شركة الصالحية العقارية ش.م.ك.
Salhia Real Estate Company K.S.C.

ANNUAL REPORT 2006

CONTENTS - ANNUAL REPORT 2006

HH SHEIKH
NAWAF AL-AHMAD AL-JABER AL-SABAH
Crown Prince of the State of Kuwait

HH SHEIKH
SABAH AL-AHMAD-JABER AL-SABAH
Amir of the State of Kuwait

HH SHEIKH
NASSER AL-MOHAMMAD AL-AHMAD
AL-JABER AL-SABAH
Prime Minister of the State of Kuwait


قاعة الراية
ARRAYA BALLROOM

Arraya Ballroom

Chairman's Message

In the Name of God, the Gracious, the Merciful

Dear Shareholders,

Year after year, being a member of Salhia Real Estate family brings me pride that grows as the achievements of the Company grow and as your support and investments with Salhia continue signaling your confidence that we all at the Company value and honor.

The conclusion of the year 2006 came as the Company celebrates an unprecedented rate of expansion on both the local and international levels. The company's name as of today is known to all professionals and investors in the real estate sector.

This expansion comes as a culmination to the efforts of the Company's team over several years reverting back to the year 2000. Of particular relevance here are the efforts directed towards facilitating the Al-Asima Project, one that we confidently anticipate will become a pride to our beloved country Kuwait. With the blessings of God and your continuous support, we've now secured all the permissions, licenses and other official processes for the project and expect to launch construction smoothly, away from any confusion or delay.

We have now established a new company, Al-Asima Real Estate Company, and signed an agreement with the National Bank of Kuwait, one of the most reputed financial institutions in the Middle East, to attract investors to fund 50% of Al-Asima Real Estate's capital, whilst the remaining 50% is owned by Salhia Real Estate. The overall cost of the Capital Project is estimated to be around KD 240 million encompassing the cost of land and buildings.

Consequently, during the 4th quarter of 2006, Salhia Real Estate Company sold its land located in Al-Sharq Area (sized at 21,414 sq. meters) to Al-Asima Real Estate Company realizing a profit of KD 98,113,228. However; in observation of International Accounting Standard No. 28 (pertaining to accountancy of investment in associated companies) and due to the fact that Salhia owns 50% of Al-Asima Real Estate's capital, 50% of this profit was deferred and hence only KD 9,050,614 is booked. Thus, the amount of KD 49,056,614 was listed in the financial tables of the company as deferred profits as indicated in Exhibit No. 14 in the attached financial data.

The balance sheet of the company for 2006 shows an investment of KD (zero) in the capital of Al-Asima Real Estate Company. However; Exhibit No. 14 offers an explanation for this. Clearly, this does not mean that the investment in Al-Asima Real Estate is zero, as the company owns 50% of Al-Asima's capital of KD 80 million as pointed out earlier.
Future revenue statements will reflect the company's share in the results realized by Al-Asima Real Estate Company and the change in ownership control once Al-Asima is operational.

The expansions we've successfully achieved at the international level are another source of pride for us. We've competed against six international construction companies to win the contract for the implementation of a major project in central London. Jointly with Key Property Investments (KPI), we have now been shortlisted as one of two companies to be contracted for constructing the giant project Elephant & Castle.

On the financial front, Salhia achieved profits amounting to KD 49 million, an increase of approximately 180% in comparison with the previous fiscal year. Earnings per share stood at 163.2 Fils compared to 57.9 Fils for the previous fiscal year. Total assets reached to KD 242 million with a return of approximately 20%. Shareholder equity grew to KD 135 million compared to KD 103 million for 2005, with a return on equity of 32%.

The Management of Salhia Real Estate company have a deep rooted belief that the team of employees at the Company are the real creator of wealth and the platform from which the Company launches to higher competitive positions. Therefore, securing the highest level of skill, knowledge, and ability and paving the way for excellence and creativity through modernizing work processes, hence technology, are among the higher priorities for Management.

