NATIONAL REAL ESTATE COMPANY K.S.C.
AND SUBSIDIARIES
STATE OF KUWAIT

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

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INDEPENDENT AUDITORS' REPORT

The Shareholders
National Real Estate Company K.S.C.
State of Kuwait

Report on the consolidated financial statements

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

We did not audit the financial statements of certain subsidiaries whose total assets and revenues constitute of KD 14,325,852 and KD 52,272 respectively of the respective consolidated totals. The financial statements of these subsidiaries for the year ended December 31, 2006 were audited by other auditors, whose reports were provided to us, and our opinion in so far as it related to the amounts included in the consolidated financial statements for those subsidiaries, is based solely on the reports of the other auditors.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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.

Auditors' responsibility

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

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

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

Opinion

In our opinion and based on the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of National Real Estate Company K.S.C. (the parent company) and Subsidiaries (the group) as at 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 stock taking was carried out in accordance with recognized practice and the accounting information given in the Director's Report is in agreement with the Parent Company's books. According to the information available to us, there were no contraventions during the year ended December 31, 2006 of either the Commercial Companies Law or of the Parent Company's Articles of Association which might have materially affected the Group's financial position or results of its operations except that the parent company holds certain direct investments in shares in violation of its objects.

Without qualifying our opinion, we draw attention to Note (10), (12) and (22) to the consolidated financial statements.

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State of Kuwait
29 March, 2007

NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2006
(All amounts are in Kuwaiti Dinars)

ASSETS	Note	2006	2005
Assets:			
Cash on hand and at banks		8,020,063	517,103
Investments at fair value through income statement	3	2,728,815	14,386,392
Accounts receivable and other debit balances	4	7,186,850	11,275,411
Investments available for sale	5	6,744,389	4,642,229
Investment in unconsolidated subsidiaries	6	32,291	5,083,454
Investment in an associate	7	169,308,802	146,410,294
Investment in a joint venture	8	211,977	139,764
Capital work in progress	9	16,875,572	3,101,630
Net amount due from Kuwait Ports Authority	10	-	1,535,335
Fixed assets	11	566,731	7,254,260
Investment properties	12	65,922,172	67,179,173
Total assets		277,597,662	261,525,045
LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable and other credit balances	13	21,554,916	17,163,615
Bank facilities	14	34,517,481	55,801,442
Provision for employees' end of service indemnity	15	574,910	460,268
Total liabilities		56,647,307	73,425,325
Equity:			
Share capital	16	64,363,246	53,636,038
Statutory reserve	17	30,585,134	27,153,015
Gain on sale of treasury shares		9,582,304	4,597,104
Effect of change in associate's equity	7	9,824,085	10,789,087
Cumulative changes in fair value		94,225	(16,881)
Foreign currency translation adjustments		805,452	-
Retained earnings		102,154,215	92,104,700
		217,408,661	188,263,063
Treasury shares	18	(5,184,069)	(7,082,828)
		212,224,592	181,180,235
Minority interests		8,725,763	6,919,485
Total equity		220,950,355	188,099,720
Total liabilities and equity		277,597,662	261,525,045

The accompanying notes (1) to (30) form an integral part of the consolidated financial statements

Jamil Sultan Al-Essa
Vice Chairman and Managing Director

NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2006
(All amounts are in Kuwaiti Dinars)

	Note	**2006**	2005
Revenues:			
Rental income – net		**16,289,521**	16,157,078
Net share in the associate's results	7	**38,806,128**	35,781,631
Other income	19	**4,478,204**	2,762,707
Changes in fair value of investment properties	12	**363,013**	(1,092,669)
Total revenues		**59,936,866**	53,608,747
Expenses:			
Staff costs		**4,189,108**	3,460,472
General and administrative		**6,285,571**	5,354,508
Provision for doubtful debts	20	**3,962,083**	2,706,423
Provision relating to cancellation of management's contracts of Kuwait Free Trade Zone	22	**13,360,424**	-
Depreciation	11	**671,724**	617,159
Total expenses		**28,468,910**	12,138,562
Operating profit		**31,467,956**	41,470,185
Interest income		**2,122,417**	1,557,599
Provision for interest income	20	**(1,896,982)**	(1,547,983)
Interest expense		**(3,351,694)**	(1,691,873)
Net investment income	21	**6,849,022**	15,605,819
Share in the joint venture's results		**(48,629)**	(43,004)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Directors' remuneration and National Labor Support Tax		**35,142,090**	55,350,743
Contribution to KFAS	23	**-**	(133,459)
Directors' remuneration		**(70,000)**	(70,000)
National Labor Support Tax	24	**-**	(402,697)
Net profit for the year		**35,072,090**	54,744,587
Attributable to:			
Equity holders of the parent company		**34,251,191**	53,607,733
Minority interest		**820,899**	1,136,854
Net profit for the year		**35,072,090**	54,744,587
Earnings per share attributable to equity holders of the parent company (fils)	25	**56.71**	89.11

The accompanying notes (1) to (30) form an integral part of the consolidated financial statements

NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2006
(All amounts are in Kuwaiti Dinars)

