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

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005
WITH
AUDITORS' REPORT

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

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005
WITH
AUDITORS' REPORT

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Auditors' Report

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

We have audited the accompanying consolidated balance sheet of National Real Estate Company K.S.C. (the parent company) and subsidiaries (the group) as of December 31, 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Real Estate Company K.S.C. and subsidiaries as of December 31, 2005, and the results of their operations and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards.

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 Directors' Report is in agreement with the parent company's books. According to the information available to us, no contraventions of either the Commercial Companies Law or of the parent company's Articles of Association have occurred during the year that might have a material effect on 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 11 to the consolidated financial statements.

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State of Kuwait
March 20, 2006

EXHIBIT A

NATIONAL REAL ESTATE COMPANY K.S.C.
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED BALANCE SHEET
As of December 31, 2005

ASSETS	Note	2005 KD	2004 KD
Assets:			
Cash on hand and at banks		517,103	1,053,373
Investments at fair value through income statement	3	14,386,392	13,835,161
Accounts receivable and other debit balances	4	11,237,276	3,785,633
Inventories		38,135	40,087
Investments available for sale	5	4,642,229	680,881
Investment in unconsolidated subsidiaries	6	5,083,454	148,040
Investment in an associate	7	146,410,294	60,112,063
Investment in joint venture	8	139,764	-
Due from related party	9	-	1,254,599
Capital work in progress	10	3,101,630	4,433,956
Net amount due from Kuwait Ports Authority	11	1,535,335	2,349,318
Fixed assets	12	7,254,260	4,030,177
Investment properties	13	67,179,173	67,892,184
Total assets		261,525,045	159,615,472
LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable and other credit balances	14	17,147,189	13,665,060
Unearned revenue		16,426	78,325
Bank facilities	15	55,801,442	17,073,588
Provision for employees' end of service indemnity	16	460,268	349,004
Total liabilities		73,425,325	31,165,977
Equity:			
Share capital	17	53,636,038	46,640,033
Statutory reserve	18	27,153,015	21,731,626
Gain on sale of treasury shares		4,597,104	3,222,904
Effect of change in associate's equity	7	10,789,087	-
Cumulative changes in fair value		(16,881)	(218,445)
Retained earnings		92,104,700	57,451,425
		188,263,063	128,827,543
Treasury shares	19	(7,082,828)	(6,557,342)
		181,180,235	122,270,201
Minority interests		6,919,485	6,179,294
Total equity		188,099,720	128,449,495
Total liabilities and equity		261,525,045	159,615,472

Jamil Sultan Al-Essa
Chairman and Managing Director

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

EXHIBIT B

NATIONAL REAL ESTATE COMPANY K.S.C.
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED STATEMENT OF INCOME
Year ended December 31, 2005

	Note	**2005 KD**	2004 KD
Rental income – net		**16,157,078**	15,670,064
Share in the associate's results, net of goodwill amortization	7	**35,781,631**	24,974,210
Other income	20	**2,762,707**	2,578,193
		54,701,416	43,222,467
Expenses:			
Staff costs		**3,460,472**	3,112,328
General and administrative		**5,354,508**	5,267,830
Provision for doubtful debts	21	**2,706,423**	2,649,709
Depreciation		**617,159**	482,778
Changes in fair value of investment properties	13	**1,092,669**	1,131,068
		13,231,231	12,643,713
Operating profit		**41,470,185**	30,578,754
Interest income		**1,557,599**	1,150,312
Provision for interest income	21	**(1,547,983)**	(3,780,452)
Interest expense		**(1,691,873)**	(696,377)
Net investment income	22	**15,605,819**	7,642,058
Share in the joint venture's results		**(43,004)**	-
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Directors' remuneration and National Labor Support Tax		**55,350,743**	34,894,295
Contribution to KFAS	23	**(133,459)**	(63,041)
Directors' remuneration		**(70,000)**	(35,000)
National Labor Support Tax	24	**(402,697)**	(193,736)
Net profit for the year		**54,744,587**	34,602,518
Attributable to:			
Equity holders of the parent company		**53,607,733**	34,461,924
Minority interest		**1,136,854**	140,594
Net profit for the year		**54,744,587**	34,602,518
Earnings per share attributable to equity holders of the parent company (fils)	25	**106.96**	69.06

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

EXHIBIT D

NATIONAL REAL ESTATE COMPANY K.S.C.
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2005

