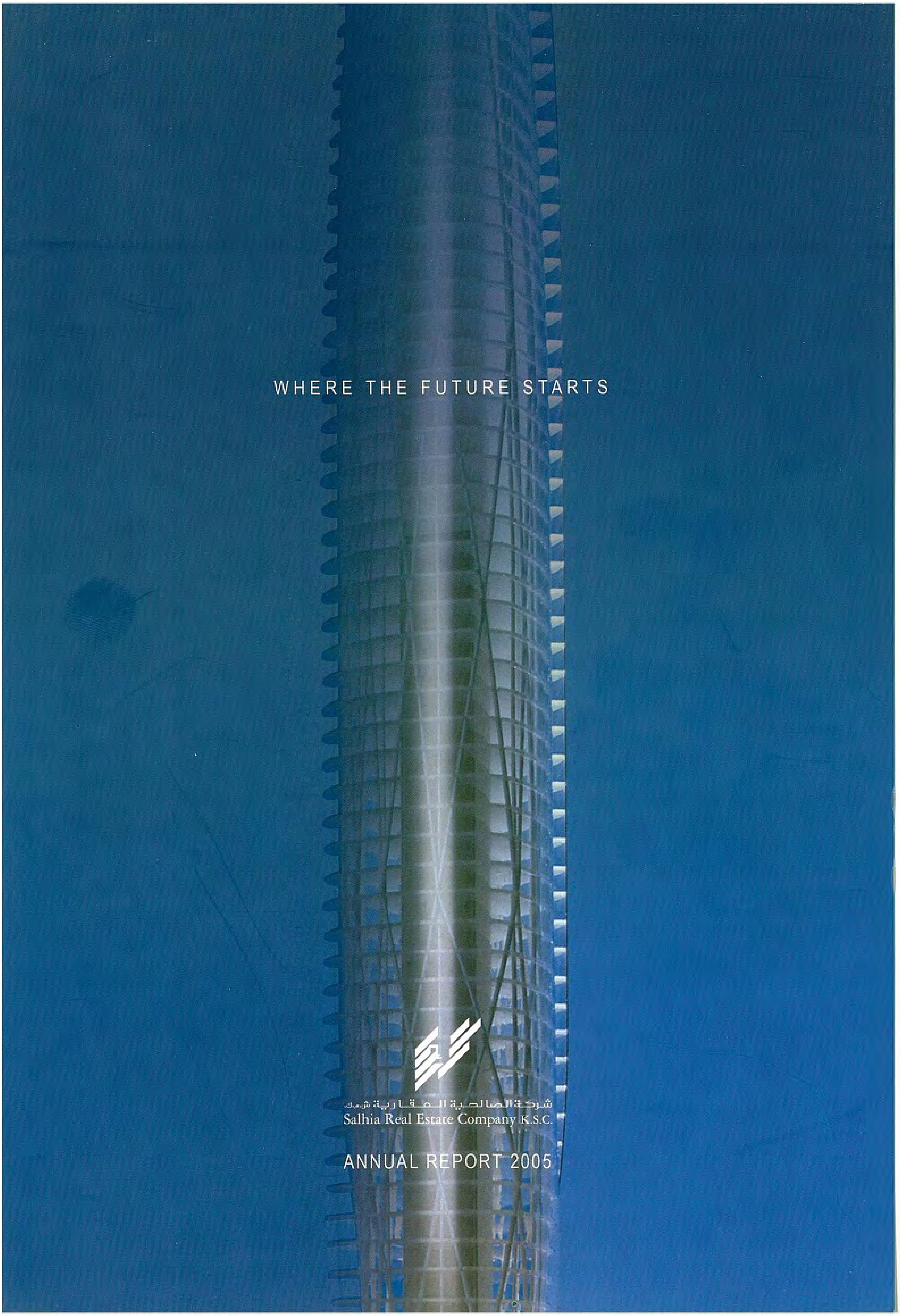


WHERE THE FUTURE STARTS

شركة الصالحية العقارية ش.م.ك.

Salhia Real Estate Company K.S.C.

ANNUAL REPORT 2005

CONTENTS - ANNUAL REPORT 2005

H.H. Sheikh Sa'ad Al-Abdullah Al-Salem Al-Sabah
Crown Prince of the State of Kuwait

H.H. Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
Prime Minister of the State of Kuwait

Chairman's Message

Dear Shareholders,

It gives me great pleasure and privilege to convey to you the good wishes of the Board of Directors. On their behalf, I am pleased to present the annual report and the closing accounts of Salhia Real Estate Company for the year ended December 31st 2005.

The year in review, thanks to your continuous support saw a remarkable success and great achievements in all fields and levels. Salhia Real Estate Company's strong performance was positively impacted by various developments and factors witnessed by Kuwait's booming economy. Starting with the rise in oil prices to unprecedented record level internationally, that resulted in sufficient liquidity which was reflected on the positive performance of the Stock Exchange Market and ending with the activation of specific economic laws targeting to organize and boost the economy. Salhia Real Estate Company showed great concern to utilize such feasible terms to achieve best expected goals.

The company achieved net profits of KD17.5 million, up by 71.7% from profits for 2004. Earning per share reached to 57.9 fils, from 34.4 fils for 2004. The company's excellent performance and results covered the entire balance sheet items for the year 2005. Total assets reached to KD 217 million, Return on assets accounted approximately to 8%, while Shareholders equity grew to KD102.9 million, compared to KD101.7 million for 2004, with Return on equity of 17%.

Due to the comprehensive aspect of this annual report, I would like to review our company's major local and international achievements of this year:

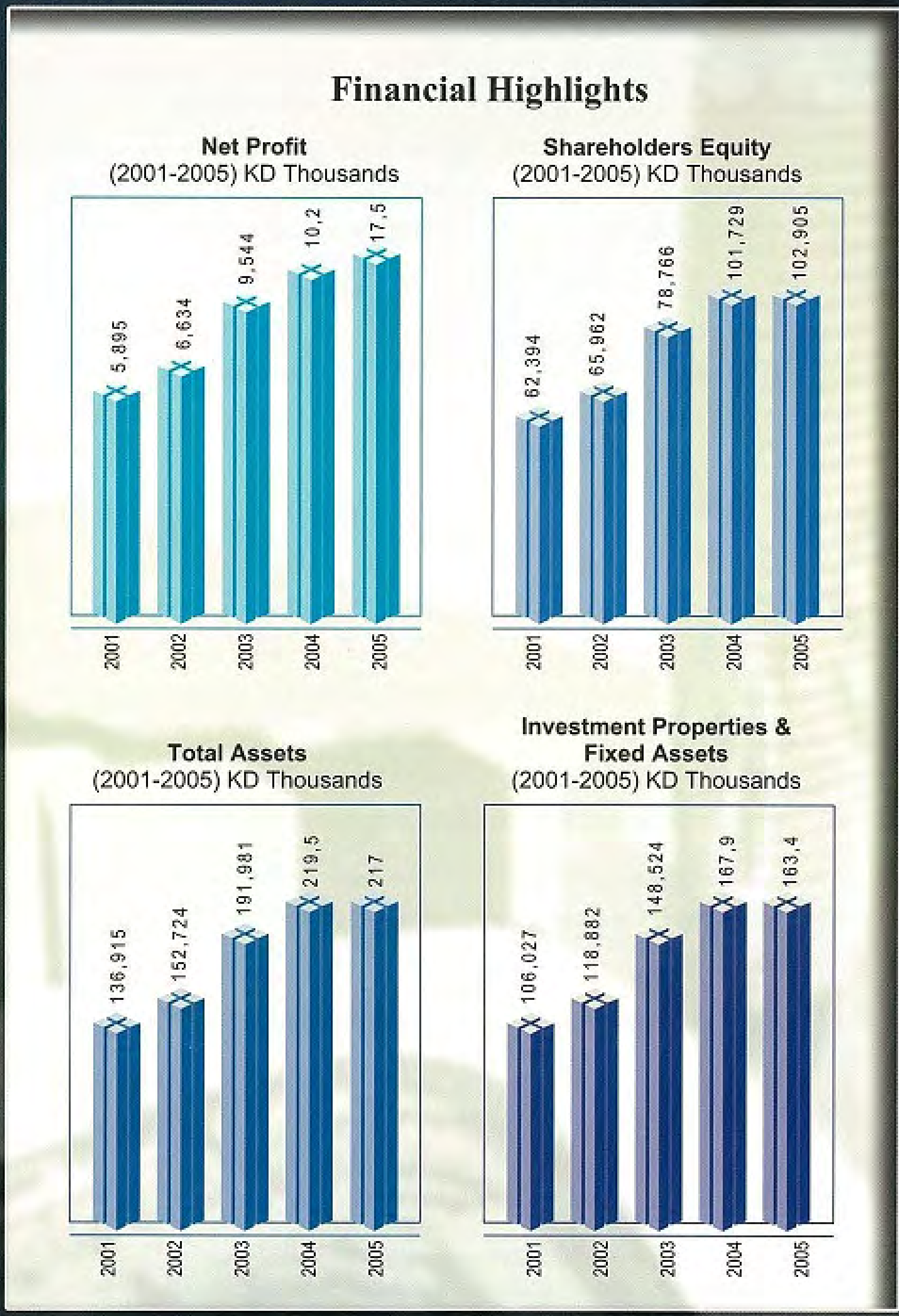
On the local level, our company strengthened its efforts to obtain needed licenses to commence Al Asima project in Sharq. Considering its comprehensive features, immense size & spacious area of 21414 square meters, Al Asima project is one of the biggest leading architectural and commercial projects to be executed by the private sector in Kuwait City. In view of the immensity of this project, Salhia Real Estate Company had concluded an agreement with a local national firm to market 50% of the project's value. Construction works of Al-Asima project is expected to commence in mid 2006.

On the international level, our foreign investments in UK & Germany constantly embrace Salhia Real Estate Company's prime attention and support. Such investments are considered the company's major base of its foreign investments.

Key Properties Investment LTD (KPI) continues to record favorable results and financial returns. KPI net profits stood at KD 3.9 million by the end of this year.

On our Germany front, the Board of Directors agreed to establish Dana Home Service Company, a subsidiary that provides nursing care services to aging people inside their homes. This company is believed to work as an extra source of income that enhances Haddia Company's operating returns.