As we pride ourselves with our achievements and as we, with no hesitation, adopt the most ambitious visions and strategies, we realize that this would not have been made a reality, had it not been for the increasing support and encouragement of the leader of our march His Highness the Amir, Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, His Highness the Crown Prince, Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, and His Highness the Prime Minister, Sheikh Nasser Al-Mohammed Al-Ahmed Al-Sabah.

Dear Shareholders,

With the passing away of our beloved Amir Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah, Kuwait and the world has lost a great man early in 2006. Under the leadership of the departed, we've created a platform of success that, God willing, shall not depart.

The confidence you've placed in the Board of Directors of the Company is the source of our ability and is the plateau on which we make decisions. Those decision that would not have been translated into success had it not been for the efforts of the Company's team, hence the excellent financial returns realized in 2006. With our appreciation and gratitude, I conclude.

Ghazi F. Alnafisi
Chairman and Managing Director

REPORT OF THE BOARD OF DIRECTORS

Board Of Directors

Ghazi Fahad Alnafisi
Chairman and Managing Director

Salah Fahad Al-Marzouk
Vice Chairman

Anwar Abdulaziz Al-Usaimi
Board Member and Deputy Managing Director

Ahmad Faisal Al-Zabin
Board Member

Hassan Abdullah Al-Mousa
Board Member

Abdulaziz Saud Al-Babtain
Board Member

Abdulaziz 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

Financial Results

Salhia Real Estate Company's Board of Directors are pleased to present shareholders with the Financial Performance Report for the year 2006. The Report includes a summary of the Company's financial performance during this year.

General Balance Sheet

The total assets of the Company grew to KD 242 million, an increase of 11.6% from the total assets recorded at the end of the preceding year at KD 217 million. Investment real estate and fixed assets decreased from KD 163 million in 2005 to KD 155 million at the end of 2006, a decrease of 4.9%.

The total liabilities decreased from KD 114.1 million in 2005 to KD 98.3 million for 2006, a decrease of 13.8%. Shareholders' equity increased from KD 102.9 million at the end of 2005 to KD 135 million at the end of 2006, an increase of 31%.

During the year and in the context of its annual fiscal reporting, the company engaged, recognized and accredited real estate valuation brokers and agents to survey and evaluate the Real Estate Portfolio it owns worldwide. This process encompassed all of the properties whether considered in accounting terminology Fixed Assets (Assets in Use) or Investment properties (Operating Assets) and included the whole Portfolio range from the owned properties of operating Hotel in Kuwait passing through the Health Care buildings in Germany up to and including the varied industrial estates owned in the United Kingdom.

The company adopts as part of its Accounting policies standards the "Cost method" of valuating its properties and as such the assets are recorded on the Balance Sheet are those costs actually incurred in the acquisition of these assets less any accumulated depreciation allowed on them as per applicable laws. The company found that as of December 31-2006 the following applied

K.D.	Book Value	Fair Market Value	Difference
Local Assets	KD 102,242,201	KD 298,608,148	KD 196,365,947
Foreign Assets	KD 53,526,172	KD 166,612,258	KD 113,086,086

Book value per share as per 2006 financial statements is = 482 fils
Fair market per share as per 2006 financial statements is =1,240 fils

The boom in business that has taken place in Germany had a positive effect on real estate value and management, notably as follows:

a) Although real estate value registers growth every year, the year 2005 was exceptional with an increase in the value of the Company's assets of almost 17.5 million Euros of the book value of these assets, while the increase achieved during the year 2006 exceeded 41.8 million Euros with an accumulation of over 59.3 million Euros of increased value over the book value of the very same properties.

b) A slight increase in property ownership was registered in Germany between the years 2004 and 2006 (percentage increasing from 78.8% to 83.06%, a 4.26% increase). This increase reflects the constant improvement in management that has achieved the highest level of security, safety, health, personal services and facilitation of healthcare services for residents.