	Attributable to equity holders of the parent company										
	Share capital	Statutory reserve	Gain on sale of treasury shares	Effect of change in associate's equity	Cumulative changes in fair value	Foreign currency translation adjustments	Retained earnings	Treasury shares	Subtotal	Minority Interest	Total
Balance at December 31, 2004	46,640,033	21,731,626	3,222,904	-	(218,445)	-	57,451,425	(6,557,342)	122,270,201	6,179,294	128,449,495
Gain on sale of treasury shares	-	-	1,374,200	-	-	-	-	-	1,374,200	-	1,374,200
Transfer to income statement resulting from sale of investments available for sale	-	-	-	-	201,564	-	-	-	201,564	-	201,564
Net income recognized directly in equity	-	-	1,374,200	-	201,564	-	-	-	1,575,764	-	1,575,764
Net profit for the year	-	-	-	-	-	-	53,607,733	-	53,607,733	1,136,854	54,744,587
Total recognized income for the year	-	-	1,374,200	-	201,564	-	53,607,733	-	55,183,497	1,136,854	56,320,351
Purchase of treasury shares	-	-	-	-	-	-	-	(777,994)	(777,994)	-	(777,994)
Sale of treasury shares	-	-	-	-	-	-	-	252,508	252,508	-	252,508
Effect of change in associate's equity– Note 7	-	-	-	10,789,087	-	-	-	-	10,789,087	-	10,789,087
Paid to minority	-	-	-	-	-	-	-	-	-	(396,663)	(396,663)
Cash dividend (2004 – 15 fils per share)	-	-	-	-	-	-	(6,537,064)	-	(6,537,064)	-	(6,537,064)
Bonus shares (2004 – 15%)	6,996,005	-	-	-	-	-	(6,996,005)	-	-	-	-
Transfer to reserve	-	5,421,389	-	-	-	-	(5,421,389)	-	-	-	-
Balance at December 31, 2005	53,636,038	27,153,015	4,597,104	10,789,087	(16,881)	-	92,104,700	(7,082,828)	181,180,235	6,919,485	188,099,720
Gain on sale of treasury shares	-	-	4,985,200	-	-	-	-	-	4,985,200	-	4,985,200
Change in fair value of investment available for sale	-	-	-	-	111,106	-	-	-	111,106	-	111,106
Foreign currency translation adjustments	-	-	-	-	-	805,452	-	-	805,452	-	805,452
Net income recognized directly in equity	-	-	4,985,200	-	111,106	805,452	-	-	5,901,758	-	5,901,758
Net profit for the year	-	-	-	-	-	-	34,251,191	-	34,251,191	820,899	35,072,090
Total recognized income for the year	-	-	4,985,200	-	111,106	805,452	34,251,191	-	40,152,949	820,899	40,973,848
Purchase of treasury shares	-	-	-	-	-	-	-	(85,089)	(85,089)	-	(85,089)
Sale of treasury shares	-	-	-	-	-	-	-	1,983,848	1,983,848	-	1,983,848
Effect of change in associate's equity– Note 7	-	-	-	(965,002)	-	-	-	-	(965,002)	-	(965,002)
Share of minority from newly consolidated subsidiaries	-	-	-	-	-	-	-	-	-	985,379	985,379
Cash dividend (2005 - 20 fils per share) – Note 29	-	-	-	-	-	-	(10,042,349)	-	(10,042,349)	-	(10,042,349)
Bonus shares (2005 – 20%) – Note 29	10,727,208	-	-	-	-	-	(10,727,208)	-	-	-	-
Transfer to reserve	-	3,432,119	-	-	-	-	(3,432,119)	-	-	-	-
Balance at December 31, 2006	**64,363,246**	**30,585,134**	**9,582,304**	**9,824,085**	**94,225**	**805,452**	**102,154,215**	**(5,184,069)**	**212,224,592**	**8,725,763**	**220,950,355**

The accompanying notes (1) to (30) form an integral part of the consolidated financial statements

NATIONAL REAL ESTATE COMPANY K.S.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006
(All amounts are in Kuwaiti Dinars)

	Note	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year before contribution to KFAS, Directors' remuneration and National Labor Support Tax		**35,142,090**	55,350,743
Adjustments for:			
Kuwait Ports Authority's share in Kuwait Free Trade Zone rental income		**1,502,184**	1,255,681
Net share in the associate's results		**(38,806,128)**	(35,781,631)
Gain on sale of investment property and fixed assets		**(287,398)**	(2,474)
Provision for employees' end of service indemnity		**127,125**	125,453
Right of utilization of Ministry of Commerce & Industry for Kuwait Free Trade Zone		**581,306**	663,836
Provision for interest income and doubtful debts	20	**5,859,065**	4,254,406
Provision relating to cancellation of management's contracts of Kuwait Free Trade Zone	22	**13,360,424**	-
Depreciation		**671,724**	617,159
Amortization		**14,250**	-
Changes in fair value of investment properties		**(363,013)**	1,092,669
Interest income		**(2,122,417)**	(1,557,599)
Interest expense		**3,351,694**	1,691,873
Net investment income		**(6,849,022)**	(15,605,819)
Share in the joint venture's results		**48,629**	43,004
Operating profit before working capital changes		**12,230,513**	12,147,301
Increase in accounts receivable and other debit balances		**(500,915)**	(5,592,762)
Increase in accounts payable and other credit balances		**2,840,116**	3,012,933
Cash generated from operations		**14,569,714**	9,567,472
Payment to Ministry of Commerce & Industry for right of utilization for Kuwait Free Trade Zone		**(566,853)**	(630,133)
Payment for employees' end of service indemnity		**(12,483)**	(14,189)
Payment to Kuwait Foundation for Advancement of Sciences		**(133,459)**	(63,041)
Payment for Directors' remuneration		**(70,000)**	(35,000)
Payment for National Labor Support Tax		**(402,697)**	(193,736)
Net cash generated from operating activities		**13,384,222**	8,631,373
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments at fair value through income statement and investment in an associate		**(3,720,088)**	(51,086,340)
Proceeds from sale of investments at fair value through income statement and investment in an associate		**27,584,591**	26,273,272
Proceeds from sale of investments available for sale		**163,035**	596,624
Purchase of investment available for sale		**(2,153,959)**	(4,609,282)
Proceed from sale of investment in unconsolidated subsidiaries		**-**	148,040
Payment for investments in unconsolidated subsidiaries		**(32,291)**	(5,083,454)
Payment for investment in joint venture		**-**	(5,000)
Payment for long term loan to joint venture		**(120,842)**	(177,768)
Payment for company under establishment		**-**	(5,000,000)
Proceeds from sale of investment property		**1,256,411**	11,000
Proceed from loan to a related party		**-**	1,254,599
Paid for capital work in progress		**(12,634,975)**	(2,425,684)
Paid for purchase of fixed assets		**(290,829)**	(174,775)
Paid for additions to investment properties		**(204,666)**	(296,641)
Dividend income received		**9,584,584**	393,017
Interest income received		**196,308**	4,566
Net cash generated from (used in) investing activities		**19,627,279**	(40,177,826)

	Note	**2006**	2005
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net amount (paid for) proceeds from bank overdraft		**(8,177,372)**	35,653
Paid for bank loans		**(13,669,908)**	(1,307,799)
Proceeds from bank loans		**563,319**	40,000,000
Paid for purchase of treasury shares		**(85,089)**	(777,994)
Proceeds from sale of treasury shares		**6,969,048**	1,626,708
Interest expense paid		**(3,334,661)**	(1,677,302)
Cash dividends paid		**(9,639,730)**	(6,492,420)
Paid to minority		**-**	(396,663)
Share of minority from newly consolidated subsidiary		**985,379**	-
Net cash (used in) generated from financing activities		**(26,389,014)**	31,010,183
Foreign currency translation adjustments		**331,005**	-
Cash relating to newly consolidated subsidiaries		**549,468**	-
Net increase (decrease) in cash on hand and at banks		**7,502,960**	(536,270)
Cash on hand and at banks at beginning of the year		**517,103**	1,053,373
Cash on hand and at banks at end of the year		**8,020,063**	517,103

The accompanying notes (1) to (30) form an integral part of the consolidated financial statements

1. Incorporation and activities

National Real Estate Company K.S.C. (the parent company) is a Kuwaiti public shareholding company registered in Kuwait and listed on the Kuwait Stock Exchange. It is engaged in real estate investment and management, as well as undertaking real estate construction and maintenance. The parent company also holds investments in securities.

