	Machinery and equipment	Motor vehicles	Tools and equipment	Furniture and fixture	Total
Cost:						
As of December 31, 2005	4,408,537	15,469,654	2,390,740	179,432	1,904,165	24,352,528
Additions	4,738	281,488	521,461	22,316	100,082	930,085
Transferred from a company under liquidation	-	-	25,710	-	34,643	60,353
Transferred to projects under construction	-	(151,218)	-	-	-	(151,218)
Disposals	-	(45,075)	(116,182)	-	(30,614)	(191,871)
Fixed assets written off	(670,542)	(881)	-	(95)	(133,019)	(804,537)
Foreign currency translation adjustments	(12,617)	(29,249)	(558)	(488)	(460)	(43,372)
As of December 31, 2006	3,730,116	15,524,719	2,821,171	201,165	1,874,797	24,151,968
Accumulated depreciation:						
As of December 31, 2005	1,076,097	4,214,233	1,558,446	121,693	1,606,338	8,576,807
Charge for the year	198,749	757,546	376,512	37,042	164,265	1,534,114
Related to transferred to projects under construction	-	(5,671)	-	-	-	(5,671)
Related to transferred from a company under liquidation	-	-	282	-	338	620
Relating to disposals	-	(5,093)	(88,409)	-	-	(93,502)
Relating to fixed assets written off	(161,760)	(881)	-	(95)	(109,609)	(272,345)
Foreign currency translation adjustments	(789)	(1,795)	(393)	(150)	(200)	(3,327)
As of December 31, 2006	1,112,297	4,958,339	1,846,438	158,490	1,661,132	9,736,696
Net book value:						
As of December 31, 2006	2,617,819	10,566,380	974,733	42,675	213,665	14,415,272
As of December 31, 2005	3,332,440	11,255,421	832,294	57,739	297,827	15,775,721

Cost of sales include depreciation charge for the year amounting to KD 1,173,148 (2005 – KD 1,131,880).

The Company's factory buildings are erected on land leased from the Government for 25 years ending on June 30, 2017 and is renewable.

18. Due to banks

Annual interest rate on bank overdrafts varies from 1% to 2% over the Central Bank of Kuwait discount rate.

Due to banks is guaranteed by a notes payable.

19. Accounts payable and other credit balances

	2006	2005
Accounts payable	3,038,848	3,117,418
Accrued staff leave	119,264	70,479
Payable to Kuwait Foundation for Advancement of Sciences	199,452	91,767
National Labor Support Tax payable	745,152	416,083
Board of Directors' remuneration	95,000	85,000
Advances from customers	809,242	2,181,543
Accrued expenses and others	880,947	737,746
	5,887,905	6,700,036

20. Loans

a) Short-term loans

	2006	2005
Loans in Kuwaiti Dinars guaranteed by note payable (promissory note)	3,798,210	8,082,389
Loans in US Dollar , not guaranteed	-	1,462,500
Loans in UAE Dirham guaranteed by note payable (promissory note)	-	955,440
	3,798,210	10,500,329

b) Long-term loans

	Current	Non-current
Loans in UAE Dirham guaranteed by projects under construction (Note 16)	4,514,911	2,621,596
Loans in UAE Dirham guaranteed by investment properties (Note 13)	2,365,350	-
Loans in Kuwaiti Dinars guaranteed by note payable (promissory note)	3,233,334	10,720,832
Loans in US Dollar guaranteed by note payable	-	3,925,520
	10,113,595	17,267,948

Loans mentioned above are granted in different currencies with average annual interest rates varying from 1% to 2.5% over Central Bank discount rates and London Inter Bank Offer Rate (LIBOR) and Dubai Inter Bank Offer Rate (DIBOR).

21. Provision for employees' end of services indemnity

	2006	2005
Balance at the beginning of the year	547,920	421,942
Charge for the year	235,227	164,403
Paid during the year	(60,637)	(38,425)
Balance at the end of the year	722,510	547,920

22. Share capital

Authorized issued and paid up capital consist of 146,843,716 shares (2005 – 124,973,377 shares) of 100 fils each.

The shareholders' General Assembly meeting held on March 25, 2006 increased the share capital from 124,973,377 shares to 146,843,716 shares with an increase of 21,870,339 shares representing 5% bonus shares (2005 – 5%) and 12.5% rights issue (2005 – Nil).

	Shares	Nominal value KD
Balance at December 31, 2005	124,973,377	12,497,337
Bonus shares – 5%	6,248,668	624,867
Rights issue – 12.5%	15,621,671	1,562,167
Balance at December 31, 2006	146,843,716	14,684,371

23. Share premium

The shareholders' General Assembly meeting held on March 25, 2006 approved the rights issue of 12.5% representing 15,621,671 shares at a nominal value of 100 fils and a share premium of 300 fils each.