Our Company continues to qualify and develop its manpower. To maintain our competitive edge and sustain our distinguished position, all our administrative systems underwent major review and development. Modern Communication Technology Systems as well as Smart Building Approach were applied to our all facilities and new projects.



In conclusion, I wish to express, on behalf of the Board of Directors, my deepest thanks and appreciation to His Highness the Amir, Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah, to His Highness the Crown Prince, Sheikh Saad Al Abdullah Al Salem Al Sabah, and to his Highness the Prime Minister Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah for their continued support and generous care rendered to national institutions.

The Board's sincere gratitude goes to our shareholders for their ever trust and support. Finally, particular mention is due to our Company's loyal management and dedicated work teams responsible for achieving this year's objectives and remarkable results.

Ghazi Fahad Alnafisi
Chairman and Managing Director

Report of the Board of Directors
Local Investments Kuwait

REPORT OF THE BOARD OF DIRECTORS

Board Members,
Ghazi Fahad Alnafisi
Chairman and Managing Director

Salah Fahad Al-Marzouk
Vice Chairman

Anwar Abdulaziz Al-Usaimi
Board Member & Deputy Managing Director

Ahmad Faisal Al-Zabin
Board Member

Hassan Abdullah Al-Mousa
Board Member

Abdulaziz Saud Al-Babtain
Board Member

Abdul Aziz Ghazi Alnafisi
Board Member

Abdul Latif Abdul Karim Al-Munayyes
Board Member

Faisal Abdul Mohsen Al-Khatrash
Board Member

Marzouk Fajhan Al-Mutairi
Board Member

Youssef Easa Al-Othman
Board Member

The Board Of Directors of Salhia Real Estate Company is pleased to present the operation review report for the year ended December 31, 2005, including a summary of the financial performance of the company during the year:

Balance Sheet

The total asset value dropped by1.14% to KD 217 million from KD219.5 million recorded last year. The total fixed and investment properties dropped to KD 163.4 million from KD167.9 million in 2004 a percentage equal to 2.67%. The total liabilities also dropped by 3.1% to KD114 million from KD 117.8 million in year 2004, while the shareholders equity grew to KD102.9 million from KD101.7 million.

Statement of Income and Cash Flow

Consolidated net profit for the year stood at KD17.5 million, up by 71.7% from the KD10.1 million for 2004. Gross operating profit reached KD20.1 million compared to KD20.3 million for the year 2004. While the profit per share recorded
Fils 57.9 compared to Fils 34.4 in the year 2004.

In view of these strong financial results, the Board of Directors has recommended to the shareholders general meeting the distribution of cash dividends of 50 Fils per share.

Report of the Board of Directors
Local Investments Kuwait

REPORT OF THE BOARD OF DIRECTORS

Local Investments Kuwait

The company's total local real estate assets reached to KD118 million at year end. All these properties are significantly centered in Kuwait City's most vital and specific real estate sectors. The company's local real estate includes:

Salhia Commercial Complex

Salhia Commercial Complex maintains its position as one of Kuwait's most elegant shopping complexes. Strategically located at the heart of Kuwait City, Salhia Commercial Complex hosts, in its commercial section, a variety of prestigious international brands, retail shops, while the office section accommodates leading private companies, together with a number of government institutions.

To retain the competitive position of the commercial complex, sustain its sophisticated excellence and architectural elegance (obtained since inception in 1978 and for over 27 years so far) 2005 initiated a group of constant renovation and upgrading including ceiling replacement of the ground floor and 1st and 2nd mezzanines, a change of the complex's lightings to guarantee a further joyful atmosphere and enhance the feeling of relaxation ; as well as the modernizing of the security and operation system, to upgrade the efficiency of the building and maintain its optional operating condition.

Endeavoring to preserve the complex's status as an ideal architectural example that copes with future construction concept and design, the company seeks to increase renovations and updating plans of the complex to cover all elevators leading to 1st & 2nd mezzanine and office floors; and replace all walls and floors including the complex's main-entrance. This maintenance plan targets to maintain the 100% occupancy rate achieved for -13 consecutive years encompassing the complex's both retail shops and offices.

Salhia Car Park

Completed in the 3rd quarter of 2003, Salhia Car Park is a prime project that contributes to solving the problems of traffic congestion and lack of sufficient car parking in Kuwait City's commercial and financial centre, and to ensure smooth traffic flow and access to Salhia Commercial Complex and Al Sahab Tower.

Recognizing the need to find adequate solutions to car parking problems faced by Salhia Commercial Complex and Al Sahab Tower frequent visitors, Salhia Car Park has been constructed to house 450 cars. The Car Park is equipped with the latest security and safety systems. Escalators and elevators link the ground floor with basements to facilitate in and out circulation. In addition, automated pre-payment which meets international specifications have been installed to promote fast and efficient entry and exit.

Salhia Plaza

Targeting to create a comprehensive and ideal development with sufficient open-space greenery featuring a sociable atmosphere at this spot of Kuwait City, Salhia Car Park roof has been provided with international cafe's and restaurants, a fountain and recreational facilities. The finishing works are under process and renting measures are yet to be finalized.

Report of the Board of Directors
Local Investments Kuwait

Al Sahab Tower

Since opening in 1997 as one of the most prominent diversified developments in Kuwait with a unique sea-view and a strategic central location in the heart of Kuwait City's commercial and financial sector, Al Sahab Tower which comprises of 3 commercial and 20 office floors, continues to be a favorite premises for several local and international companies. In addition, the tower's distinguished modern services, its adjacency to Salhia Commercial Complex, and the two developments join the Salhia Car Park to form a harmoniously integrated environment, enhancing its varied distinctive qualities.

The distinguished level of service and maintenance provided by Salhia Real Estate Company, together with the quality and elegance of the tower, were instrumental in maintaining a 100% occupancy rate for the 7th year in a row. Rental revenues of Al Sahab Tower are anticipated to rise by 2006 as its office-rental is due to be increased in accordance with the area's rental price increase.

Report of the Board of Directors
Local Investments Kuwait

Arraya Centre

Arraya Commercial Centre represents Salhia Real Estate Company's most sophisticated and modern development. Located at Sharq, the centre is significant achievement that aims to redevelop Abdul Aziz Al Saqer Street with its all diversified activities that represent a complete functional and commercial environment, which is conductive to stimulating the pace of an attractive social and urban atmosphere.

The project comprises of integrated major components:
A top class mall, 4 star hotel that meets the needs of businessmen and other visitors to Kuwait, corporate office tower to host different local and international companies, a conference and event centre, recreational plaza and a multi-floor car park that provides ample parking for the centre and the entire area.

Arraya Shopping Centre

Arraya Shopping Centre is a coveted venue for leading boutiques with a diverse range of quality brands of jewelry, fashion, accessories and cosmetics, not to mention a variety of international cafes and restaurants as well.

Comprising of 3 floor-shops and a service basement, Arraya Shopping Centre is conveniently accessible by the public through nine entrances, 5 of which overlook its surrounding streets, while the other 4 links its main centre to the adjacent car park by panoramic air-conditioned fly over bridges.

In 2005, electronic video screens were installed inside the mall to meet the shops marketing objectives and attract further traffic. The video was directly linked to screens in other malls. Many promotional programs and marketing activities took place inside the centre and at its exterior plaza to mark different events. Consequently, occupancy rate reached 100% for the 2nd consecutive year.

Arraya Offices

Strategically located on the top seven floors of the 31-storey tower, Arraya offices, with unmatched panoramic views across Kuwait City and the Arabian Gulf, have attracted an ever growing demand from leading local and international corporations.

To ensure smooth traffic and easy access to the offices, Salhia Real Estate Company has allocated 3 separate advanced elevators that link the main ground floor entrance with the offices, upper seven floors. The offices are fully – equipped with the latest electronic communication's devises, digital phones, internal network and IT systems; features that contributed to 100% occupancy at Arraya Offices.

Report of the Board of Directors
Local Investments Kuwait

Arraya Outdoor Plaza

Salhia Real Estate Company has complemented Arraya Centre venture with the development of Arraya Outdoor Plaza.

In 2005, Arraya Outdoor Plaza has hosted many social events, carnivals and exhibitions for distinguished Kuwaiti artists. To maintain a sociable atmosphere and provide additional element of recreational programs and activities for visitors, the company is building 3 outdoor cafes where rent contracts are already underway.

Arraya Car Park

Arraya Car Park, a key success factor of Arraya Shopping Centre, covers a total area of 8,000 square meters distributed on six floors and a basement, with a total capacity of 1,400 cars. The Car Park is uniquely linked to the Shopping Centre through air-conditioned bridges that provide shoppers, hotel, tower, and ballroom visitors with utmost convenience. Arraya Car Park will also contribute to the success and comprehensive service of Arraya new tower – Phase II.

Arraya Tower

To respond competently with Kuwait Municipalities new approval of 100-floor construction, Salhia Real Estate Company completed the design of Arraya Tower to meet the demands of the new trend and develop into a unique commercial and architectural landmark in Kuwait. The new 60-storey tower, the highest of its kind, will be built on a land area of 1058 square meters to embody the latest building and construction technology meeting standards of high quality office, IT and communication services.

The high rise tower will be provided with eleven sophisticated elevators & an advanced safety system. It will also be electronically linked to Arraya Shopping Centre to guarantee the comfort, safety and security of both tenants and visitors.

It is noted that phase I development works have been completed, where many drillings, water pumping and pilling were executed. All preparations to commence the construction phase are already underway. Hopefully, the entire works are expected to be completed by end of 2008.

Marriott Kuwait Hotels

During 2005 the Marriott Hotels in Kuwait have conducted a number of projects on different levels. For both Hotels, JW MARRIOTT and Courtyard by MARRIOTT the rooms departments have enhanced their products through the launch of the new company wide rooms and bedding initiative, and continued to promote and enhance this theme as the unique selling point among city hotels.

The management has exerted all possible efforts to maintain and upgrade the product quality in order to not only maintains our current market share but also to exceed it where possible. In view of the growing competition in a limited market it is important to have a great product and keep it in a high state of maintenance. The management, as well, has spaced its expenditure in order to maintain sufficient funds for 2006 renovation of rooms, restaurants, meeting halls and public areas.