The address of the parent company's registered office is P.O. Box 22644, Safat 13087, State of Kuwait.

The consolidated financial statements were authorized for issue by the Board of Directors on 29 March, 2007. The Shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) 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, certain investments available for sale and investment properties are stated at their fair value. The accounting policies applied by the Group are consistent with those used in the previous year.

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

b) 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) Provision for doubtful debts

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

(iii) 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".

(iv) 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 estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Fair value of unquoted equity investments

If the market for unquoted securities 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) Provision for doubtful debts

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

c) Principles of consolidation

The consolidated financial statements incorporate the financial statements of National Real Estate Company K.S.C. (the parent company) and the following subsidiaries:

Name of subsidiaries	Country of inception	Percentage of ownership **2006**	Percentage of ownership 2005
1) Dasman Commercial Complex – Joint venture	Kuwait	**62.083%**	62.083%
2) HRD International for Human Resources Development Company W.L.L.	Kuwait	**85.3%**	51%
3) Al-Takafouh Al-Thahabi General Trading and Contracting Company W.L.L.	Kuwait	**100%**	100%
4) Aqaba National Real Estate Projects Co.	Jordan	**70%**	-
5) Kuwait National Real Estate (PVT) Ltd	Pakistan	**100%**	-
6) National Holding Group Company (Lebanese shareholding company)	Lebanon	**100%**	-
7) Kuwait Touristic Enterprises Development Company (private shareholding company)	Tunis	**100%**	-
8) Kuwait National Real Estate Company (Egyptian shareholding company)	Egypt	**100%**	-
9) National Project Holding K.S.C. (Holding)	Kuwait	**90%**	-
10) National Investment & Development Company (private shareholding company)	Jordan	**100%**	-

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

Proportionate consolidation method

The Group reports its interests in certain jointly controlled entities using proportionate consolidation, 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". The Company's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

The above was implemented in relation to the parent company's investment during the year by 50% in a joint venture (Mediterranean Investment Holding) a company registered in Malta, whose principal activities are investing and developing real estate projects.

As a result of applying the accounting policy, the following balances as of December 31, 2006 had increased which represent the Group 50% interest in the total assets and liabilities of the Joint Venture.

	December 31, 2006
Cash on hand and at banks	**3,862,206**
Accounts receivable and other debit balances	**55,626**
Capital work in progress	**5,445,673**
Fixed assets	**34,610**
Accounts payable and other credit balances	**142,468**

d) Investments

The group classifies its investments in the following categories: investments at fair value through statement of income 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 statement of income
This category has two sub-categories: investments held for trading, and those designated at fair value through statement of income at inception. An investment is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(ii) Investments available for sale

Purchases and sales of investments are recognized on trade-date – the date on which the Group 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 statement of income.

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

Realized and unrealized gains and losses from investments at fair value through statement of income are included in the consolidated statement of income. Unrealized gains and losses arising from changes in the fair value of investments available for sale 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 the consolidated statement of 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 an 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 investments available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in consolidated statement of income – is removed from consolidated statement of equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on available for sale equity instruments are not reversed through the consolidated statement of income.

e) Receivables

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

f) Investment in an 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 except to the extent that the Group has an obligation or has made payments on behalf of the associate.

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 the consolidated statement of income.

g) Investment in joint ventures

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

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

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

Any goodwill arising on the acquisition of the group's interest in a jointly controlled entity is accounted for in accordance with the group's accounting policy for goodwill arising on the acquisition of an associate.

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

h) 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 consolidated statement of 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 consolidated statement of income.

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

	Years
Leasehold improvements	20
Buildings	20
Furniture, decorations and others	5
Office equipment	3 - 5
Motor vehicles	4

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

i) Impairment of assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in 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.

j) Investment properties

Investment properties, which are properties, held to earn rentals and/or for capital appreciation, are stated at their fair value at the balance sheet date which includes purchase price and transaction costs less accumulated depreciation impairment loss.

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

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

k) Payables

Payables are stated at their cost.

l) Allocation of operating lease premium

Amounts received as lease premiums on operating leases are treated as unearned revenue when received, and allocated to income on a straight-line basis, over the lease term, once the lease commences and the asset is occupied by the lessee.

m) Employees' end of service indemnity

Provision is made for employees' end of service indemnity 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 parent company's own shares that have been issued, subsequently reacquired by the group 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 previously 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

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.

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.

(i) Rendering of services
Revenues from services contract are recognized when these services are rendered.

(ii) Interest income
Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized either as cash is collected or on a cost–recovery basis as conditions warrant.

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

(iv) Rent:
Rental income is recognized, when earned, on a time apportionment basis.

(v) 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.

p) 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 consolidated statement of income in the period in which they are incurred.

q) 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.

r) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated 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 investments available for sale 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 those subsidiaries 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 consolidated statement of income in the period in which the foreign operations' 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.

s) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash on hand and at banks, receivables, investments, net amount due from Kuwait Port Authority, 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.

t) 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.