	2005 KD	2004 KD
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year before contribution to KFAS, Directors' remuneration and National Labor Support Tax	**55,350,743**	34,894,295
Adjustments for:		
Kuwait Ports Authority's share in Free Trade Zone rental income	**1,255,681**	1,229,360
Share in the associate's results, net of goodwill amortization	**(35,781,631)**	(24,974,210)
Fixed assets written-off	**-**	6,854
Gain on sale of fixed assets	**(2,474)**	-
Provision for employees' end of service indemnity	**125,453**	106,717
Right of utilization of Ministry of Commerce & Industry for Free Trade Zone	**663,836**	654,219
Provisions for interest income and doubtful debts	**4,254,406**	6,430,161
Depreciation	**617,159**	482,778
Changes in fair value of investment properties	**1,092,669**	1,131,068
Interest income	**(1,557,599)**	(1,150,312)
Interest expense	**1,691,873**	696,377
Net investment income	**(15,605,819)**	(7,642,058)
Share in the joint venture's results	**43,004**	-
Operating profit before working capital changes	**12,147,301**	11,865,249
Increase in accounts receivable and other debit balances	**(5,594,714)**	(2,798,146)
Decrease in inventories	**1,952**	11,250
Increase in accounts payable and other credit balances	**3,074,832**	2,602,829
Decrease in unearned revenue	**(61,899)**	(211,115)
Cash generated from operations	**9,567,472**	11,470,067
Payment to Ministry of Commerce & Industry for right of utilization for Free Trade Zone	**(630,133)**	(1,071,977)
Payment for employees' end of service indemnity	**(14,189)**	(83,729)
Payment to Kuwait Foundation for Advancement of Sciences	**(63,041)**	(141,916)
Payment for Directors' remuneration	**(35,000)**	(35,000)
Payment for National Labor Support Tax	**(193,736)**	(249,834)
Net cash generated from operating activities	**8,631,373**	9,887,611
CASH FLOWS FROM INVESTING ACTIVITIES		
Paid for purchase of investments at fair value through income statement and investment in an associate	**(51,086,340)**	(6,121,456)
Proceeds from sale of investments at fair value through income statement and investment in an associate	**26,273,272**	5,011,569
Proceeds from sale of investments available for sale	**596,624**	-
Paid for purchase of investment available for sale	**(4,609,282)**	(825,000)
Proceed from sale of investment in unconsolidated subsidiaries	**148,040**	-
Paid for purchase of investments in unconsolidated subsidiaries	**(5,083,454)**	-
Paid for purchase of investment in joint veture	**(5,000)**	-
Payment for long term loan to joint venture investment	**(177,768)**	-
Payment for company under establishment (Note 4)	**(5,000,000)**	-
Proceeds from sale of fixed assets	**11,000**	-
Proceed from loan to a related party	**1,254,599**	-
Payment for capital work in progress	**(2,425,684)**	(1,005,723)
Paid for purchase of fixed assets	**(174,775)**	(156,603)
Paid for additions to investment properties	**(296,641)**	(818,890)
Cash dividends received	**393,017**	2,362,641
Interest income received	**4,566**	2,440
Net cash used in investing activities	**(40,177,826)**	(1,551,022)

NATIONAL REAL ESTATE COMPANY K.S.C.
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2005

	2005 **KD**	2004 KD
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from bank overdrafts	**35,653**	5,495,026
Payment of bank loans	**(1,307,799)**	(1,194,236)
Proceeds from bank loans	**40,000,000**	-
Payment for purchase of treasury shares	**(777,994)**	(2,691,453)
Proceeds from sale of treasury shares	**1,626,708**	3,004,684
Interest expense paid	**(1,677,302)**	(683,364)
Cash dividends paid	**(6,492,420)**	(11,399,030)
Payment to minority	**(396,663)**	(172,631)
Net cash generated from (used in) financing activities	**31,010,183**	(7,641,004)
Net (decrease) increase in cash on hand and at banks	**(536,270)**	695,585
Cash on hand and at banks at beginning of the year	**1,053,373**	357,788
Cash on hand and at banks at end of the year	**517,103**	1,053,373

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

NATIONAL REAL ESTATE COMPANY K.S.C.
AND SUBSIDIARIES
STATE OF KUWAIT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

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 March 20, 2006. The Shareholders' General Assembly has the power to amend these 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 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 except for the changes due to the implementation of:

Revised IAS 1: Presentation of Financial Statements

Revised IAS 39: Financial Instruments – Recognition and Measurement

IFRS 3: Business Combinations

Revised IAS 36: Impairment of assets

Revised IAS 38: Intangible assets

IAS1
IAS 1 (revised) has affected the presentation and disclosure of the consolidated Balance Sheet, consolidated Statement of Income and consolidated Statement of changes in Equity. The comparative figures have been reclassified to conform to current year presentation.