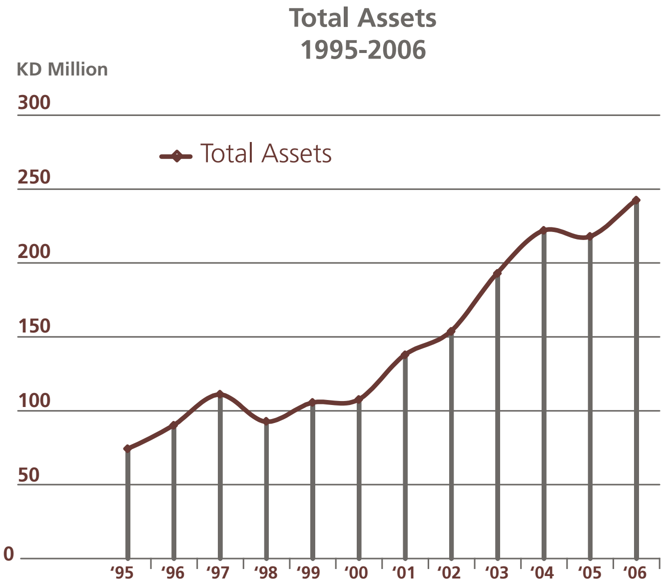
The joint venture in the United Kingdom is indicated in the financial statements under "Joint Venture Shares" which highlights all individual profit and loss in the statement in one budget line within the Company property records.

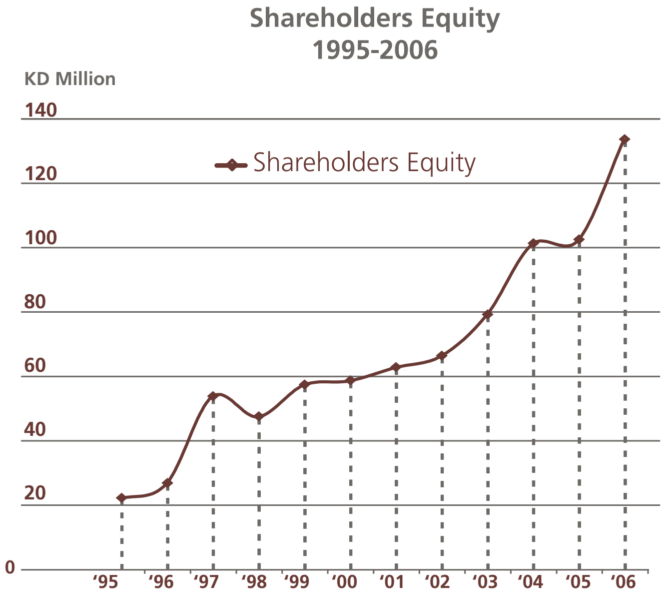
Consolidated revenue statement

The 2006 net profits have totaled KD 49 million with an increase of 180% compared to the total net profit achieved in 2005. The operational profits achieved by the Company for the current year are KD 20.3 million compared to KD 20.1 million achieved in 2005. The earnings per share registered for this year were 163.2 Fils compared to 57.9 Fils for 2005.

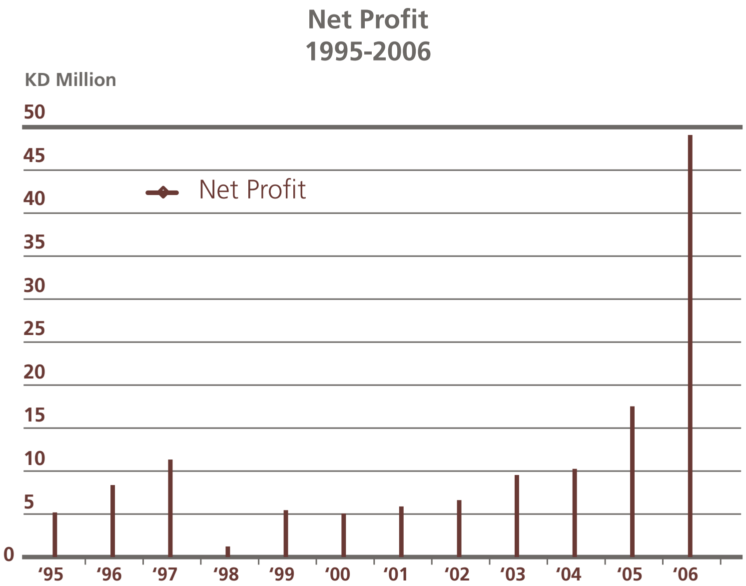
In light of these financial results, the Board of Directors recommended distributing financial dividends of 50 Fils per share and a 15% share grant.