3. Investments at fair value through income statement

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

	2006	2005
Quoted securities held for trading	**2,728,815**	14,386,392
	2,728,815	14,386,392

The movement during the year is as follows:

	2006	2005
Balance at the beginning of the year	**14,386,392**	13,835,146
Additions	**9,369,508**	11,358,740
Disposals	**(19,349,245)**	(11,581,380)
Unrealized (loss) gain on investments at fair value through income statement	**(1,677,840)**	773,886
Balance at the end of the year	**2,728,815**	14,386,392

4. Accounts receivable and other debit balances

	2006	2005
Accrued rent	**2,718,029**	1,255,071
Provision for doubtful debts	**(1,634,579)**	(1,050,249)
	1,083,450	204,822
Amounts due from related parties	**1,196,904**	3,665,823
Advance payments	**2,458,523**	6,064,113
Staff and other receivables	**2,337,107**	1,051,189
Prepaid expenses	**103,423**	251,329
Inventory	**7,443**	38,135
	7,186,850	11,275,411

Provisions for doubtful debts include an amount of KD 535,118 which represents the provision taken by the parent company for the accounts receivable and other debit balances of Kuwait Free Trade Zone due to the resolution 507/2006 issued by Ministry of Commerce & Industry to breach the management contract of Kuwait Free Trade Zone with the Parent Company (Note 22). This provision was taken for conservatism purposes and not as a surrender to the validity of the breach resolution.

Also, advance payments include an amount of KD 1,085,898 (2005 – KD 1,020,838) which represents advance payments to a local company to invest in real estates on behalf of the parent company in Republic of Iraq. As of December 31, 2005, this included KD 4,500,000 representing the share capital of National Project Holding Company (Kuwaiti Shareholding Company (Holding)) which was recorded in the parent company's books as an investment in subsidiary on January 3, 2006, representing the date of incorporation.

5. Investments available for sale

	2006	2005
Managed portfolios and funds available-for-sale	**230,081**	18,431
Unquoted securities available-for-sale	**6,514,308**	4,623,798
	6,744,389	4,642,229

It was not possible to reliably measure the fair value of investments in unquoted securities available for sale amounting to KD 4,753,758 (2005 – KD 4,460,890) due to non-availability of a reliable method that could be used to determine the fair value of such investment. Accordingly, they were stated at their cost less impairment losses which amounted to KD 446,639 (2005 – KD 446,639).

6. Investment in unconsolidated subsidiaries

During the year, the parent company incorporated the following subsidiaries:

Name of the Subsidiary	**Percentage of ownership**	Country of inception	**2006**	2005
Kuwait Touristic Enterprises Development Company (private shareholding company)	**100%**	Tunis	**-**	2,495,892
Kuwait National Real Estate Company (Egyptian shareholding company)	**100%**	Egypt	**-**	293,550
National Holding Group Company (Lebanese shareholding company)	**100%**	Lebanon	**-**	1,467,750
National Investment and Development Company (private shareholding company)	**100%**	Jordan	**-**	826,262
Yemen Kuwait Co. for Trading & Contracting W.L.L.	**100%**	Yemen	**32,291**	-
			32,291	5,083,454

Investment in Yemen Kuwait Co. for Trading & Contracting W.L.L. was not consolidated since the subsidiary had not yet commenced its operations. During the year, all the other subsidiaries were consolidated (Note 2 (c)).

7. Investment in an associate

The investment in an associate represents a 24.0409% interest in the equity of Public Warehousing Company K.S.C. as of December 31, 2006 (December 31, 2005 – 25.2250%), a public shareholding company registered in Kuwait and listed on the Kuwait Stock Exchange. Its principal activities is storing goods, management of warehouses, all transportation activities, distribution, handing over and custom clearing of goods.

The movement of the investment during the year is as follows:

	2006	2005
Carrying value of the investment at beginning of the year	**146,410,294**	60,112,063
Additional investment in the associate	**472,184**	41,427,277
Sales of investment in the associate	**(6,121,604)**	(1,699,764)
Net share in the associate's results	**38,806,128**	35,781,631
Cash dividends received during the year	**(9,293,198)**	-
Effect of change in associate's equity	**(965,002)**	10,789,087
Carrying value of the investment at end of the year	**169,308,802**	146,410,294

The net share of the associate's results is represented as follows:

	2006	2005
Share in the associate's results	**40,032,210**	35,781,631
Provision for letter of guarantee relating to the associate company	**(1,226,082)**	-
	38,806,128	35,781,631

The Parent Company made provision as mentioned above, for its share of portion of the bank guarantee provided by the associate's Company which has subsequently been cashed in favor of General administration of Customs. The associate Company has appealed against that encashment since the violation against which a portion of bank guarantee has been cashed are non-contractual violation, in the opinion of the external legal consulting firm of the associate that the verdict shall be issued in favor of the associate Company to return the cashed portion of the guarantee plus legal interest accordingly, no provision has been made in the associate's books as of the balance sheet date.

The Parent Company has made a provision in its share of that portion of guarantee which encashed for conservatism purpose and not as surrender to the validity of the encashment.

The changes in associate's equity is represented as follows:

	2006	2005
Gain on sale of treasury shares	**(484,823)**	10,802,709
Foreign currency translation adjustment	**(484,594)**	65,080
Cumulative changes in fair value	**4,415**	(78,702)
	(965,002)	10,789,087

The net assets and the results of the associate are summarized as follows:

	2006	2005
Total assets	**1,316,582,000**	1,040,471,000
Current liabilities	**(408,309,000)**	(225,645,000)
Non current liabilities	**(202,756,000)**	(259,853,000)
Net assets	**705,517,000**	554,973,000
Total revenues	**1,036,860,000**	475,739,000
Total expenses	**(870,343,000)**	(333,889,000)
Net profit for the year	**166,517,000**	141,850,000

As at December 31, 2006, the investment in associate included a goodwill of KD 5,653,988 (2005 – KD 6,153,358).

During the year, 7,265,000 shares were sold from investment in an associate (2005 – 2,493,000 shares). The goodwill relating to these shares amounted to KD 499,370 (2005 – KD 182,197).

The market value of the shares of the associate as at December 31, 2006 amounted to KD 315,582,248 (December 31, 2005 – KD 494,581,550).

As of December 31, 2006, the Group's share in the contingent liabilities and capital commitments of the associate amounted to KD 22,203,000 (December 31, 2005 – KD 11,943,000).

The associate's has the contingent liabilities as follow:

a. A dispute has arisen between the associate and other party with respect to a partnership agreement that was entered into on July 30, 2002 for the purpose of bidding for and execution of the Prime Vendor Services Contract.