The JW Marriott Hotel has maintained its position as a City Business transient Hotel and with the support of the Marriott reservation system, (Marsha), has exceeded the expectations in this segmentation while also hosting several high level government conferences during the year.

The Arraya Ballroom has hosted many high level social events, product launches, exhibitions and conferences. It also has become the premier venue for outside catering functions for family events, businesses and ministries.

The Courtyard by MARRIOTT has established its position as a favored four star hotel leading the market in service and product in this category. The hotel has also become a favorite destination for local and GCC families who visit Kuwait during holiday and weekend periods.

The Super Block Project

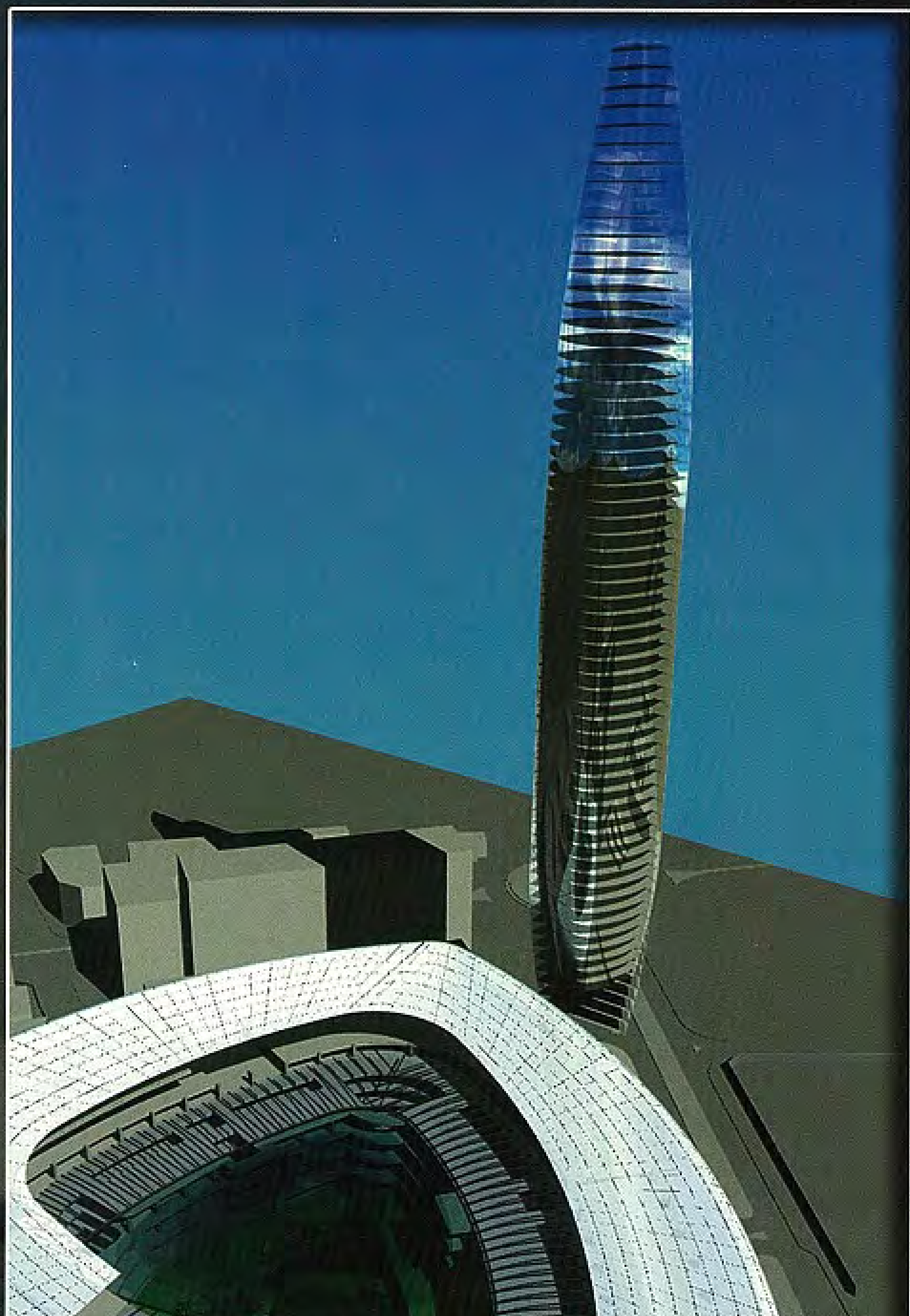
Strategically located on the prime Fahad Al Salam street, Kuwait City's most significant commercial streets, and covering a total area of approximately 3605 square meters which used to occupy 8 properties, all demolished and removed, the Super Block design contract has been signed with an international Architectural firm to meet specific development criteria which takes into account the historical and commercial significance of Fahad Al Salem Street, and restore its former glory.

The Super Block project consists of two main parts: construction of a commercial complex containing a variety of shops and a high-rise office tower; and a multistory car park. The project encompasses comprehensive redevelopment, and landscaping of surrounding areas.

Al-Soor Real Estate

In 1999, Salhia Real Estate Company purchased an old building that was built on a land area of 1222 square meters located on Mohammed Thunayan Al-Ghanim Street for KD2.5 million.

In 2005, the property was sold; after being demolished and removed, for KD7.5 million to achieve a net profit of KD4.9 million. The return on investment, realized by the company through the deal reached 189%.



Al-Asima Project

Driven by its solid belief in complying with the exceptional momentum of Kuwait's construction sector, which is a result of an economic growth that positively affects the country's developmental atmosphere and continues to create promising real estate and investment opportunities. Salhia Real Estate Company has taken the initiative to contribute to Kuwait's flourishing economic and construction activities by launching an innovative and leading concept to develop its properties in Sharq. Centered on one sight covering a total area of 21,414 square meters, the properties are bounded by 4 streets including the two main streets of Abdul Aziz Al Sager Street, and Khalid Bin Al Waleed Street is on such initiative.

In view of its exquisite and elegant design, comprehensive and diversified components, Al-Asima Project is deemed to be a major development by the private sector. The project comprises of:

* A mall covering the entire real estate area.

* A 3 floor basement Car Park.

* Cafes, Cinema Theater and restaurants.

* Fully integrated 4 star hotel with multi-purpose ballrooms, health-club, cafes and restaurants.

* 70 floor office tower of approximately 1400 square meters per each.

* Soft Landscaping and Outdoor Pathway Plaza.

A leading international firm, specialized in real estate advisory services, has already been engaged to develop designs which will ensure optimal architectural and planning solution in response to the growing needs of the local Kuwaiti market.

Showing great interest to provide promising investment opportunities through a diversified wide base of investors, Salhia Real Estate Company signed an investment contract with a Kuwaiti firm in June 14th, 2006. through which Salhia will retain 50% of Al Asima project allowing other investors to own the other 50% through the ownership of 50% of the share capital of Al Asima Real Estate company. This company then will purchase the site that was previously held by Salhia Real Estate Company and develop the entire scheme. The site was valued at KD 115 million.

Construction will commence in mid 2006 and is expected to be completed in early 2010.

REPORT OF THE BOARD OF DIRECTORS

Foreign Investments

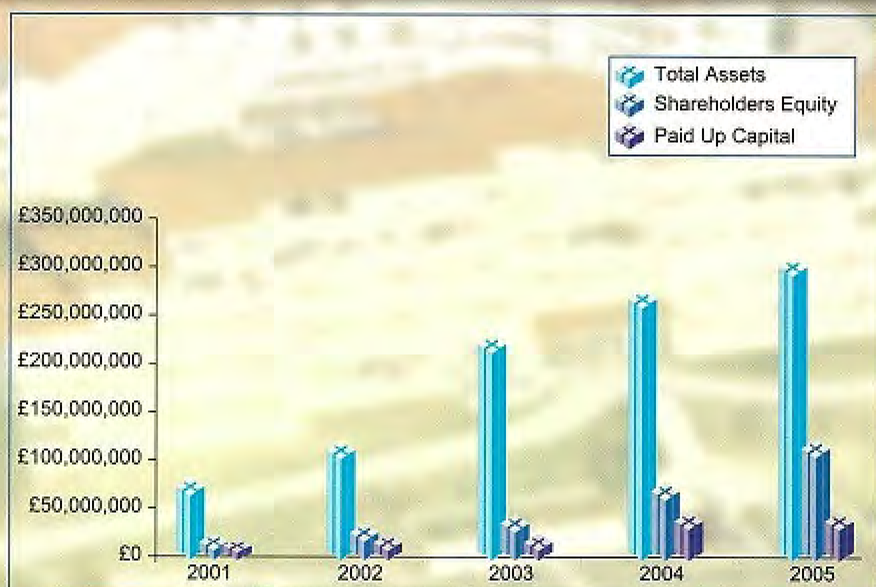
Salhia Real Estate Company's foreign direct investments are focused in the United Kingdom and the Republic of Germany while the short and medium term investments are spread to Asia, West Europe and North America.

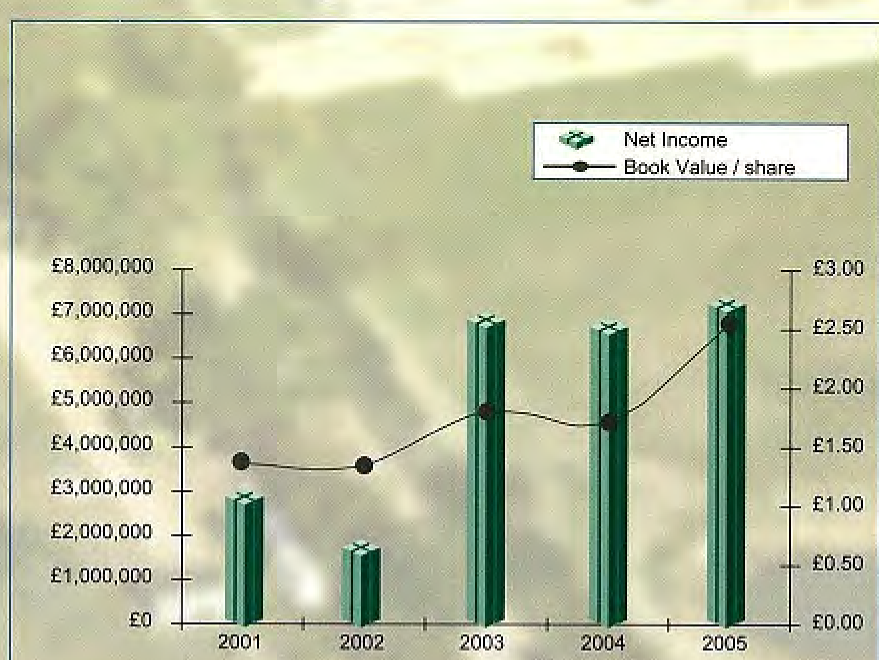
Salhia Real Estate Company strives to enhance its returns and cash inflow, and create new income resources through allocating extra capitals for its international investments and providing this vital sector with highly professional and qualified staff.