IAS 39
Effective January 1, 2005, the Group has implemented the (revised) IAS (39): Financial Instruments – Recognition and Measurement. This has resulted in the group classifying its investments as investments at fair value through income statement and investments available for sale, which did not have any affect on the accounting policies of the group. The accounting policy for investments is mentioned in Note 2(d).

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

As a result, goodwill relating to past business combinations is not amortized and is carried at the net amount after setting off accumulated amortization against gross goodwill amount less accumulated impairment.

The effect of this change in accounting policy has resulted in increasing the profit for the year ended December 31, 2005 by KD 508,978, which is due to discontinuing the amortization of goodwill.

The accounting policy relating to goodwill it's presented in note 2(g).

b) Use of estimates

The group makes certain estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with IFRS requires management to make 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 that estimates.

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

Classification of investments
Management has to decide on acquisition of an investment whether it should be classified as an available for sale investment or an investment at fair value through income statement. The group classifies investments as investments at fair value through income statement if the fair value can be reliably determined. All other investments are classified as available for sale investments.

Impairment of investments
The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or 'prolonged" requires considerable judgment. In addition the group evaluates other factors including normal volatility in share price for quoted securities and the future cash flows and the discount factors for unquoted securities.

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

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

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

Valuation of investment properties
The management has applied the discounted cash flow method for the valuation of investment properties on land leased from third party.

Creating provisions
The group has made a provision for the overall interest accounted on the balance due from the Kuwait Port's Authority due to the uncertainty of its collection, inspite of the Group belief on its right to add the overall interest to the balance due from the Kuwait Port's Authority.

c) Basis of consolidation

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

Company	Percentage of ownership
Dasman Commercial Complex - Joint Venture	62.083%
HRD International Company for Human Resources W.L.L.	51%
Maastricht Business School – Kuwait (wholly owned by HRD International Company for Human Resources W.L.L.)	51%
Al-Takahouh Golden General Trading W.L.L.	100%

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

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

d) Investments

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

Financial assets at fair value through income statement has two sub-categories: financial assets held for trading, and those designated at fair value through income statement 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.

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

Purchases and sales of investments are recognized on trade-date – the date on which the 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 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 transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Realized and unrealized gains and losses from financial assets at fair value through income statement are included in the statement of income. 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 statement of changes in equity.

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

Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the 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 statement of income – is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on available for sale equity instruments are not reversed through the statement of income.

e) Receivables

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

f) 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 labour 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.

g) 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.

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 statement of income.

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

h) 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.

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

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 a subsidiary.

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.

i) 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 statement 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.

Land is not depreciated. 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.

j) 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 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 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.

k) Investment properties

Investment properties are initially recorded at cost that includes all the costs related to the purchase of the investment property or to its construction in addition to the furniture and equipment related to property. After initial recognition, investment properties are measured by the fair value, and changes in fair value are recorded in the statement of income. Investment properties are carried at fair value that is determined based on valuation performed at the end of each year using valuation methods consistent with the nature and usage of the investment properties.

l) Payables

Payables are stated at their cost.

m) 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.

n) 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.

o) 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.

p) Revenue recognition

(i) Rental income and interest on bank deposits are recognized when earned, on a time apportionment basis.

(ii) Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investments at the date of disposal, and is recognized at the time of the sale.