The associate filed a case requesting nullity of the partnership agreement and delegation of an expert to assess the compensation to which the associate may be entitled. The court issued its ruling in which the arbitration clause in the partnership agreement was nullified and the case taken under its jurisdiction and the court delegated an expert. The experts committee has ended in its report that no financial shares were presented to the partnership nor assets for infrastructure and clarified that as main liabilities in the partnership agreement and the experts report was represented to the court, and the court realized that there are no of the two parties implemented their obligations which related to partnership agreement which dated on June 30, 2002, therefore, in December 5, 2005, the court has made a decision that the partnership agreement between the two parties was terminated. So the decision was appealed and the case is still pending in the court of appeal. However, the Supreme Court of Appeal resolved to refer the case back to the Experts Department. This will not affect the latest situation because the Court issued its ruling in its session on March 27, 2007 for the Appeal No. 673/2006 to confirm the verdict issued for nullity of the case filed by other party against the associate and some of its executives, based on the expert's report, which stated that the plaintiff did not satisfy any of his obligations in the partnership contract and, hence, he is not entitled to any reward.

The associate's external legal consulting firm believes strong likelihood that the associate will win the appeal case, but the final outcome of this case cannot presently be predicted.

The third party also submitted a request to Committee of Kuwait Chamber of Commerce & Industry. The Arbitrator issued his decision to withhold arbitration procedures until the court issues its final ruling in the case. However, the Court of Appeal issued its verdict that Arbitration Committee is the relevant competent jurisdiction.

The third party has also filed a case against the associate requesting receivership over the partnership, however, the case was rejected by the Court of First Instance. Subsequently, the Court of Appeal issued a verdict reversing the ruling issued by the Court of First Instance and appointed a team of official receivers to administer the funds, assets and properties of the partnership (not those of associate). The court ruling has also specified the duties of the official receivers to include the proper administration of the partnership affairs under the objectives for which it was established, collection of its funds, satisfaction of its obligations and the depositing of any proceeds at the court's treasury.

The ongoing legal proceedings also included a case filed by the other party against certain executives of the associate in which the case was lost. This loss is confirmed by the aforesaid verdict of the Court of Appeal No. 673/2006.

The associate has also appealed against the ruling in which official receivers were appointed as discussed above, seeking cessation of official receivership but this case was rejected by the Court of Summary Appeal.

The associate's external legal consulting firms advised that the partnership agreement had expired on 1 January 2003, i.e. before the associate was awarded the Prime Vendor Services Contract by the U.S. Government and as a result the partnership agreement is considered void and of no force or effect. They also advised that the official receivership over the partnership agreement has no financial impact on the associate or any of its projects. . This is further reinforced by the verdict issued by the Supreme Court of Appeal on March 27, 2007, the legal base of which is that the partnership agreement between the associate and the other party does not exist and, accordingly, both parties have been discharged from their obligations under the contract

Based on the opinion of the external legal consulting firm of the associate, no obligations will result from this case due to the associate's strong position, and accordingly no provision has been made as of December 31, 2006.

b. On December 27, .2006, and based on the recommendation by the Ministers' Council, The Minister of Commerce & Industry issued the Resolution No. 30/2006 to terminate three contract of those concluded between the associate company the Public Authority of Industry for Mina Abdulla Zone.

The associate company appealed against this resolution through the case No. 940/2006 "Administrative". In the Hearing held on December 12, 2006, the court issued its ruling to void the aforesaid Resolution of the Ministry of Commerce & Industry and with all its resultant impacts.

However, the government requested from the Board of Public Authority of Industry, to hold a meeting chaired by the Minister of Commerce & Industry, who issued a new resolution No. 1/2007 to terminate the same contract, being the subject of the previous resolution.

The associate company, again, appealed against the new resolution through the case No. 36/2007 and assured, in its statement of defense, which is in agreement with the clauses of the law, as confirmed by the Supreme Court including Kuwait Court of Cassation, that the new resolution is void, because it has been made on the same subject of the previous resolution. From a legal perspective, the court shall issue its judgment to void the new resolution issued by the Public Authority of Industry, because it has been based on wrong bases.

Whereas the resolutions issued by the governmental authorities are not expected, from legal perspectives, to remain effective, no provision should be made in the associate's books, as the outcomes of the legal cases issue by the courts in this respect are in favour of the associate's company.

c. On January 9th, 2007 the Ministry of Finance terminated Al-Jahra Fish, Meat and Vegetables Market Project Contract with the associate company according to the resolution of the Council of Ministers No. 2 for 2007. The associate's company appealed against this resolution, however, the case not settled yet still with the court. Based on the associate's legal status of this lawsuit, we believe that the court shall issue its judgment to void that resolution; therefore, no provision has been made for facing this resolution.

d. In addition to the above, the associate's company is involved in various claims and legal proceedings including employee compensation and contractor disputes. The in-house legal counsel of the associate's company believes that such claims are not valid and will not have a material adverse effect on the financial statements of the associate company as of December 31 2006.

8. Investment in a joint venture

The investment in a joint venture represents a 50% interest in the equity of Noor Light W.L.L as of December 31, 2006, a company registered in Kuwait and its principal activities are remanufacturing of iron, aluminum and other raw materials and manufacturing all type of lighting materials and its requirements. The movement of the investment during the year is as follows:

	2006	2005
Investment in Noor Light – Kuwait	**5,000**	5,000
Long term loan	**298,610**	177,768
Cumulative Share in the joint venture results	**(91,633)**	(43,004)
	211,977	139,764

The group's share of the net assets and the results of the joint venture included in the consolidated financial statement, based on management accounts for year ended December 31, 2006 were as follows:

	2006	2005
Total assets	**102,140**	49,295
Total liabilities	**(305,407)**	(91,049)
	(203,267)	(41,754)

	2006	2005
Total revenues	**-**	3,521
Total expenses	**(48,629)**	(46,525)
Net loss for the year	**(48,629)**	(43,004)

9. Capital work in progress

Capital work in progress mainly represents construction and additional work inside the Free Trade Zone. The movement during the year is as follows:

	2006	2005
Balance at beginning of the year	**3,101,630**	4,433,956
Additions during the year	**17,468,522**	2,425,684
Transferred to fixed assets	**(255,000)**	(3,758,010)
Charged to Kuwait Ports Authority during the year	**(874,354)**	-
Amortization during the year	**(14,250)**	-
Provision relating to cancellation of management's contract of Kuwait Free Trade Zone (Note 22)	**(2,550,976)**	-
Balance at end of the year	**16,875,572**	3,101,630