24. Statutory reserve

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of net profit for the year attributable to equity holder of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and board of directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

25. Treasury shares

	December 31, 2006	December 31, 2005
Number of shares	1,750,518	391,518
Percentage of issued shares	1.19%	0.31%
Market value (KD)	544,291	266,232

26. Segment reporting

Following are the segmental information for the main activities of the Company:

	December 31, 2006					
	Aerated Concrete	Housing Development	Contracting	Total	Minority / entries to eliminate inter-company transaction	Total
Operating income	13,222,267	14,425,697	48,588,456	76,236,420	(21,744,818)	54,491,602
Operating costs	7,627,788	13,635,613	42,201,696	63,465,097	(19,726,328)	43,738,769
Net income for the year	10,458,821	806,554	2,823,014	14,088,389	(742,974)	13,345,415
Finance charges	1,498,334	117,177	208,350	1,823,861	-	1,823,861
Depreciation	58,769	12,385	289,812	360,966	-	360,966
Total assets	131,287,862	2,593,917	16,426,930	150,308,709	(41,308,095)	109,000,614
Total liabilities	80,213,358	1,761,051	9,786,110	91,760,519	(37,414,216)	54,346,303

	December 31, 2005					
	Aerated Concrete	Housing Development	Contracting	Total	Minority / entries to eliminate inter-company transaction	Total
Operating income	13,613,650	8,732,381	21,349,954	43,695,985	(9,667,452)	34,028,533
Operating costs	7,171,133	7,696,488	18,121,488	32,989,109	(9,333,604)	23,655,505
Net income for the year	5,767,683	827,952	1,780,927	8,376,562	(469,508)	7,907,054
Finance charges	1,098,505	495,890	190,699	1,785,094	-	1,785,094
Depreciation	124,521	13,063	282,558	420,142	-	420,142
Total assets	68,714,672	14,428,546	12,870,991	96,014,209	(15,697,306)	80,316,903
Total liabilities	27,700,026	13,110,361	9,019,070	49,829,457	(12,693,294)	37,136,163

27. Investment income

	2006	2005
Dividend income	164,800	500,000
Gain on sale of investment available for sale	56,064	-
Realized gain on sale of investments at fair value through income statement	5,500	-
Unrealized gain from investments at fair value through income statement	-	486,000
	226,364	986,000

28. Other income

	2006	2005
Fees on sale of subscription rights	-	441,667
Gain on sale of fixed assets	31,426	4,020
Management fees	119,915	-
Miscellaneous	341,783	169,851
	493,124	615,538

29. Contribution to Kuwait Foundation for Advancement of Sciences

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

30. National Labor Support Tax

National Labor Support Tax is calculated at 2.5% of the profit of the Parent Company and after deducting its share of income from listed shareholding subsidiaries and associates, dividends from Kuwaiti listed shareholding companies and compensation claim from UNCC.

31. Board of Directors' remuneration

The proposed Board of Directors remuneration is subject to the approval of the shareholder's General Assembly.

32. Earnings per share

Earnings per share is calculated based on net profit for the year attributable to parent company's shareholders and the weighted average number of shares outstanding. There are no potential dilutive shares. The required information to calculate earnings per share is as follows:

	2006	2005 (Restated)
Net profit for the year attributable to parent company's shareholders	13,345,415	7,907,054
	Shares	Shares
Number of shares outstanding:		
Number of issued shares at beginning of the year	139,096,801	128,262,150
Bonus shares 5%	6,248,669	6,248,669
Weighted average of treasury shares	(857,252)	(411,094)
Weighted average number of shares outstanding at end of the year	144,488,218	134,099,725
	Fils	Fils
Earnings per share attributable to parent company's shareholders	92.36	58.96

33. Staff costs

Staff costs were allocated as follows:

	2006	2005
Cost of sales	2,108,138	2,872,684
General and administrative expenses	563,769	686,297
Selling expenses	158,071	96,162
	2,829,978	3,655,143

34. Proposed dividend

The Board of Directors proposed a cash dividend for the year 2006 of 50 fils per share after deducting treasury shares and 5% bonus shares which is equivalent to five shares for every 100 shares. This proposal is subject to approval by the Shareholders' General Assembly.

The shareholders' annual general assembly meeting held on March 15, 2006 approved the cash dividend of 50 fils per share and 5 bonus shares for every 100 shares held for the year ended December 31, 2005

35. Financial instruments

In the normal course of business, the Company uses primary financial instruments such as cash and cash equivalent, investments, accounts receivable, accounts payable and short-term loans and as a result, it is exposed to the risks indicated below.

Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the rates of interest. The short-term loan carry fixed & variable rate, but due to banks carry a variable rate that follows market interest rate. The Company minimizes the borrowing through better working capital management.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets that potentially subject the Company to credit risk consist principally of investments and receivables. The receivables are presented net of allowance for doubtful debt; whereas, the investments are presented at fair value.

Foreign currency risk

The Company incurs foreign currency risk on purchases that are denominated in a currency other than the Kuwaiti Dinar. The Company ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Company periodically assesses the financial viability of its customers.

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 cash flow risk.

Fair value of financial instruments

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

36. Contingent liabilities

	2006	2005
Letters of guarantee	1,241,700	279,679
Letters of credit	1,056,246	-
Contracting commitments for purchase of materials	-	254,400
	2,297,946	534,079

37. Subsequent events

According to a memorandum issued from the Ministry of Commerce and Industry number 16 dated January 14, 2007 based on the extra ordinary General assembly meeting held on December 23, 2006 .The following were approved.

The commercial register was amended as follows:

1 - Increasing the company authorized and paid up capital amounting to KD 14,684,371 to KD 18,564,965 with an amount of KD 3,880,594 representing 100 fils per value and 211 fils share premium. For each share for the new shareholders, to be paid in full at one time.

2 - Amending paragraph (6) company establishing contract and paragraph (5) of the Articles of Association relating to the company's capital.
The company's states capital amounts to KD 18,564,965 divided into 185,649,649 Share at value of 100 fils and all monetary shares.

38. Comparative figures

Certain prior year amounts have been reclassified to conform to the current year presentation