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

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

r) Provisions

A provision is recognized when, and only 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.

s) Foreign currencies

Foreign currency transactions are translated in 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. Exchange differences are reported as part of the results for the year.

t) Financial instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash on hand and at banks, accounts receivable, investments at fair value through income statement and available-for-sale, net amount due from Kuwait Ports Authority, accounts payable and bank facilities. 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. The assets and liabilities of the 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.

u) 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:

	2005	2004
	KD	KD
Quoted securities held for trading	**14,386,392**	13,835,161
	14,386,392	13,835,161

4. Accounts receivable and other debit balances

	2005	2004
	KD	KD
Accrued rent	**1,255,071**	1,218,002
Provision for doubtful debts	**(1,050,249)**	(999,697)
	204,822	218,305
Amounts due from related parties	**3,665,823**	290,417
Advance payments	**6,064,113**	1,289,964
Staff and other receivables	**1,051,189**	1,646,873
Prepaid expenses	**251,329**	340,074
	11,237,276	3,785,633

Advance payments include an amount of KD 1,020,838 (2004 – KD 1,014,004) which represents advance payments to a local company to invest in real estates on behalf of the parent company in Republic of Iraq; it includes also an amount of KD 5,000,000 which represents the share capital of National Project Holding Company (under establishment as of balance sheet date) which was recorded in the parent company's books as investment in subsidiary on January 3, 2006, representing the date of incorporation.

5. Investments available for sale

	2005	2004
	KD	KD
Managed portfolios and funds available-for-sale	**18,431**	666,365
Unquoted securities available-for-sale	**4,623,798**	14,516
	4,642,229	680,881

It was not possible to reliably measure the fair value of unquoted securities and managed portfolios and funds available for sale 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 (2004 – KD 446,639).

6. Investment in unconsolidated subsidiaries

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

Company	**Percentage of ownership**	Country	**Amount KD**
Kuwait Touristy 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**
			5,083,454

The related information for assets and liabilities of the unconsolidated subsidiaries are summarized as follows:

Company	Total assets KD	Total liabilities KD	Net assets KD
Kuwait Touristy Enterprises Development Company (private shareholding company)	2,495,892	15,416	2,480,476
Kuwait National Real Estate Company (Egyptian shareholding company)	293,550	13,136	280,414
National Holding Group Company (Lebanese shareholding company)	1,476,909	47,627	1,429,282
National Investment and Development Company (private shareholding company)	847,449	37,125	810,324

The total liabilities of those subsidiaries represent amounts due to the parent company. These subsidiaries were not consolidated as of the consolidated balance sheet date, since they did not commence their actual operations yet.

7. Investment in an associate

The investment in an associate represents a 25.2250% interest in the equity of Public Warehousing Company K.S.C. as of December 31, 2005 (December 31, 2004 – 25.8719%), 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:

	2005 **KD**	2004 KD
Carrying value of the investment at beginning of the year	**60,112,063**	36,825,286
Additional investment in the associate	**41,427,277**	1,135,870
Sales of investment in the associate	**(1,699,764)**	(563,965)
Share in the associate's results	**35,781,631**	25,484,393
Cash dividends received during the year	**-**	(2,259,338)
Amortization of goodwill	**-**	(510,183)
Changes in associate's equity	**10,789,087**	-
Carrying value of the investment at end of the year	**146,410,294**	60,112,063

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

	2005 **KD**	2004 KD
Gain on sale of treasury shares	**10,802,709**	-
Foreign currency translation reserve	**65,080**	-
Cumulative changes in fair value	**(78,702)**	-
	10,789,087	-

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

	2005 **KD**	2004 (Restated) KD
Total assets	**1,040,471,000**	380,865,000
Current liabilities	**(225,645,000)**	(139,106,000)
Non current liabilities	**(259,853,000)**	(35,078,000)
Net assets	**554,973,000**	206,681,000
Total revenues	**475,739,000**	167,726,000
Total expenses	**(333,889,000)**	(69,224,000)
Net profit for the year	**141,850,000**	98,502,000

During the year, 2,493,000 shares were sold from investment in an associate (2004 – 1,350,000 shares). The goodwill relating to these shares amounted to KD 182,197 (2004 – KD 92,194).

The market value of the shares of the associate at December 31, 2005 amounted to KD 494,581,550 (December 31, 2004 – KD 294,980,624).

As of December 31, 2005, the Group's share in the contingent liabilities and capital commitments of the associate amounted to KD 7,569,770 (December 31, 2004 – KD 9,906,461).

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.

The associate's external legal consulting firm believes strong likelihood that the Public Warehousing Company will win the appeal case, but the end result not expected yet.

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.

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 third party lost a case filed against certain executives of the associate.

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.

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, 2005.