10. Net amount due from Kuwait Ports Authority

	2006	2005
Due from Kuwait Ports Authority		
Rehabilitation costs of properties (a)	**6,417,653**	5,543,299
Accrued interest on the balance (b)	**7,225,417**	5,328,435
	13,643,070	10,871,734
Rent due from Kuwait Ports Authority (c)	**15,633,440**	11,537,950
Gross amount due from Kuwait Ports Authority before its share in rental income of Free Trade Zone	**29,276,510**	22,409,684
Due to Kuwait Ports Authority		
Gross share of Kuwait Ports Authority in rental income of Free Trade Zone (d)	**7,566,312**	6,064,128
Less: Refunded share of the outstanding and unpaid rent of Kuwait Ports Authority (e)	**(637,756)**	(908,220)
Less: Refunded share of the outstanding and unpaid rent of Ministry of Health – Kuwait (e)	**-**	(69,830)
Less: Refunded share of the outstanding and unpaid rent of Ministry of Interior – Kuwait (e)	**-**	(15,135)
Net share of Kuwait Ports Authority in rental income of Free Trade Zone	**6,928,556**	5,070,943
Gross amount due from Kuwait Ports Authority after its share in rental income of Free Trade Zone	**22,347,954**	17,338,741
Provision for doubtful debts (b,c,f)	**(22,347,954)**	(15,803,406)
	-	1,535,335

(a) According to clause number 11 in Kuwait Free Trade Zone management contract, if National Real Estate Company K.S.C. (the managing company) makes any rehabilitation for the properties according to the plan implemented by the Ministry of Commerce and Industry, then the managing company has the right to recover all the expenses it incurred for the rehabilitation work for those properties before accounting for the assigned share of Kuwait Ports Authority. These costs need to be approved by the Ministry of Commerce and Industry. In accordance with this clause and the letter from the Ministry of Commerce and Industry dated November 25, 1998, at which the Ministry approved the costs and descriptions that amounted to KD 6,449,034; the managing company had charged the amounts incurred in renovation and overhauling of some properties of Kuwait Ports Authority to its account, including borrowing costs that can be capitalized amounting to KD 73,122 and the bank loan's interest of KD 100,393 that can be capitalized for the period from commencement of activities till December 31, 1999.

The actual rehabilitation costs incurred by the managing company for Kuwait Ports Authority properties amounted to KD 6,417,653. The Consulting Committee of the Free Zones had approved the rehabilitation costs of KD 5,033,000 during its meeting on January 23, 2002, for the period from May 30, 1998 till October 31, 2000.

(b) The managing company also computes interest on the monthly outstanding balance due from Kuwait Ports Authority at 10% per annum. Interest income recorded in the consolidated statement of income for the year ended December 31, 2006 amounted to KD 1,896,982 (2005 – KD 1,547,983) and the managing company took provision for this interest.

(c) Also, the balance due from Kuwait Ports Authority as of December 31, 2006 includes an amount of KD 15,633,440 (2005 - KD 11,537,950), being the balance due for the rents of utilized properties by Kuwait Ports Authority in The Free Trade Zone. The managing company has recorded a provision for those rents in the balance due from Kuwait Ports Authority.

(d) According to the management contract, 80% of the rent collected in Free Trade Zone from the existing properties that were handed over from Kuwait Ports Authority is assigned to it. The gross share of the authority in those rents amounted to KD 1,502,184 for the year ended December 31, 2006 (2005 – KD 1,225,681).

(e) The 80% share relating to the outstanding and unpaid rent of Kuwait Ports Authority is deducted from the gross share of Kuwait Ports Authority in rental income of the Free Trade Zone. In case of any settlement regarding those outstanding and unpaid rents, its relative share previously deducted will be refunded back to the share of Kuwait Ports Authority in rental income of Kuwait Free Trade Zone. During the year, the managing company had refunded back the previously deducted share for the rents of Ministry of Health and Ministry of Interior to the gross share of Kuwait Ports Authority in rental income of Kuwait Free Trade Zone.

(f) As a result of the resolution issued by the Ministry of Commerce and Industry No. 507 / 2006 relating to the cancellation of the management's contract of Kuwait Free Trade Zone with the managing Company (Note 22). The managing Company has made a provision for the full amount due from Kuwait Port Authority for the conservatism purpose and not as surrender to the validity of the cancellation resolution.

11. Fixed assets

	Leasehold improvements	Buildings, furniture, decorations, office equipment and motor vehicles	Total
Cost:			
At December 31, 2005	7,745,074	1,677,640	9,422,714
Additions	86,495	317,997	404,492
Transferred from capital work in progress	255,000	-	255,000
At December 31, 2006	**8,086,569**	**1,995,637**	**10,082,206**
Accumulated depreciation:			
At December 31, 2005	948,745	1,219,709	2,168,454
Charge for the year	468,241	203,483	671,724
At December 31, 2006	**1,416,986**	**1,423,192**	**2,840,178**
Provision relating to cancellation of management's contract of Kuwait Free Trade Zone (Note 22)	(6,618,463)	(56,834)	(6,675,297)
Net book value:			
At December 31, 2006	**51,120**	**515,611**	**566,731**
At December 31, 2005	6,796,329	457,931	7,254,260

Leasehold improvements represent the improvements made by the parent company for the infrastructure in the Free Trade Zone, and is depreciated over the period of management's contract for the Free Trade Zone.

As a result if resolution relating to the cancellation of the management contract of Kuwait Free Trade Zone with the managing company. The managing company has been made a provision for a full amount of infrastructure work for conservatism purposes not as surrender to the validity of that cancellation resolution.

12. Investment properties

	2006	2005
Balance at the beginning of the year	**67,179,173**	67,892,184
Additions	**204,666**	296,641
Transfers	**-**	83,017
Disposals	**(969,013)**	-
Changes in fair value of investment properties	**363,013**	(1,092,669)
Provision relating to cancellation of management's contract of Kuwait Free Trade Zone (Note 22)	**(855,667)**	-
Balance at the end of the year	**65,922,172**	67,179,173

The properties that are built on a land owned by the group are valued by an independent valuer. Properties that are built on land rented from others, are valued using the discounted cash flow method.