Key Property Investments LTD

Incorporated in May 16th 1997 in UK with a capital of GBP 25 million and scheduled to operate for a period of 8 years, Key Property Investment is Salhia Real Estate Company's UK investment arm.

In 2004, in view of UK market's growing investment opportunities, in addition to achieving the objectives of the Co-Partners; Salhia Real Estate company and St. Modwen Properties, KPI's shareholders decided to increase the capital to GBP 50 million and extend its life another 8 years. Key Property investment LTD is specialized in the acquisition, development and trading of various types of UK properties. By the end of 2005, the company had already acquired 3 commercial centers and 30 properties, which are mainly industrial buildings and storage warehouses. All these properties obtain the potential to develop and add new commercial and residential units. At the end of 2005 the total rentable areas held by KPI reached to 960000 square meters. These properties are supervised by 4 regional offices of St. Modwen Properties.





Key Property Investment Financial Status Development

Year	2001	2002	2003	2004	2005
Total Assets	£82,276,000	£120,188,000	£229,689,000	£275,100,000	£310,572,000
Shareholders Equity	£23,755,000	£33,550,000	£45,020,000	£81,740,000	£121,345,000
Net Income	£3,026,000	£1,912,000	£7,092,000	£6,928,000	£7,424,000
Paid Up Capital	17,550,000	25,000,000	25,000,000	47,750,000	47,750,000
Book Value / share	£1.35	£1.34	£1.80	£1.71	£2.54

KPI's Financial Results 2004

KPI's total asset recorded GBP 309 million (KD 162.3 million) by the end of 2005. Total rental revenues reached GBP 23.5 million (KD 12.3 million), while net profit amounted to GBP 7.4 million (KD 3.88 million). Total shareholders' equity grew to GBP 121.3 (KD 63.7 million) compared to GBP 81.7 million (KD 42.9 million) reported in 2004.

KPI's Development Activities:

Elephant & Castle Commercial Complex

The surrounding area of Elephant & Castle Commercial Complex will undergo a major redevelopment and regeneration, based on the county's master plan. The development will include the construction of 5,500 residential units, 75000 square meters of retail space and 55500 square meters of leisure and cultural activities, in addition to social, educational & government employment centres.

KPI has successfully passed phase I & II to be qualified to enter in a joint venture with the County counsel to execute Elephant & Castle regeneration plan. KPI is preparing the needed detailed designs of phase III selection expected to be finalized by summer 2006.

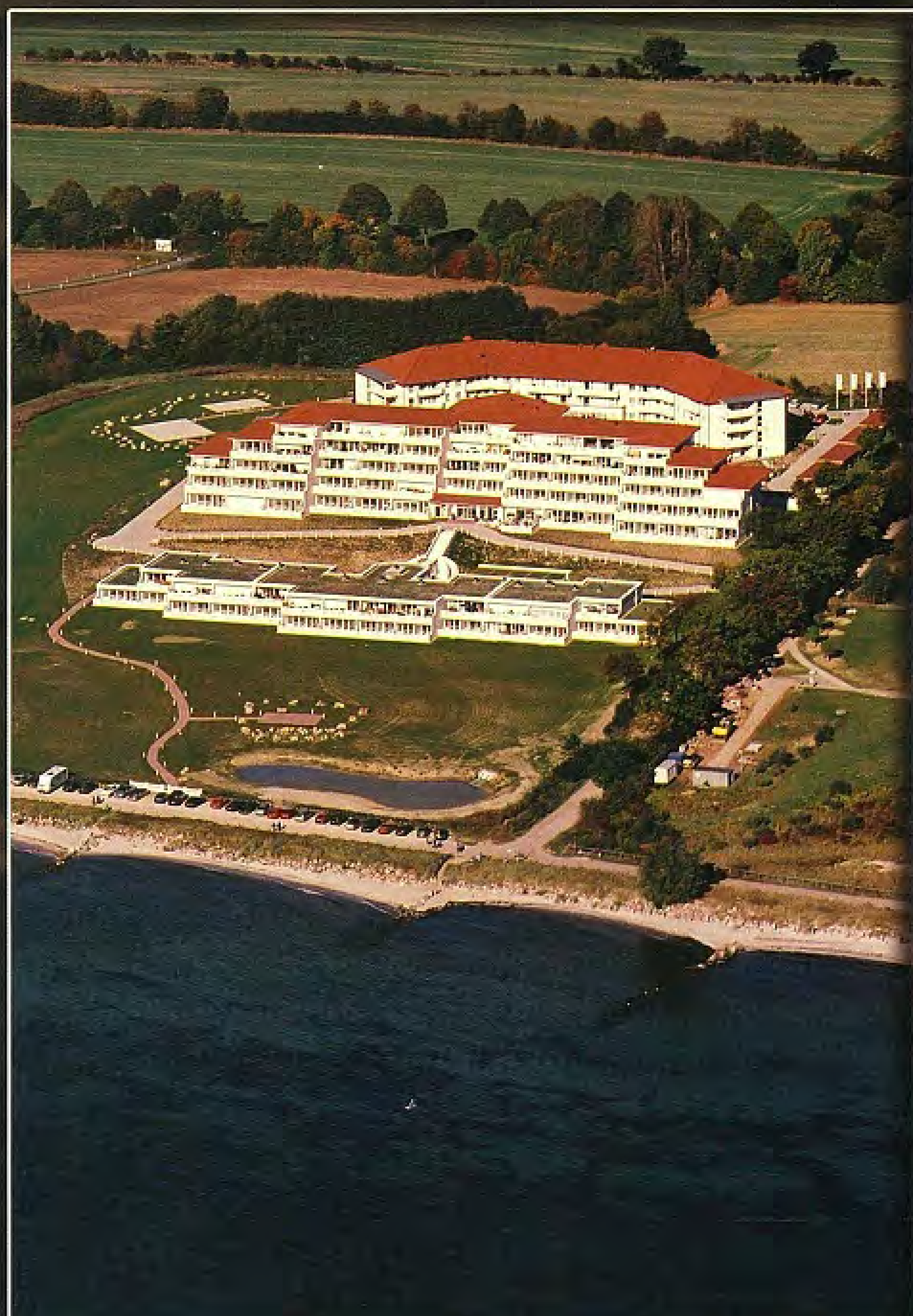
At year end 2005, the complex market value grew to GBP 50.7 million (KD26.6 million) compared to GBP 38.8 million (KD20.38 million) in 2004.

Farnborough Shopping Center

Strategically located in Farnborough City, the home for aviation exhibitions, Farnborough Shopping Centre embraces a total rentable space of 33356 square meters and an existing rentable vacancy, due to development works, of 7815 square meters.

By the end of 2005, the centre's rental revenues reached GBP 2.97 million (KD1.56 million). KPI will commence its development plan , that involves the centre's northern part in mid 2006, to build residential and commercial units, in addition to a hotel, a health club, a multi-storey car park, and an extension parking lot to serve the new units needs and the centre's visitors as well. The master plan includes the development of 8 movie theaters and 4 restaurants in the Centre's southern part. The new total rentable space stands at 34588 square meters, while the rental return will jump to above GBP 6 million(KD 3.1 million).

At year end 2005, The Centre's market value grew to GBP 47.2 million (KD 24.8 million), compared to GBP 43.2 million (KD 43.2 million) last year.



Basingstoke Malls

Following the purchase of Basingstoke Malls in November 2004 at a cost of GBP 45.9 million (KD 24.1 million), where KPI owns 65% and the remaining 35% owned by Hampshire Counsel and other partners. KPI, together with its partners, agreed to develop 8 floors to include 328 residential unit, 4-star-hotel, retail units and a car park on the top of the existing mall. Currently, the centre comprises of a one storey building.

Initial planning for the new construction is underway as well as methods to support the structure through adding bridges and pillars to enhance the old building's loading capacity.

The Centre's rentable space stands at 26490 square meters, and KPI's rental income share as end of 2005 is GBP 1,473,500 (KD 774, 000). By the end of this year, KPI's share of the property market value amounted to GBP 36.6 million (KD 19.2 million) compared to GBP 29.8 million (KD 15.65 million) last year.

Vulcan Work Newton Le Willow

The area of this property is 138000 square meters, where 63100 square meters are already developed into industrial buildings and warehouses. KPI is contemplating a joint venture with the property's adjacent owners to develop residential units with comprehensive related services, to cover a total developed area of 250000 square meters.

The general design of the project is expected to be approved soon. The increasingly growing demand on residential unites resulted in the growth of the unit block value. Total cost of the project is anticipated to reach GBP 9 million (KD 4.7 million), while its market value should reach to GBP 32 million (KD 16.8 million) of which KPI share stands at 67% . KPI will bear the cost of GBP 3 million allocated to needed land reform works to be qualified for development.

Drawbridge Securities LTD

Established in March, 2003 with a capital of GBP 2,000,100 (KD 1,050,952) Drawbridge Securities LTD's Capital is divided into 100 ordinary shares, where Salhia Real Estate Company owns 50% against 50% owned by British companies, in addition to 2 million preferred shares owned by Salhia Real Estate Company.

Salhia Real Estate Company finances the working capital that stands at GBP 2 million against receiving 65% of the achieved profit.

The primary activities of the company is to purchase sites through obtaining an exclusive option right from the owners for 3 years , where Drawbridge shall acquire the site upon obtaining municipality approval to change the use of land and get a planning permit for the new developments. The rezoning of the land will enable Drawbridge to transfer its use and activities to a more commercial usage.