8. Investment in joint venture

The investment in joint venture represent a 50% interest in the equity of Noor Light W.L.L as of December 31, 2005, 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:

	2005 KD
Investment in Noor Light - Kuwait	**5,000**
Long term loan	**177,768**
Share in the joint venture results	**(43,004)**
	139,764

The group's share of the net assets and the results of the joint venture included in the consolidated financial statement are based on management accounts for the period from October 6, 2004 (date of incorporation) to December 31, 2005 is as follows:

	2005 KD
Total assets	**49,295**
Total liabilities	**(91,049)**
	(41,754)

	For the period from October 6, 2004 (date of incorporation) to December 31, 2005 KD
Total revenues	**3,521**
Total expenses	**(46,525)**
Net loss for the period	**(43,004)**

9. Due from related party

During the year 2003, the parent company granted a loan is US Dollars to a related party. During the year ended December 31, 2005, the loan was fully settled.

10. Capital work in progress

This item represents mainly work-in-progress relating to the erection of constructions and additional work inside the Free Trade Zone. The movement on this item during the year is as follows:

	2005 KD	2004 KD
Balance at beginning of the year	**4,433,956**	3,429,649
Additions during the year	**2,425,684**	1,005,723
Transferred during the year	**(3,758,010)**	(1,416)
Balance at end of the year	**3,101,630**	4,433,956

11. Net amount due from Kuwait Ports Authority

	2005 KD	2004 KD
Due from Kuwait Ports Authority		
Rehabilitation costs of properties (a)	**5,543,299**	5,543,299
Accrued interest on the balance (b)	**5,328,435**	3,780,452
	10,871,734	9,323,751
Rent due from Kuwait Ports Authority (c)	**11,537,950**	8,463,186
Gross amount due from Kuwait Ports Authority before its share in rental income of Free Trade Zone	**22,409,684**	17,786,937
Due to Kuwait Ports Authority		
Gross share of Kuwait Ports Authority in rental income of Free Trade Zone (d)	**6,064,128**	4,808,447
Less: Refunded share of the outstanding and unpaid rent of Kuwait Ports Authority (e)	**(908,220)**	(773,972)
Less: Refunded share of the outstanding and unpaid rent of Ministry of Health – Kuwait (e)	**(69,830)**	(52,729)
Less: Refunded share of the outstanding and unpaid rent of Ministry of Interior – Kuwait (e)	**(15,135)**	(15,135)
Net share of Kuwait Ports Authority in rental income of Free Trade Zone	**5,070,943**	3,966,611
Gross amount due from Kuwait Ports Authority after its share in rental income of Free Trade Zone	**17,338,741**	13,820,326
Provision for doubtful debts (f)	**(15,803,406)**	(11,471,008)
	1,535,335	2,349,318

(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 5,543,299. 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 statement of income for the year ended December 31, 2005 amounted to KD 1,547,983 (2004 – KD 1,147,872) and the managing company took provision for this interest.

(c) Also, the balance due from Kuwait Ports Authority as of December 31, 2005 includes an amount of KD 11,537,950 (2004 - KD 8,463,186), 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 1,255,681 for the year ended December 31, 2005 (2004 – KD 1,229,360).

(e) The 80% share relating to the outstanding and unpaid rent of each of Kuwait Ports Authority, Ministry of Health - Kuwait, and Ministry of Interior - Kuwait are 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 The Free Trade Zone.

(f) The managing company made a provision during the year for KD 1,547,983 (2004 – KD 3,780,452) which represents the overall interests accounted on the balance due from Kuwait Ports Authority as of the December 31, 2005 due to the uncertainty or any probabilities of its collection, later on, inspite of the group belief on its right to add it to the balance of dues from the Kuwait Ports Authority.

The amount of provision charged and recorded in the managing company's records regarding the Kuwait Ports Authority's doubtful debts are as follows:

	2005 KD	2004 KD
Balance in the balance sheet	**14,895,186**	10,700,741
Charged to statement of income (Note 21)	**4,194,445**	6,427,247

12. Fixed assets

	Leasehold improvements KD	Buildings, furniture, decorations, office equipment and motor vehicles KD	Total KD
Cost:			
At December 31, 2004	3,990,474	1,601,072	5,591,546
Additions	79,607	95,168	174,775
Disposals	-	(18,600)	(18,600)
Transfers	3,674,993	-	3,674,993
At December 31, 2005	**7,745,074**	**1,677,640**	**9,422,714**
Accumulated depreciation:			
At December 31, 2004	546,345	1,015,024	1,561,369
Charge for the year	402,400	214,759	617,159
Related to disposals	-	(10,074)	(10,074)
At December 31, 2005	**948,745**	**1,219,709**	**2,168,454**
Net book value			
At December 31, 2005	**6,796,329**	**457,931**	**7,254,260**
At December 31, 2004	3,444,129	586,048	4,030,177