Certain buildings are erected on land leased from the Government of Kuwait on lease agreements expired after 25 years which is renewable for similar period, but the Ministry of Finance resolution decided to stop the license for the agreements which had expired. The Parent Company's management believes that the agreement are renewable accordingly, the Parent Company appealed against that resolution. The Court of first instance sustains the Ministry of Finance resolution, the Parent Company appeal against the resolution of first instance court. The properties have been taken over by the Ministry of Finance based on the court resolutions, however, the properties are still occupied by the tenant who signed the rent agreements with the parent company, since they are not part of the dispute. The external legal consulting firm advised the decision of first instance court and the decision of the Ministry of Finance would be cancelled since when the Government decided to sell its share, they mentioned to the investor that the depreciation policy of all building erected on leased land would be more than 25 years as useful life. Hence the lease agreements are renewable till the end of the useful life of the building as well as the clause No. 4 of the lease agreement states that, the Parent Company has the right to renew for another 25 years.

Based on the above case, the parent company had made provisions relating to rights of utilizations that may be claimed by the Government if the final court decision was in favor of the Government. The Parent Company has made the provision for the conservatism purposes and not as surrender to the validity of resolution.

13. Accounts payable and other credit balances

	2006	2005
Revenues received in advance	**3,744,997**	2,744,614
Refundable deposits to tenants	**1,430,861**	1,258,829
Retentions payable to contractors	**721,129**	846,716
Payable to contractors	**490,303**	502,081
Other payables	**2,114,444**	989,866
Dividend payable to shareholders	**1,763,711**	1,361,087
Payable to Kuwait Foundation for the Advancement of Sciences	**-**	133,459
National Labor Support Tax payable	**-**	531,166
Unearned revenue	**4,944**	16,426
Accrued expenses	**9,631,291**	8,779,371
Provision for contractual obligations (Note 22)	**1,653,236**	-
	21,554,916	17,163,615

14. Bank facilities

The parent company's bank facilities represent the following:

	2006	2005
a) Overdraft facility from a local bank maturing on April 2007, secured by promissory notes amounting to KD 10,000,000	**1,190,522**	9,367,894
b) Term loan from a local bank, repayable in 72 installments of KD 325,000 each, maturing in April 2008	**3,250,000**	3,250,000
c) Term loan from a local bank, repayable in 55 equal monthly installments, maturing in March 2008, secured by promissory notes amounting to KD 5,000,000	**1,363,640**	2,454,548
d) Term loan in US Dollars, repayable in 24 equal quarterly installments, maturing in June 2009, secured by promissory notes amounting to KD 1,280,000	**-**	729,000
e) Term loan from a local bank in Kuwaiti Dinar from local banks, maturing on April 23, 2007, secured by promissory notes amounting to KD 40,000,000	**28,150,000**	40,000,000
f) Term loan from a local bank maturing on April 23, 2007, secured by promissory notes amounting to KD 20,000,000	**563,319**	-
	34,517,481	55,801,442

During the year, the Parent Company made an early settlement of the installment of the interim loan that is represented in item (d) above.

The above bank facilities carry an annual interest rate of (0.75% - 1.25%) over Central Bank of Kuwait discount rate and annual interest rate of (1% - 2.5%) above 3 months LIBOR rate.

During the year, the investment in associate's 63,360,000 shares which were previously pledged as collateral was released by the bank.

Bank facilities are classified based on their maturities is as follows:

	2006	2005
Current portion		
Bank overdraft	**1,190,522**	9,367,894
Term loans	**28,150,000**	41,300,164
	29,340,522	50,668,058
Non-current portion		
Term loans	**5,176,959**	5,133,384
	34,517,481	55,801,442

15. Provision for employees' end of service indemnity

	2006	2005
Balance at beginning of the year	**460,268**	349,004
Charge for the year	**127,125**	125,453
Paid during the year	**(12,483)**	(14,189)
Balance at end of the year	**574,910**	460,268

16. Share capital

The authorized, issued and fully paid-up share capital consists of 643,632,460 shares of 100 fils each (2005 – 536,360,380 shares).

17. Statutory reserve

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders 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.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend upto 5% of paid-up share capital in years when accumulated profits are not sufficient to secure the payment of such a dividend.

18. Treasury shares

	2006	2005
Number of treasury shares	**30,538,954**	35,152,959
Percentage of issued shares (%)	**4.74**	6.55
Market value (KD)	**16,796,425**	41,480,492
Cost (KD)	**5,184,069**	7,082,828

19. Other income

	2006	2005
Promotional income	**108,821**	160,457
Service income– programs and courses fee	**1,981,607**	1,421,142
Service and registration income – Free Trade Zone	**853,116**	299,554
Service and registration income – others	**698,112**	640,065
Consultancy fees	**41,125**	-
Gain on sale of investment property and fixed assets	**287,398**	2,474
Miscellaneous	**508,025**	239,015
	4,478,204	2,762,707

20. Provisions

	2006	2005
Provision for the rent due from the utilized properties by Kuwait Ports Authority during the year	**3,929,373**	2,646,462
Provision for bad debts related to accounts receivable and other debit balances which is charged to the consolidated statement of income	**49,376**	116,634
Provision no longer required related to accounts receivable and other debit balances which is a release of charge to the consolidated statement of income	**(16,666)**	(56,673)
	3,962,083	2,706,423
Provision for interest income due from Kuwait Port Authority during the year	**1,896,982**	1,547,983
	5,859,065	4,254,406

Details of the provisions of balance due from Kuwait Ports Authority and charged to the consolidated statement of income before providing for the provision relating to the cancellation of management contract of Kuwait Free Trade Zone are as follows:

	2006	2005
Provision for the amount due for renting the utilized properties by Kuwait Ports Authority during the year	**3,929,373**	2,646,462
Provision for interest revenue due from Kuwait Port Authority during the year	**1,896,982**	1,547,983
	5,826,355	4,194,445

21. Net investment income

	2006	2005
Dividend income	**291,386**	393,017
Unrealized (loss) gain from changes in fair value of investments at fair value through income statement	**(1,677,840)**	773,886
Gain on sale of investments at fair value through income statement and investment in an associate	**8,235,476**	14,691,891
Loss on sale of investment available for sale	**-**	(252,975)
	6,849,022	15,605,819

22. Provision relating to cancellation of management's contract of Kuwait Free Trade zone

As per the decision No. 507 in 2006, the Ministry of Commerce and Industry cancelled the management contract of Kuwait Free Trade Zone dated May 30, 1998 between the Ministry of Commerce and Industry and National Real Estate Co. K.S.C (the managing company) Due to this, the managing company had lost its control over the assets located in KFTZ. Accordingly, the managing company had recognized the following provision:

Assets located in KFTZ	11,172,070
Provision for contractual obligations relating to the cancellation of management's contract of Kuwait Free Trade Zone	1,653,236
Provision for doubtful debts	535,118
	13,360,424

All these provisions were made for the conservatism purpose and not as surrender to the validity of the resolution.