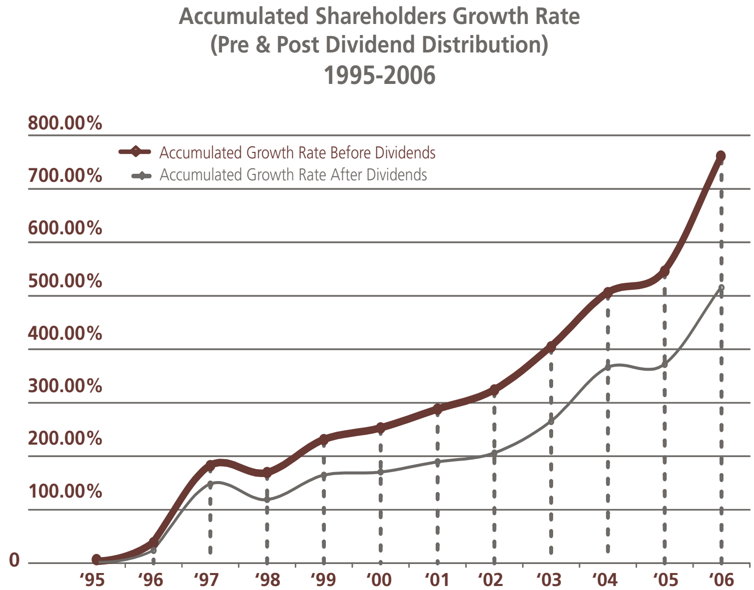
10 YEARS OF ACHIEVEMENTS





10 YEARS OF ACHIEVEMENTS





LOCAL INVESTMENTS:

Salhia Commercial Complex

Salhia Commercial Complex was established in 1978 and today hosts some of Kuwait's most prestigious stores that exhibit the world's most renowned brands and elite products. The upper floors of the Complex contain luxury office areas that are occupied by major commercial corporations and government agencies.

Salhia Real Estate Company is committed to maintaining the lead position Salhia Complex has had since its opening due to the exquisite taste that has gone into its construction and luxury finishing. During 2006, the Company invested in restoration works that contributed to maintaining the Complex's position as Kuwait's most luxurious mall.

New gates were installed in the outlets leading to the office areas in the upper floors and new lighting fixtures now beautify the ground and mezzanine levels of the Complex granting shoppers and visitors an unrivaled sense of luxury and comfort.

The new digital telephone system the Company installed in Salhia Complex and the fitting in of new elevators make the Complex an exemplary place for business and leisure shopping. These works are expected to be completed with the advent of the year 2008.

The year 2006 also signals 14 consecutive years of 100% occupancy rate at Salhia Complex. Coupled with the feedback received from tenants and visitors, this occupancy rate is proof of successful management of the Complex.

Salhia Car Park

Year after year, Kuwait City has to tolerate an ever increasing density of traffic and jams that block access to vital facilities around the City and makes finding parking spots a matter far from convenient. Early realization of the scale of the problem and progressing situation led Salhia Real Estate Company to undertake a substantial investment in the

Salhia Commercial Complex

construction of parking facilities catering to the needs and convenience of the visitors of Salhia Complex, Sahab Tower and Salhia Plaza with generous road width and ample parking space since 2003.

Approximately 450 vehicles can park in the new facilities at any one time. The facilities were equipped with the world's most advanced measures and highest quality standards were observed in the construction process. The smooth entry and exit, the escalators linking the different levels, and the prepaid magnet card sensors that facilitate the stream during rush hours all stand testimonial of the attention to detail paid with the implementation of this project.

Salhia Plaza

With the completion of the carpark facilities, the spacious area above provided a perfect strip for cafés and restaurants. Along with the landscaping and beautiful outdoor plants, the back pane of the plaza quickly became an attraction for visitors. The front pane will be ready to open shortly.