Afterwards, the company starts either selling its option rights of the property or entering into joint ventures with co-partners to finance the development of the property against sharing Drawbridge securities LTD with achieved selling capital profits .

Drawbridge Securities' Investment Activities

Consequently, upon applying its activity policy with its first project, Drawbridge Securities had successfully achieved its objectives. The company managed to sell the purchase right of Llanfoist property after obtaining the municipality's approval to reorganize the land block and the property's necessary license. The sale of the option right at GBP 1 million (KD525,000) resulted in a return on investment of 104% . Furthermore, Drawbridge Securities' owns the purchase right of two other properties. The Ditton Widnes and Southampton properties.

Ditton Widnes Property

A property of 445000 square meters with storage facilities occupying 46500 square meters, all leased to major European firms. The tenants utilize the site to benefit from the extension of the railway-line inside the property. The company acquired the purchase right worth of GBP 250,000(KD131,362) paid into two payments, the first in August 2003 while the other in January 2004. This in addition to research studies and licenses' cost, to develop new storage warehouses covering a space of 79,000 square meters. Member of the Boards are contemplating a joint venture with a financing party to develop the property, where promising chances to double the invested capital are foreseen.

Southampton Property

The Southampton property is a site that was previously used as a petrol filling station by British Petroleum . It was purchased through an option contract. After obtaining the municipality approval , Drawbridge entered into a 50/50 partnership with a UK developer to develop the site into a 4 story office building and committed GBP200,000(KD105,090) in return for a 50% share of the partnership and profit.

The development work shall commence in the first quarter of 2006 and is expected to be completed in mid 2007.

Peterborough & Durham Properties

Drawbridge is negotiating the purchase of the option rights of land blocks in Peterborough & Durham Cities. The Peterborough's property is approximately one million square meters of agricultural land with an option cost of GBP 400,000(KD210,180) that could be re-organized and developed into logistic storage warehouses covering an area of 200,000 square meters. The Durham's property comprises of 5 agricultural blocks of one million square meters, with an existing leased storage facility that occupies one block of land with a yield income of 7% .

Both properties boast prime locations adjacent to a main railway line and a major road that link England's coast to Scotland. Durham properties are owned by 3 Parties , negotiations are underway to acquire their purchase rights. If these blocks are combined to best benefit from adjacent transport facilities, the property will be significantly promising and rewarding.

Report of the Board of Directors
Foreign Investments

Haddia Holding GmbH

Founded by the end of 1993 with an open-ended capital of DM5 million, and grew to EU 22.9 million (KD 7.9) by late 2005, Haddia Holding GMBH primary area of activity is the development, ownership and management of nursing homes and senior residences in northern Germany. The beds owned by the company stood at 1580 shared by rooms and residential apartments.

Total assets reached EU 131.4 million (KD 47.6) at year end 2005. During the past two years, the Company's results were impacted by the undertaken development works and the decrease in demand on nursing homes. Due to the change of the population structure after WWI, a decline in the age category of 85-90 years occurred. This outcome impacted the activity of nursing occupants thus resulting in a decline from 30% to 15% in that target age group. This resident's category use to form the largest base of nursing homes' occupants.

Nevertheless, the German authorities anticipate an increase in demand on nursing homes in 2007 onwards. An increase that will require an annual supply of additional 10,000 beds. All adequate measures have been considered by the Board Members to cope with these needs upon the completion of the undertaken development works of the past 4 years.

By the end of 2005, Haddia Holding GMBH total sales amounted to EU34.3 million (KD12.43 million) and total asset to EU 130.6 million (KD47.2 million) , while shareholders equity stood at EU 24 million (KD8.67 million) which is equal to 23.6% of the company's total borrowings.

It is noted that since inception, the company had strategically focused on a gradual decrease of bank loans. The company had repaid EU22.7 million (KD8.2 million) of its total loans amounted to EU 123.4 million (KD44.6 million). The company's shareholders equity is 1:3 against total loans as of end 2005.

Dana Home Services GmbH

In line with the German's authorities effort to meet the increasing demand on nursing care services for years to come, Haddia Holding's Board of Directors agreed to establish a specialized company to provide nursing care services for aging people residing at their private homes. To cut capital expenditure, this company will be initially founded in the proximity of the Company's homes. Dana Home Services includes medical care, house keeping and meals. It is noted that Dana Company, a leading nursing care services subsidiary in charge of managing Haddia Holding's residences, is fully equipped with necessary skills and expertise, medical equipment, financial and administrative software and valid licenses needed to provide excellent nursing care services.

Human Resources

Information Technology & Human Resources Departments

Information Technology Department

Salhia Real Estate Company undertakes an integrated computer department fully equipped with highly qualified staff and great expertise capable to meet the needs of the company's and its current and future real estate requirements. The department has prepared the final design of Arraya Tower's Computer net work. The design includes plans to link this network to Arraya shopping Center to provide the latest technology advancement of communication, visual aids and internet services. In its strive to apply Smart Building Technology, the department is also setting the different technology requirements for Al Asima project and all the company future developments.

Human Resources Department (HRD)

In line with the Board members' recommendations, HRD continues developing and expanding the company's base of employees to employ the most highly qualified and give priority to national man power recruitment. In 2005, the Kuwaiti staff employed to occupy technical and administrative jobs reached 31%.

HRD has concluded reviewing all applied administrative systems for their update and improvement. The drive targets to enhance available staff potentials, attract experts to sustain the company's leading position, and support its competency in the real estate and investment sectors.

Executive Management

Anwar Abdulaziz Al-Usaimi
Deputy Managing Director

Engr. Saud Al-Saqer
Real Estate Management and Development Group Head

Ali M. Al-Hamdan
Investment and Support Group Head

Hany A. Abdelnour (CPA - PHD)
Finance and Accounting Group Head

Mohammed K. Al-Musaibeeh (ABA-CIDA-CST)
Manager of Accountancy Dept.

Nasser B. Al-Ghanim
Senior Foreign Investment Manager

Engr. Kifah Georges
Construction Department Manager

Engr. Tarek Darwish
Design Department Manager

Engr. Yaqoub Al-Khabbaz
Property Manager

Abdul Nasser Al-Turkait
I.T. Manager

Khalid M. Al-Awadi
Personnel and Administration Manager

Feras A. Al-Rushaid (ABA-CIDA-CST)
Assistant Manager of Accountancy Dept.

Salhia Real Estate Company K.S.C. (Closed) and Subsidiaries Annual Report 2005

CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2005

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Salhia Real Estate Company K.S.C. (Closed) and Subsidiaries Annual Report 2005

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED)

We have audited the accompanying consolidated balance sheet of Salhia Real Estate Company K.S.C. (Closed) (the parent company) and Subsidiaries (the group) as of 31 December 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.

We conducted our audit 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2005 that might have had a material effect on the business of the group or on its financial position.

Waleed A. Al. Osaimi
LICENCE NO. 68 A
OF ERNST & YOUNG

Ali A.Al Hasawi
LICENCE NO. 30 A
BDO BURGAN
INTERNATIONAL ACCOUNTANTS

CONSOLIDATED BALANCE SHEET
At 31 December 2005

	Notes	2005 KD	2004 KD
ASSETS			
Cash and bank balances		2,540,085	4,258,882
Inventories		430,222	409,155
Accounts receivable and other assets	5	7,107,680	6,711,388
Investments	6	28,098,958	23,065,957
Investment in joint venture	8	15,446,824	17,188,349
Investment properties	9	64,158,563	67,311,363
Fixed assets	10	99,281,129	100,625,063
TOTAL ASSETS		217,063,461	219,570,157
LIABILITIES AND TOTAL EQUITY			
LIABILITIES			
Due to banks	11	19,477,462	9,769,692
Accounts payable and other liabilities	12	10,769,952	9,269,433
Long-term loans	13	83,910,926	98,802,025
TOTAL LIABILITIES		114,158,340	117,841,150
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	14	31,492,370	31,492,370
Share premium		27,524,906	27,524,906
Treasury shares	15	(8,745,531)	(2,779,313)
Treasury shares reserve		994,242	-
Statutory reserve	16	9,942,579	8,120,520
Voluntary reserve	16	9,942,579	8,120,520
General reserve		4,250,000	4,250,000
Foreign currency translation reserve		1,897,798	4,636,970
Cumulative changes in fair value	17	(66,452)	977,582
Retained earnings		24,732,713	18,450,883
		101,965,204	100,794,438
Minority interest		939,917	934,569
TOTAL EQUITY		102,905,121	101,729,007
TOTAL LIABILITIES AND TOTAL EQUITY		217,063,461	219,570,157

Ghazi Fahad Alnafisi
Chairman and Managing Director

Salah Fahad Almarzouk
Vice Chairman

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2005

	Notes	2005 KD	2004 KD
Revenues		33,777,609	34,165,243
Operating costs		(13,667,315)	(13,822,367)
Gross profit		20,110,294	20,342,876
Share in joint venture's results	8	1,497,748	2,094,207
General and administrative expenses		(5,204,004)	(4,903,555)
Depreciation		(5,198,216)	(4,410,143)
Sales and marketing expenses		(2,140,232)	(2,438,917)
Investment income	3	11,467,025	5,922,843
Gain on sale of investment property	9	4,911,750	-
Foreign exchange gain /(loss)		286,233	(117,930)
Interest income		69,011	28,109
Other income		101,764	87,951
Provision for impairment		(123,105)	(253,679)
Finance costs		(7,144,652)	(5,150,064)
Profit before tax		18,633,616	11,201,698
Foreign tax		(455,854)	(603,999)
PROFIT FOR THE YEAR		18,177,762	10,597,699
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(163,985)	(95,943)
National Labour Support tax (NLST)		(403,114)	(235,534)
Directors' fees		(110,000)	(77,000)
NET PROFIT FOR THE YEAR		17,500,663	10,189,222
Attributable to:			
Equity holders of the parent company		17,543,488	10,251,856
Minority interest		(42,825)	(62,634)
		17,500,663	10,189,222
Earnings per share attributable to equity holders of the parent company	4	57.9 fils	34.4 fils