The managing company had filed case 939/2006 for an appeal against the decision of Ministry of Commerce and Industry for the cancellation of management contract for KFTZ and the case had been postponed to April 15, 2007.

As per the opinion of the managing company's external legal counsel, the decision of the Ministry of Commerce and Industry would be cancelled and incase if the decision not cancelled, then the managing Company has the right to recover all expenses incurred for all rehabilitation work for properties located in Kuwait Free Trade Zone also has the right to compensate for the future benefits of the rest of managing contract term.

The Parent Company is in the process of performing an assessment of the compensation in case the court sustains the cancellation resolution. So the claim can be filed with the Government of Kuwait for recovery of these expected claims as per the law.

23. Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

Contribution to Kuwait Foundation for the 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. No contribution was made during the year as there was no basis on which KFAS could be calculated.

24. National Labor Support Tax (NLST)

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. No contribution was made during the year as there was no basis on which NLST could be calculated.

25. Earnings per share

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

	2006	2005 (Restated)
Net profit for the year attributable to equity holders of the parent company	**34,251,191**	53,607,733
Weighted average number of shares outstanding:		
	Shares	Shares
Number of issued and fully paid-up shares at beginning of the year	**536,360,380**	536,360,380
Add: Bonus shares	**107,272,080**	107,272,080
Less: Weighted average number of treasury shares	**(39,688,774)**	(42,019,223)
Weighted average number of share outstanding	**603,943,686**	601,613,237
	Fils	Fils
Earnings per share attributable to equity holders of the parent company	**56.71**	89.11

As per International Accounting standard IAS No. 33 "Earnings per share for the year ended December 31, 2005 have been restated due to issue of bonus shares for the year 2005.

26. Related party transactions

Related parties represent main shareholders, directors, associates, key management personnel and parties related to them. Pricing policies and terms of these transactions are approved by the parent company's management. Related party balances and transactions are summarized as follows:

	2006	2005
Balances:		
Accounts receivable and other debit balances	**1,101,708**	641,799
Quoted securities held for trading	**1,964,774**	10,871,210
Accounts payable and other credit balances	**20,743**	20,743
Transactions:		
Rental income	**1,231,689**	895,012
Other income	**60,680**	21,656
Service expenses	**271,913**	233,459

	2006	2005
Key management compensation:		
Salaries and other short term benefits	**1,063,727**	1,100,380
Terminal benefits	**23,913**	18,536
	1,087,640	1,118,916

27. Contingencies and capital commitments

a) At December 31, 2006, the parent company's management authorized capital commitments amounting to KD 2,245,745 (2005 – KD 1,430,097).

b) At December 31, 2006, the parent company had commitments under a major non-cancelable operating lease, primarily for land leased from the Government of Kuwait for the Water Front Project as follows:

Year	KD
2007 – 2011	141,000
2012 – 2016	141,000
2017 – 2019	84,600
	366,600

For the operating lease commitments, the parent company is required to give a bank guarantee of 0.5% of the total value of the capital project concerned for the purpose of maintenance services to be provided by the final lessor.

c) The group was contingently liable in respect of the following:

	2006	2005
Letters of guarantee	**4,984,206**	1,326,906
Letters of credit	**264,587**	218,170
	5,248,793	1,545,076

d) One of the tenants of the Free Trade Zone had filed a complaint against the parent company claiming for a compensation amounting to KD 11,632,382. An Arbitration Committee was formed under the supervision of Ministry of Commerce and Industry. The parent company's management submitted many memoranda objecting about the non-competency of the Arbitration Committee, disapproving the arbitration procedures and agreement, and request for denying the case. However, the Arbitration Committee continued to perform its function and declared a verdict on November 15, 2003 obliging the parent company to pay compensation for losses suffered amounting to KD 3,600,000.

The parent company's management appealed against the verdict of the Arbitration Committee dated November 15, 2003. On January 19, 2004, the General Court declared that the verdict by Arbitration Committee dated November 15, 2003 is void, and forwarded the case to the Experts Department in Ministry of Justice which had concluded in its report that no compensation to be done to the tenant and the Court of First Instance issued its ruling in which the Arbitration decision was nullified and the managing company is not entitled to any compensation. The First Instance Court sustained its decision to the Supreme Court of Appeal.

In the opinion of the legal advisor of the parent company, material liabilities will not arise in the case. Accordingly, no provision had been accounted for the case in the Parent Company's books as of December 31, 2006.

28. Financial instruments

In the normal course of business, the Group uses primary financial instruments such as cash on hand and at banks, receivables, investment at fair value through income statement, investment available for sale, net amount due from Kuwait port authority, payables and bank facilities as a result, is exposed to the risks indicated below. Group currently does not use derivative financial instruments to manage its exposure to these risks.

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

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

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

Cash flow risk
Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. At present, the Group is exposed to this risk through fluctuations in its borrowing rates which vary with the Central Bank of Kuwait discount rate. At present, the Group has no significant exposure to such risk.

Fair value of financial instruments
Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from current bid prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their carrying amounts, except that it was not possible to reliably measure the fair value of most of the available-for-sale investments as indicated in Note 5.

29. Proposed dividends and bonus shares

Proposed Dividends

The Board of Directors propose a cash dividend of 35 fils per share (2005 –20 fils). This proposal is subject to the approval of the shareholders' annual General Assembly.

Bonus Shares

The Board of Directors proposed bonus shares of 15 shares for every 100 shares held (2005 – 20%). This proposal is subject to the approval of the shareholders' annual General Assembly.

The shareholders' General Assembly held on May 22, 2006 had approved the distribution of cash dividends of 20 fils per share and 20 bonus shares for every 100 shares for the year ended December 31, 2005.

30. Comparative figures

Certain prior year amounts have been reclassified to conform with the current year's presentation.