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

13. Investment properties

	2005 KD	2004 KD
Balance as of January 1	**67,892,184**	68,202,946
Additions	**296,641**	818,890
Transfers	**83,017**	1,416
Changes in fair value	**(1,092,669)**	(1,131,068)
Balance as of December 31	**67,179,173**	67,892,184

The properties that are built on a land owned by the group are valued by an independent valuer, while the 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. Expiry dates vary depending on the lease agreements, of which the agreement relating to two buildings have expired on September 28, 2001 and October 10, 2003. These lease agreements are renewable subject to the approval of the Government of Kuwait. So the Government of Kuwait represented by Ministry of Finance have a decision to stop the license in the date of agreements have expired, but the Group believe that the agreements are renewable accordingly, the parent company filed a case requesting to cancel that decision but the court rejected that case. Then the parent company filed a case to appeal court but also they rejected the case and still the case is pending in the court as of balance sheet date.

Based on the above case, the parent company provides certain provisions against any amounts relating to rights of utilizations claimed by the Government if the final court decision was in favor of the government.

14. Accounts payable and other credit balances

	2005 KD	2004 KD
Revenues received in advance	**2,744,614**	2,465,628
Refundable deposits to tenants	**1,258,829**	1,112,789
Retentions payable to contractors	**846,716**	685,313
Payable to contractors	**502,081**	543,480
Other payables	**989,866**	881,932
Unclaimed dividends	**1,361,087**	1,316,443
Kuwait Foundation for the Advancement of Sciences	**133,459**	63,041
National Labor Support Tax	**531,166**	193,736
Accrued expenses	**8,779,371**	6,402,698
	17,147,189	13,665,060

15. Bank facilities

The parent company's bank facilities represent the following:

	2005 KD	2004 KD
a) Overdraft facility from a local bank that carries an annual interest rate of 1% above the Central Bank of Kuwait discount rate, and maturing on April 2006, loan secured by promissory notes of KD 10,000,000	**9,367,894**	9,332,241
b) Term loan from a local bank that carries an annual interest rate of 1% above the Central Bank of Kuwait discount rate, and is repayable in 72 equal monthly installments of KD 325,000 each, the latest of which is April 2008	**3,250,000**	3,250,000
c) Term loan from a local bank that carries an annual interest rate of 0.75% above the Central Bank of Kuwait discount rate, and is repayable in 55 equal monthly installments, the latest of which is March 2008, a loan secured by promissory notes of KD 5,000,000	**2,454,548**	3,545,456
d) Term loan in US Dollars from a local bank that carries an interest rate of 2.5% above LIBOR rate every 3 months, and is repayable in 24 equal quarterly installments, the latest of which is June 2009, loan secured by promissory notes of KD 1,280,000	**729,000**	945,891
e) Term loan in Kuwaiti Dinar from local banks carries an interest rate 1%, above Central Bank of Kuwait discount rate and is maturing on April 23, 2006, secured by promissory notes of KD 40,000,000	**40,000,000**	-
	55,801,442	17,073,588

During 2003, the parent company made an early settlement of the installments of the term loan that is represented in item (b) above, by which it settles all the installments due for that loan till May 2007.

During the year, the parent company obtained bank loans represented as follows:

A loan in the amount of KD 40,000,000 represented in item (e) above, with a maturity date on April 23, 2006.

All bank facilities mentioned above are secured by shares in the associate with a market value of KD 63,360,000 as of December 31, 2005 (2004 – KD 60,280,000) (Note 7).

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

	2005 KD	2004 KD
Current portion		
Bank overdraft	**9,367,894**	9,332,241
Term loans	**41,300,164**	1,721,501
	50,668,058	11,053,742
Non-current loans		
Term loans	**5,133,384**	6,019,846
	55,801,442	17,073,588

16. Provision for employees' end of service indemnity

	2005 **KD**	2004 KD
Balance at beginning of the year	**349,004**	326,016
Charge for the year	**125,453**	106,717
Paid during the year	**(14,189)**	(83,729)
Balance at end of the year	**460,268**	349,004

17. Share capital

The authorized, issued and fully paid-up share capital consists of 536,360,380 shares of 100 fils each (2004 – 466,400,330 shares).