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2005

	Notes	2005 KD	2004 KD
OPERATING ACTIVITIES			
Profit for the year		18,177,762	10,597,699
Adjustments for:			
Share in joint venture's results net of tax		(907,759)	(1,337,296)
Depreciation		5,198,216	4,410,143
Provision for employees' terminal benefits		738,247	245,519
Investment income		(11,467,025)	(5,922,843)
Gain on sale of investment property		(4,911,750)	-
Foreign exchange (gain)/loss		(286,233)	117,930
Interest income		(69,011)	(28,109)
Finance costs		7,144,652	5,150,064
Provision for impairment		123,105	253,679
		13,740,204	13,486,786
Working capital changes			
Inventories		(21,067)	(278,316)
Accounts receivable and other assets		(396,292)	(3,327,576)
Accounts payable and other liabilities		540,579	(1,741,109)
Cash from operations		13,863,424	8,139,785
Employees' terminal benefits paid		(375,012)	(108,871)
KFAS paid		(95,943)	(88,848)
Provision for national labour support tax paid		(235,534)	(161,184)
Directors' fees paid		(77,000)	(77,000)
Net cash from operating activities		13,079,935	7,703,882
INVESTING ACTIVITIES			
Purchase of investments		(24,987,338)	(18,439,803)
Proceeds from sale of investments		28,031,917	13,437,917
Additions to investment properties and fixed assets		(7,650,921)	(20,768,934)
Proceeds from sale of investment properties and fixed assets		7,543,449	33,935
Dividend received		1,032,355	755,951
Dividend income from joint venture		855,000	-
Interest income received		69,011	28,109
Net cash from (used in) investing activities		4,893,473	(24,952,825)
FINANCING ACTIVITIES			
Issue of shares		-	18,334,747
Purchase of treasury shares		(10,113,635)	(2,779,313)
Sale of treasury shares		5,141,659	-
Loans received		5,446,250	12,656,270
Loans repaid		(15,031,663)	(6,568,000)
Finance costs paid		(7,233,375)	(5,112,351)
Dividends paid		(7,609,211)	(109,993)
Net cash (used in) from financing activities		(29,399,975)	16,421,360
DECREASE IN CASH AND CASH EQUIVALENTS		(11,426,567)	(827,583)
Cash and cash equivalents at the beginning of the year		(5,510,810)	(4,683,227)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18	(16,937,377)	(5,510,810)

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended 31 December 2005

	Attributable to equity holders of the parent company												
	Share Capital KD	Share premium KD	Treasury shares KD	Treasury shares reserve KD	Statutory reserve KD	Voluntary Reserve KD	General reserve KD	Foreign currency translation reserve KD	Cumulative change in fair values KD	Retained earnings KD	Subtotal KD	Minority interest KD	Total equity KD
Balance at 1 January 2005	31,492,370	27,524,906	(2,779,313)	-	8,120,520	8,120,520	4,250,000	4,636,970	977,582	18,450,883	100,794,438	934,569	101,729,007
Net movement in cumulative change in fair values (Note 17)	-	-	-	-	-	-	-	-	(1,044,034)	-	(1,044,034)	-	(1,044,034)
Foreign currency translation Adjustment	-	-	-	-	-	-	-	(2,739,172)	-	-	(2,739,172)	48,173	(2,690,999)
Net income (expense) recognised directly in equity	-	-	-	-	-	-	-	(2,739,172)	(1,044,034)	-	(3,783,206)	48,173	(3,735,033)
Net profit for the year	-	-	-	-	-	-	-	-	-	17,543,488	17,543,488	(42,825)	17,500,663
Total recognised income and expense for the year	-	-	-	-	-	-	-	(2,739,172)	(1,044,034)	17,543,488	13,760,282	5,348	13,765,630
Cash dividend	-	-	-	-	-	-	-	-	-	(7,873,092)	(7,873,092)	-	(7,873,092)
Dividend adjustment on treasury shares	-	-	-	-	-	-	-	-	-	255,552	255,552	-	255,552
Purchase of treasury shares	-	-	(10,113,635)	-	-	-	-	-	-	-	(10,113,635)	-	(10,113,635)
Sale of treasury shares	-	-	4,147,417	994,242	-	-	-	-	-	-	5,141,659	-	5,141,659
Transfer to reserves	-	-	-	-	1,822,059	1,822,059	-	-	-	(3,644,118)	-	-	-
Balance at 31 December 2005	**31,492,370**	**27,524,906**	**(8,745,531)**	**994,242**	**9,942,579**	**9,942,579**	**4,250,000**	**1,897,798**	**(66,452)**	**24,732,713**	**101,965,204**	**939,917**	**102,905,121**
Balance at 1 January 2004	23,841,246	14,457,158	-	-	7,054,487	7,054,487	4,250,000	2,873,565	6,520,231	12,715,218	78,766,392	247,205	79,013,597
Net movement in cumulative change in fair values (Note 17)	-	-	-	-	-	-	-	-	(5,542,649)	-	(5,542,649)	-	(5,542,649)
Foreign currency translation adjustment	-	-	-	-	-	-	-	1,763,405	-	-	1,763,405	-	1,763,405
Net income (expense) recognised directly in equity	-	-	-	-	-	-	-	1,763,405	(5,542,649)	-	(3,779,244)	-	(3,779,244)
Net profit for the year	-	-	-	-	-	-	-	-	-	10,251,856	10,251,856	(62,634)	10,189,222
Total recognised income and expense for the year	-	-	-	-	-	-	-	1,763,405	(5,542,649)	10,251,856	6,472,612	(62,634)	6,409,978
Issue of share capital	5,266,999	13,067,748	-	-	-	-	-	-	-	-	18,334,747	-	18,334,747
Bonus shares 10%	2,384,125	-	-	-	-	-	-	-	-	(2,384,125)	-	-	-
Purchase of treasury shares	-	-	(2,779,313)	-	-	-	-	-	-	-	(2,779,313)	-	(2,779,313)
Transfer to reserves	-	-	-	-	1,066,033	1,066,033	-	-	-	(2,132,066)	-	-	-
Other changes in minority interest	-	-	-	-	-	-	-	-	-	-	-	749,998	749,998
Balance at 31 December 2004	**31,492,370**	**27,524,906**	**(2,779,313)**	**-**	**8,120,520**	**8,120,520**	**4,250,000**	**4,636,970**	**977,582**	**18,450,883**	**100,794,438**	**934,569**	**101,729,007**

The attached notes 1 to 26 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

1 ACTIVITIES

Salhia Real Estate Company - K.S.C. (Closed) (the parent company) is a Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. The group's (the parent company and its subsidiaries) main activities comprise dealing in various real estate activities, in particular the owning and renting out of commercial property, including hotel accommodation in Kuwait and the operation of care homes in Germany. Surplus funds are invested in real estate and securities portfolios managed by specialist investment managers. Details of subsidiaries are set out in Note 7.

The parent company's registered address is Salhia Complex, Fahad Al Salem Street, P.O. Box 23413 Safat 13095 Kuwait.

The consolidated financial statements were authorised for issue by the parent company's Board of Directors on 8th March 2006.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of available for sale investments and have been presented in Kuwaiti Dinars.

The accounting policies are consistent with those used in the previous year except for the adoption of the revised accounting standards discussed below.

In 2003 and 2004, International Accounting Standards Board (IASB) issued a series of new International Financial Reporting Standards (IFRS) and revised International Accounting Standards (IAS). The new IFRS and revised IAS became effective for annual periods beginning 1 January 2005. All new IFRS and revised IAS have been adopted by the group during the year. The adoption of the revised accounting standards has had no material impact on the consolidated financial statements for the year.

The adoption of the revised IAS 1 "Presentation of Financial Statements" has resulted in an amendment to the presentation of minority interest. Minority interest is now presented within equity.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company and its subsidiaries for the year ended 31 December 2005 drawn up using consistent accounting policies.

A subsidiary is a company in which the parent company owns directly or indirectly more than 50% of the voting capital and has control or is a company where the parent company owns 50% or less of the voting capital but has a sufficient degree of controlling power over the companies including the power to govern and control the financial and operating policies so as to benefit from its activities.

A subsidiary is consolidated from the date when the parent company obtains control until such time as control ceases unless control is intended to be temporary and the subsidiary is exclusively held with a view to disposal within 12 months of the acquisition date, in which case it is classified as non-current asset held for sale and carried at the lower of carrying amount and fair value less estimated costs to sell.

The parent company consolidates the subsidiary's assets, liabilities and results on a line-by-line basis and discloses the minority interest separately. All intra-group balances and transactions are eliminated from the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income recognition

Rental income from investment properties is recognised on an accrual basis. Interest income is recognised on a time apportionment basis taking into account the outstanding balance and applicable interest rate. Hotel and care home income represent the invoiced value of services provided during the year. Dividend income is recognised when the group's right to receive payment is established. Gain on sale of property is recognised when the sale has been consummated and the contracts have been signed, the significant risks and rewards of ownership have passed to the buyers and the group has no continuing involvement in the property.

Finance costs

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

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances and due to banks.

Recognition and derecognition of financial assets and liabilities

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

Trade and settlement date accounting

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

Investments

The group classifies investments as available for sale. All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. After initial recognition, investments are remeasured at fair value, unless fair value cannot be reliably measured.

Changes in fair value are reported in the cumulative changes in fair values reserve within equity until the investment is either sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the changes in fair value as previously reported are removed from equity and are included in the consolidated income statement within investment income.

In the case of reversal of previously recognised impairment losses, these are no longer recognised in the consolidated income statement but as an increase in cumulative changes in fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

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

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to an earnings multiple, or an industry specific earnings multiple or a value based on a similar publicly traded company, or is based on the expected cash flows of the investment. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Investments with no reliable measures of fair value and for which fair value information could not be obtained are carried at cost less impairment in value.

Impairment and uncollectibility of financial assets

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

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

Inventories

Inventories of food and beverages are valued at the lower of cost and net realisable value after making due allowance for any expired or slow-moving items. Cost is determined by the first-in, first-out method.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on sale.

Inventories of operating supplies are valued at cost less due allowance for any obsolete or slow-moving items. Cost is determined on a weighted average basis.

Accounts receivable

Accounts receivable are stated at original invoice amount less provision for impairment. The group's terms of sale require the amounts to be paid within 30 days of the date of sale or of the date of rendering of services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in joint venture

The investment in joint venture is accounted for under the equity method of accounting using the latest audited financial statements. Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognise the group's share of profits or losses and other changes in equity of the joint venture. Distributions received from joint venture reduce the carrying amount of the investment.

Where practicable, adjustments are made to the joint venture entity's audited financial statements to bring them in line with group accounting policies.

An assessment of the investment in joint venture is performed when there is an indication that the investments has been impaired or the impairment losses recognised in prior years no longer exists.

Investment properties

Investment properties are recorded at cost less impairment in value. Freehold land is not depreciated. Buildings are depreciated using the straight line method over their estimated useful lives which vary between 10 to 50 years.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, properties are written down to their recoverable amount.

Fixed assets

Fixed assets are stated at depreciated cost less impairment in value. Freehold land is not depreciated. Depreciation is provided on a straight line basis on fixed assets at rates calculated to write-off the cost of each asset over its expected useful life as follows:

• Buildings and related immovable equipment	10 to 50 years
• Furniture and equipment	10 years
• Motor vehicles	5 years

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed by the supplier. Accounts payable are normally settled within 30 days.

Taxation

Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the group operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

The parent company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is non-distributable. Any realised 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 realised 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 treasury shares reserve account. No cash dividends are distributed on these shares. The issuance 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.

Provisions

A provision is recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) 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.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

Foreign currencies

Transactions in foreign currencies are recorded in the functional currency of the parent and subsidiary companies at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement.

On consolidation, the assets and liabilities of the subsidiaries are translated into Kuwaiti dinars at the year end rates of exchange and the results of the subsidiaries are translated into Kuwaiti dinars at the average rates of exchange for the year. All exchange differences arising on consolidation are included within shareholders' equity as foreign currency translation reserve until the subsidiary is sold. The exchange differences arising on investment in joint venture are accounted for on the same basis as the subsidiaries.

Judgements

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

Classification of real estate property

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

All investments are classified as available for sale.

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

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

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

3 INVESTMENT INCOME

	2005 KD	2004 KD
Gain on sale of investments	**10,434,670**	5,166,892
Dividends received	**1,032,355**	755,951
	11,467,025	5,922,843

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

4 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Earnings per share attributable to equity holders of the parent company is computed by dividing the net profit for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares).

	2005	2004
Net profit for the year attributable to equity holders of the parent company (KD)	**17,543,488**	10,251,856
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	**303,217,617**	298,359,930
Earnings per share attributable to equity holders of the parent company	**57.9 fils**	34.4 fils

5 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2005 KD	2004 KD
Hotel guests and care home residents receivables	**2,357,520**	1,352,378
Rent receivable	**176,549**	551,059
Due from related parties (Note 19)	**613,966**	647,390
Staff receivables (Note 19)	**1,659,654**	1,742,131
Deposits and prepaid expenses	**439,258**	86,502
Advance payments to contractors	**67,032**	51,730
Other receivables	**1,793,701**	2,280,198
	7,107,680	6,711,388

Due from related parties include an amount of KD 404,028 (2004: KD 465,561) advanced to key management personnel of a subsidiary company on 31 July 2003 to finance their participation in an employee share option scheme of the subsidiary. Under the terms of the loan agreement, the borrowers are liable for interest at 6% (2004: 6%) per annum payable at the end of the calendar year. The principal including any unpaid interest is repayable when a borrower exits the share option scheme. Since the loan does not have a fixed repayment date, the fair value of the loan is not determinable.

6 INVESTMENTS

	2005 KD	2004 KD
Managed portfolios	**8,881,290**	13,049,274
Managed funds	**7,274,249**	2,296,335
Unquoted funds	**2,258,000**	1,427,900
Unquoted securities	**9,685,419**	6,292,448
	28,098,958	23,065,957

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

6 INVESTMENTS (continued)

	2005 KD	2004 KD
Local	**18,277,896**	15,462,583
Foreign	**9,821,062**	7,603,374
	28,098,958	23,065,957

Unquoted funds and securities amounting to KD 4,176,920 (2004: KD 5,587,610) are carried at cost less impairment since fair values cannot be reliably estimated and the investment managers have been unable to indicate any estimates of the range within which fair values might lie. Management is not aware of any further indications of impairment in respect of these.

7 SUBSIDIARIES
Details of significant subsidiaries are set out below:

Name of the company	*Percentage of ownership*	*Country of incorporation*	*Principal activity*
Haddia Holding GMBH	89.72%	Germany	Holding company
SAREC GMBH	89.72%	Germany	Leasing of properties
Dana GMBH	89.72%	Germany	Care home operator
Dana ambulante GMBH	89.72%	Germany	Care home service provider
Gredo GMBH	89.72%	Germany	Care home catering service provider
Drawbridge Securities Limited	50.00%	United Kingdom	Property development

8 INVESTMENT IN JOINT VENTURE
This represent the group's 50% interest in a United Kingdom based joint venture entity, Key Property Investments, engaged in real estate leasing and development.

	2005 KD	2004 KD
The movement during the year on the investment in the joint venture is as follows:		
Carrying value of the investment at beginning of the year	**17,188,349**	13,960,176
Dividend received	**(855,000)**	-
Share in the joint venture's results net of tax of KD 589,989 (2004: KD 756,911)	**907,759**	1,337,296
Foreign currency translation adjustment	**(1,794,284)**	1,890,877
Carrying value of the investment at end of the year	**15,446,824**	17,188,349
Share of joint venture entity's assets and liabilities:		
Current assets	**7,345,680**	8,405,161
Long-term assets	**56,030,690**	63,720,208
Current liabilities	**958,088**	768,874
Long-term liabilities	**46,971,458**	54,168,146
Share of joint venture entity's revenue and expenses		
Revenues	**6,193,479**	6,768,282
Expenses	**5,285,720**	5,430,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

9 INVESTMENT PROPERTIES

	Freehold land KD	Buildings KD	Total KD
Balance at 1 January 2005	30,427,971	36,883,392	67,311,363
Additions	75,948	-	75,948
Transfer from capital work in progress	-	1,070,432	1,070,432
Disposals	(2,588,250)	-	(2,588,250)
Depreciation for the year	-	(1,710,930)	(1,710,930)
Balance at 31 December 2005	**27,915,669**	**36,242,894**	**64,158,563**
Cost	27,915,669	49,953,527	77,869,196
Accumulated depreciation	-	(13,710,633)	(13,710,633)
Balance at 31 December 2005	**27,915,669**	**36,242,894**	**64,158,563**

During the year, the parent company disposed off land and realised a gain of KD 4,911,750.

Freehold land with a carrying value of KD 5,808,323 (2004: KD 8,396,573) are mortgaged against certain bank loans (See Note 13).

The fair value of the investment properties amounted to KD 215,773,567 at the balance sheet date (2004: KD 192,014,361). The fair values have been determined by reference to independent third party valuations provided by professionally qualified valuers using acceptable methods of calculation such as sales comparison and income capitalisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 FIXED ASSETS

	Freehold land KD	Buildings KD	Furniture and Equipment KD	Motor vehicles KD	Capital work in progress KD	Total KD
Balance at 1 January 2005	17,594,952	67,145,761	5,597,303	125,984	10,161,063	100,625,063
Additions	3,789,500	172,332	614,769	24,525	2,973,847	7,574,973
Disposals	-	-	(1,942)	-	(41,507)	(43,449)
Transfers from capital work in progress	-	5,747,943	1,104,960	-	(6,852,903)	-
Transfers to investment properties	-	-	-	-	(1,070,432)	(1,070,432)
Depreciation for the year	-	(2,584,163)	(858,357)	(44,766)	-	(3,487,286)
Foreign currency translation adjustment	(431,208)	(2,939,023)	(191,193)	-	(756,316)	(4,317,740)
Balance at 31 December 2005	**20,953,244**	**67,542,850**	**6,265,540**	**105,743**	**4,413,752**	**99,281,129**
Cost	20,953,244	83,747,041	11,843,693	313,091	4,413,752	121,270,821
Accumulated depreciation	-	(16,204,191)	(5,578,153)	(207,348)	-	(21,989,692)
Net carrying amount at 31 December 2005	**20,953,244**	**67,542,850**	**6,265,540**	**105,743**	**4,413,752**	**99,281,129**

Freehold land and buildings with a carrying value of KD 24,035,155 (2004: KD 33,114,425) are mortgaged against certain loans (See Note 13).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

11 DUE TO BANKS

Due to banks represent bank overdraft and are subject to effective interest rates ranging from 7.5% to 8.5% per annum (2004: 5.25% to 7% per annum).

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2005 KD	2004 KD
Accounts payable	**1,931,279**	2,702,334
Retentions payable	**1,126,699**	1,673,107
Accrued expenses	**1,330,137**	811,665
Deposits from tenants, hotel and care home guests	**1,301,155**	963,344
Rents received in advance	**374,882**	243,306
Employees' terminal benefits	**1,704,914**	1,341,679
Provisions	**103,700**	172,324
Kuwait Foundation for the Advancement of Sciences	**163,985**	95,943
National Labour Support Tax	**403,114**	235,534
Directors fees	**110,000**	77,000
Unpaid dividends	**31,073**	22,744
Other payables	**2,189,014**	930,453
	10,769,952	9,269,433

13 LONG-TERM LOANS

Long-term loans are denominated in the following currencies:

	2005 KD	2004 KD
Kuwaiti Dinars	**41,746,250**	48,946,250
Euro	**38,532,676**	44,874,400
Japanese Yen	**2,750,000**	4,093,375
US Dollars	**882,000**	888,000
	83,910,926	98,802,025

The loans are due for repayment as follows:

	2005 KD	2004 KD
2006	**9,806,721**	15,779,753
2007	**10,450,492**	10,571,315
2008	**11,079,905**	10,890,169
2009	**10,914,085**	11,266,945
After 2009	**41,659,723**	50,293,843
	83,910,926	98,802,025

The loans are repayable in equal periodic installments over variable periods of time with maturities extending to 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13 LONG-TERM LOANS (continued)

The Kuwaiti Dinar loans carry variable interest rates, which range from 1% to 2% per annum (2004: 1% to 2.25% per annum) over the Central Bank of Kuwait discount rate. The interest rate on these loans reprices when the Central Bank of Kuwait discount rate changes. The foreign currency loans carry both variable and fixed interest rates which range from 1.5% to 2.5% per annum (2004: 1% to 1.5% per annum) over LIBOR. The variable interest rate loans are repriced every 3 to 6 months.