18. Statutory reserve

As required by the Commercial Companies Law and the parent company's Articles of Association, 10% of the profit for the year is transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of paid-up share capital. 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.

19. Treasury shares

	2005	2004
Number of treasury shares	**35,152,959**	31,141,051
Percentage of issued shares (%)	**6.55**	6.68
Market value (KD)	**41,480,492**	26,781,304

20. Other income

	2005 **KD**	2004 KD
Promotional income	**160,457**	231,425
Service income– human resources	**1,421,142**	769,924
Service and registration income – Free Trade Zone	**299,554**	247,817
Service and registration income – others	**640,065**	920,847
Miscellaneous	**241,489**	408,180
	2,762,707	2,578,193

21. Provisions

	2005 **KD**	2004 KD
Provision for the rent due from the utilized properties by Kuwait Ports Authority	**2,646,462**	2,646,795
Provision for bad debts related to accounts receivable and other debit balances which is charged to the statement of income	**116,634**	212,959
Provision no longer required related to accounts receivable and other debit balances which is charged to the statement of income	**(56,673)**	(210,045)
	2,706,423	2,649,709
Provision for interest revenue due from Kuwait Port Authority	**1,547,983**	3,780,452
	4,254,406	6,430,161

Details of the provisions of balance due from Kuwait Ports Authority and charged to the statement of income are as follows:

	2005 KD	2004 KD
Provision for the amount due for renting the utilized properties by Kuwait Ports Authority	**2,646,462**	2,646,795
Provision for interest revenue due from Kuwait Port Authority	**1,547,983**	3,780,452
	4,194,445	6,427,247

22. Net investment income

	2005 KD	2004 KD
Dividend income	**393,017**	103,303
Changes in fair value of investments at fair value through income statement	**773,886**	4,826,468
Gain on sale of investments at fair value through income statement and investment in an associate	**14,691,891**	2,712,287
Loss on sale of investment available for sale	**(51,411)**	-
Transfer to income statement resulting from sale of investments available-for-sale	**(201,564)**	-
	15,605,819	7,642,058

23. Contribution to Kuwait Foundation for the Advancement of Sciences

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the net profit after transferring 10% to the statutory reserve until the reserve totals 50% of the paid-up capital, and deducting the share of the parent company from shareholding associates listed in the Kuwait Stock Exchange.

24. National Labor Support Tax

In accordance with the National Labor Support Law No. 19 for the year 2000 and the Ministerial resolution No. 26 for the year 2001, tax is provided at the rate of 2.5% on the annual net income of Kuwaiti companies that are listed on the Kuwait Stock Exchange. Accordingly, the parent company has calculated its tax liability at 2.5% of the profit for the year, after deducting any cash dividends from listed companies in the Kuwait Stock Exchange for prior years, its contribution to KFAS, Directors' remuneration, the 10% transfer to the statutory reserve until the reserve totals 50% of the paid-up capital, deducting from it the parent company's share from the tax that was previously paid on the profit of the associates that are listed in the Kuwait Stock Exchange.

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:

	2005	2004
	KD	KD
Net profit for the year attributable to equity holders of the parent company	**53,607,733**	34,461,924
Weighted average number of shares outstanding:		
	Shares	Shares
Number of issued and fully paid-up shares	**466,400,330**	466,400,330
Bonus shares	**69,960,050**	69,960,050
Less: Weighted average number of treasury shares	**(35,170,692)**	(37,323,464)
	501,189,688	499,036,916
	Fils	Fils
Earnings per share attributable to equity holders of the parent company	**106.96**	69.06

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:

	2005	2004
	KD	KD
Balances:		
Accounts receivable and other debit balances	**641,799**	305,149
Quoted securities held for trading	**10,871,210**	10,905,273
Long term loan	**-**	1,254,599
Accounts payable and other credit balances	**20,743**	79,806
Transactions:		
Rental income	**895,012**	946,830
Other income	**21,656**	37,597
Service expenses	**233,459**	230,130

	2005	2004
	KD	KD
Key management compensation:		
Salaries and other short term benefits	**1,100,380**	895,191
Terminal benefits	**18,536**	14,544
	1,118,916	909,735

27. Stock option plan for employees

The parent company is applying stock option plan for employees as an incentive for competent employees. The stock option plan grants the competent employees the right to purchase the shares of the parent company at a price set by the Board of Directors.