Bank loans of the group with a carrying value of KD 83,910,926 (2004: KD 98,802,025) are secured by investment properties with a carrying value of KD 5,808,323 (2004: KD 8,396,573), fixed assets with a carrying value of KD 24,035,155 (2004: KD 33,114,425) owned by the group and 2,992,500 shares in Salhia Real Estate Company K.S.C. (Closed) owned by the employees. Of these, bank loans amounting to KD 36,894,326 (2004: KD 42,414,064) have been obtained by subsidiaries under the terms of which lenders have no recourse to the parent company in the event of default.

A loan of Euro 21,000,000 (KD equivalent: 7,801,500) was obtained by a subsidiary company during December 2003 based on an assurance provided by the parent company to the creditor bank that, for a period of three years commencing 3 December 2003, the subsidiary company will be sufficiently liquid to meet interest and principal repayments as well as any other charges thereon at each maturity date.

14 SHARE CAPITAL

As at 31 December 2005, the parent company's authrised, issued and fully paid share capital consist of 314,923,698 shares of 100 fils each (2004: 314,923,698 shares of 100 fils each).

The parent company operates an employee share purchase plan which is in operation for a period of 9 years, with the first year being the fiscal year ended 31 December 2001. Under this scheme the parent company can increase its share capital up to 21,000,000 shares through the period of the scheme. The issue price of the shares to be issued under the scheme is decided by the board of directors of the parent company. During the year, no shares were issued by the parent company under the employee share purchase plan.

15 TREASURY SHARES

At 31 December 2005, the parent company held 13,972,108 of its own shares (2004: 5,672,108), equivalent to 4.4% (2004: 1.8%) of the total issued share capital at that date. The market value of these shares at the balance sheet date was KD 10,758,523 (2004: KD 2,892,775). Reserves of the parent company equivalent to the cost of the treasury shares have been ear-marked as non distributable.

16 STATUTORY AND VOLUNTARY RESERVES

As required by the Commercial Companies Law and the parent company's articles of association, 10% of profit for the year is transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve equals or exceeds 50% of paid-up share capital. Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

As required by the parent company's articles of association, 10% of profit for the year is transferred to voluntary reserve. Such transfer may discontinue by a resolution at the General Assembly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17 CUMULATIVE CHANGES IN FAIR VALUE

The movement in cumulative changes in fair value are analysed as follows:

	2005 KD	2004 KD
Balance at 1 January	**977,582**	6,520,231
Realised gain on sale during the year	**(987,971)**	(5,111,027)
Change in fair value during the year	**(56,063)**	(431,622)
Balance at 31 December	**(66,452)**	977,582

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following balance sheet amounts:

	2005 KD	2004 KD
Cash and bank balances	**2,540,085**	4,258,882
Due to banks	**(19,477,462)**	(9,769,692)
Cash and cash equivalents	**(16,937,377)**	(5,510,810)

19 RELATED PARTIES

During the normal course of its business, the group conducts certain transactions with parties related to the group, prices of which are approved by parent company's management. The following is a summary of significant related party balances and transactions:

	2005 KD	2004 KD
Consolidated balance sheet:		
Due from related parties	**613,966**	647,390
Staff receivables	**1,659,654**	1,742,131
Consolidated income statement:		
Operating costs	**260,887**	266,294
Sales and marketing expenses	**-**	887,519
Compensation of key management personnel		

The remuneration of key management personnel of the group during the year were as follows:

	2005 KD	2004 KD
Short-term benefits	**1,201,458**	1,145,496
Employees' end of service benefits	**728,870**	563,399
	1,930,328	1,708,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20 EMPLOYEE INFORMATION
At 31 December 2005, the group had 1,787 employees (2004: 1,786 employees).

For the year ended 31 December 2005, staff costs amounted to KD 12,007,951 (2004: KD 11,824,891).

21 PROPOSED DIVIDEND
The parent company's board of directors will propose cash dividend of 50 fils per share for the year ended 31 December 2005 (2004: cash dividend of 25 fils per share amounting to KD 7,873,092 which was subsequently adjusted by KD 255,552 for treasury shares outstanding at the date of declaration) to the annual general assembly of the shareholders of the parent company. This proposal is subject to the approval of the annual general assembly of the shareholders of the parent company.

22 SEGMENTAL INFORMATION
Primary segment information

The group is organised into functional divisions to manage its various lines of business. For the purposes of primary segment reporting, the parent company's management has grouped the group's products and services into the following business segments:

- Real estate operations: Consist of development and leasing of property.
- Hotel operations: Consist of the hotel hospitality services provided through JW Marriott Hotel – Kuwait, Courtyard Marriott Hotel-Kuwait and Arraya Ball Room - Kuwait.
- Care home operations: Consist of care home activities provided by subsidiary companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22 SEGMENTAL INFORMATION (continued)
There were no inter-segmental transactions. The following is the detail of the above segments, which constitutes the primary segment information:

	31 December 2005				31 December 2004			
	Real estate operations KD	Hotel operations KD	Carehome operations KD	Total KD	Real estate operations KD	Hotel operations KD	Carehome operations KD	Total KD
Segment revenue	9,267,710	12,018,944	12,490,955	33,777,609	9,500,752	13,045,811	11,618,680	34,165,243
Segment operating costs	(752,706)	(4,388,153)	(8,526,456)	(13,667,315)	(992,725)	(4,890,209)	(7,939,433)	(13,822,367)
Segment results	8,515,004	7,630,791	3,964,499	20,110,294	8,508,027	8,155,602	3,679,247	20,342,876
Share of income from joint venture's result	1,497,748	-	-	1,497,748	2,094,207	-	-	2,094,207
Other operating expenses	(6,026,735)	(4,187,921)	(2,327,796)	(12,542,452)	(4,555,344)	(4,768,560)	(2,428,711)	(11,752,615)
Profit from operations	3,986,017	3,442,870	1,636,703	9,065,590	6,046,890	3,387,042	1,250,536	10,684,468
Interest income				69,011				28,109
Finance costs				(7,144,652)				(5,150,064)
Other non-operating income				16,643,667				5,639,185
Profit before tax				18,633,616				11,201,698
Foreign tax				(455,854)				(603,999)
Profit for the period				18,177,762				10,597,699
Other non-operating expenses				(677,099)				(408,477)
Net profit for the year				17,500,663				10,189,222
Other information:								
Segment assets	151,650,061	2,282,965	47,683,611	201,616,637	146,847,731	2,718,926	52,815,151	202,381,808
Investment in joint venture	15,446,824	-	-	15,446,824	17,188,349	-	-	17,188,349
Total assets				217,063,461				219,570,157
Segment liabilities	73,256,380	2,829,957	38,072,003	114,158,340	71,586,860	2,530,277	43,724,013	117,841,150
Total liabilities				114,158,340				117,841,150
Capital expenditure	6,967,036	-	607,937	7,574,973	15,388,294	-	5,379,441	20,767,735
Depreciation	3,987,205	-	1,211,011	5,198,216	3,418,938	-	991,205	4,410,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22 SEGMENTAL INFORMATION (continued)

Secondary segment information

The group operates in two geographic markets: Kuwait and Europe. The following table shows the distribution of the group's segment revenues, assets and capital expenditure.

	31 December 2005			31 December 2004		
	Kuwait KD	Europe KD	Total KD	Kuwait KD	Europe KD	Total KD
Revenue	21,286,654	12,490,955	33,777,609	22,004,363	12,160,880	34,165,243
Assets	153,933,026	63,130,435	217,063,461	165,541,499	54,028,658	219,570,157
Capital expenditure	6,967,036	607,937	7,574,973	15,388,294	5,379,441	20,767,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2005

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

In the ordinary course of business the group uses non-derivative financial instruments. The carrying values of variable rate short-term and long-term loans approximates their fair values because of the short- term repricing of interest rates. Fixed rate long term loans approximate their fair values because prevalent interest rates for similar loans are not significantly different from contractual rates. In the opinion of the parent company's management, carrying values of all other financial instruments are not significantly different from fair values except as noted in Notes 5 and 6.

24 RISK MANAGEMENT

Details of the group's principal risk exposures and how they are managed are as follows:

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 bank balances and cash and receivables. The group's bank balances are placed with high creditworthy financial institutions. The group's receivables are diversified across large number of customers thereby limiting credit risk exposure.

The group also controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties and assessing the creditworthiness of counterparties.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The group is exposed to market risk with respect to its investments.

The group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international equity and bond markets. In addition, the group actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

Interest rate risk

The group has significant financial liabilities that are subject to interest rate risk. Interest rate risk to the group is the risk of changes in market interest rates increasing the interest cost of its financial liabilities. The group limits interest rate risk by borrowing at variable interest rates with short repricing maturities and by monitoring changes in interest rates in the currencies in which its loans are denominated.

Currency risk

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

Currency risk principally arises from the group's exposure to investments in overseas markets and borrowings in foreign currency. The group seeks to limit its exposure by investing in US dollar denominated markets and otherwise by borrowing in currencies that approximately match its investments in non-US dollar denominated markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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24 RISK MANAGEMENT (continued)

The group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2005 KD Equivalent Long (short)	2004 KD Equivalent Long (short)
US Dollars	**5,569,599**	6,000,927
Japanese Yen	**(3,632,360)**	(4,791,762)
Euro	**(8,766,680)**	(11,512,652)
Pound Sterling	**418,857**	471,148

Liquidity risk
Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds, and borrowing lines are available to meet any commitments as they arise.

Equity price risk
Equity price risk arises from the change in the fair values of equity investments. The group's quoted equity investments are primarily listed on the Kuwait Stock Exchange.

25 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At the balance sheet date, the group had the following contingencies and capital commitments:

	2005 KD	2004 KD
Letters of guarantee	**24,702,310**	253,560
Uncalled capital of an unquoted investments	**1,518,777**	588,936
Construction project	**1,420,500**	4,840,906
	27,641,587	5,683,402

26 COMPARATIVE FIGURES
Certain comparative information has been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or equity.