During 2004 and after the approval of the Board of Directors on August 4, 2003 to sell the parent company's own shares, the management exercised its right to buy 1,750,000 shares amounting to KD 364,738.

28. Contingencies and capital commitments

a) At December 31, 2005, the parent company's Board of Directors authorized capital commitments amounting to KD 1,430,097 (2004 – KD 1,517,451).

b) At December 31, 2005, 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
2006 – 2010	141,000
2011 – 2015	141,000
2016 – 2019	112,800
	394,800

In the context of 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:

	2005	2004
	KD	KD
Letters of guarantee	**1,326,906**	884,904
Letters of credit	**218,170**	-
	1,545,076	884,904

d) One of the tenants of the Free Trade Zone has 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 a compensation for losses suffered amounting to KD 3,600,000.

The parent company's management appealed against the verdict dated November 15, 2003. In its verdict dated January 19, 2004, the General (Kulliyat) 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. The case was not settled till the date of issuance of the accompanying consolidated financial statements. In the opinion of the legal advisor of the parent company, material liabilities will not arise against it due to its position in the case. Accordingly, the parent company's books do not include any provision for that case as of December 31, 2005.

29. Financial instruments

In the ordinary course of business, the group uses primary financial instruments such as cash on hand and at banks, accounts receivable, investments at fair value through income statement and available-for-sale, net amount due from Kuwait Ports Authority, accounts payable and bank facilities and as a result, is exposed to the risks indicated below. The group currently does not use derivative financial instruments to manage its exposure to those 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.

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 which potentially subject the group to credit risk consist principally of cash at banks and accounts receivable. The group's cash is placed with high credit rating financial institutions and receivables are presented net of provision for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

Foreign currency risk

The group incurs foreign currency risk on transactions 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, invests in bank deposits or other investments that are readily realizable and matches the maturity dates of its financial assets and liabilities.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. Currently, 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 quoted market prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their book values due to their short maturity except for the net amount due from Kuwait Ports Authority which does not have a fixed maturity date.

30. Proposed dividends

The Board of Directors held on March 20, 2006 proposed a cash dividend of 20 fils per share and bonus shares of 20% for the year ending December 31, 2005. This proposal is subject to the approval of the Shareholders' General Assembly.

The Shareholders ordinary and extraordinary General Assembly meeting held on April 18, 2005, for the year 2004, approved the distribution of cash dividend of 15 fils per share and bonus shares of 15% for the year ended December 31, 2004, as proposed by the Board of Directors.

31. Comparative figures

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

EXHIBIT C

NATIONAL REAL ESTATE COMPANY K.S.C.
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2005

	Attributable to equity holders of the parent company									
	Share capital KD	Statutory reserve KD	Gain on sale of treasury shares KD	Effects of changes in associate's equity KD	Cumulative changes in fair value KD	Retained earnings KD	Treasury shares KD	Subtotal KD	Minority Interest KD	Total KD
Balance at December 31, 2003	46,640,033	18,256,256	1,400,303	-	(218,445)	37,310,978	(5,047,972)	98,341,153	6,211,331	104,552,484
Gain on sale of treasury shares	-	-	1,822,601	-	-	-	-	1,822,601	-	1,822,601
Net income recognized directly in equity	-	-	1,822,601	-	-	-	-	1,822,601	-	1,822,601
Net profit for the year	-	-	-	-	-	34,461,924	-	34,461,924	140,594	34,602,518
Total recognized income for the year	-	-	1,822,601	-	-	34,461,924	-	36,284,525	140,594	36,425,119
Purchase of treasury shares	-	-	-	-	-	-	(2,691,453)	(2,691,453)	-	(2,691,453)
Sale of treasury shares	-	-	-	-	-	-	1,182,083	1,182,083	-	1,182,083
Paid to minority	-	-	-	-	-	-	-	-	(172,631)	(172,631)
Cash dividend (2003 – 25 fils per share)	-	-	-	-	-	(10,846,107)	-	(10,846,107)	-	(10,846,107)
Transfer to reserve	-	3,475,370	-	-	-	(3,475,370)	-	-	-	-
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
Changes 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) – Note 30	-	-	-	-	-	(6,537,064)	-	(6,537,064)	-	(6,537,064)
Bonus shares (2004 – 15%) – Note 30	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**

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