Sahab Tower

With 3 floors designated for commercial activities and a rise of 20 floors offering office space for rent, the Sahab Tower has been open since 1997 and has since been occupied by local and international firms that appreciate the Tower's magnificent view over Kuwait City, its location at the heart of the business city and benefiting from the neighboring facilities that are offered by Salhia Complex, Salhia Plaza and the lucrative Salhia Carpark.

The timely maintenance program and the investment in a digital telephone system the Company has made in Sahab Tower also contributed to a 100% occupancy rate of the Tower for the 8th consecutive year.

Sahab Tower

Arraya Commercial Centre

Arraya Commercial Centre is celebrated as another luxurious project built by Salhia Real Estate Company. It is a significant part of the improvement plans for modernizing Al-Shuhada street and consists of a variety of facilities including:

- A contemporary mall
- A four star hotel serving business and holiday visitors
- Offices occupied by a number of local and international firms
- Largest conference and celebration center
- A multiple-story carpark building

Arraya Mall

Arraya Commercial Complex (Mall) consists of 3 floors, designated for stores and a basement for the use of tenants.

The finest brands of jewelry, clothes, accessories and beauty products and renowned restaurants and cafés come together creating an atmosphere of luxury for in-style shopping and dining.

The Complex is connected to the rest of the Center through five gates that also allow access to the surrounding streets. Four points of access connect the mall to the carpark building comprising of air-conditioned bridges for the convenience and comfort of visitors. An occupancy rate of 100% for the 3rd consecutive year stands testimonial of the highest level of quality in construction and services the Company is committed to in all activities.

Arraya Offices

Renowned international and local firms always seek prime locations for their operations in the country. They also will not compromise access, quality of premises and services and the view on which their offices overlook. A clear understanding of this, and the other needs of these companies underlies the 100% occupancy rate of Arraya Offices located in the top seven floors of Arraya Tower.

Three state-of-the-art elevators link these floors and have been separated from the elevators serving the floors of the hotel to ensure availability at all times. The offices are all equipped with the latest information and communication technologies including a digital telephone system and wide access to the internet.

Arraya Car Park

A rise of 6 floors and a basement account for the total space of 8,000 square meters that can accommodate 1,400 cars at any one time, serving the visitors of Arraya Center and the surrounding commercial area.

Salhia Real Estate Company believes this investment in the car park building that is connected to the Center through comfort bridges, is one of the main contributors to the success of the Center and will play an even greater role in the success of phase two of Arraya Offices Tower project.

Arraya Tower

The Company was the first to benefit from the new rules and regulations adopted by the Kuwait Municipality whereas construction is allowed at the height of 100 floors. At the height of 60 floors, Arraya Tower will be one of Kuwait's highest buildings on a spread of 1,058 square meters. Close attention is paid to the needs and requirements of modern offices including fittings that allow for the latest information and communication technology to be installed in the building when ready. Sixteen elevators will also be installed to ensure the highest level of availability at all times and easy mobility between the Tower's floors. An advanced security system will connect all parts of the Tower to ensure the safety and comfort of visitors.

With construction progressing as planned, 25 floors of the Tower have been constructed and stand 110 meters tall. The tower is expected to be completed by the end of 2008.

Arraya Commercial Centre

Kuwait Marriott Hotels

In harmony with the international measures adopted by Marriott Hotels, Kuwait Marriott Hotels developed several projects during 2006 such as the new family program applied at the JW Marriott and the Courtyard Marriott Hotel. Meeting and activity facilities and their relevant amenities at the JW Marriott were expanded to offer more choices for meeting planners and formal delegations. Executive rooms are now equipped with integrated comfort equipment and the executive halls' furniture and fixtures as well as the elite health club were all updated.

Arraya Hall maintained its position as the most luxurious hall for celebrations and formal activities in the country. The hall successfully hosted the NATO conference, one of the largest activities ever to take place in Kuwait.

The Courtyard Marriott continues to be a primary attraction for visiting professionals and families. The location of the Hotel, the luxury and exceptional service levels, along with very reasonable pricing made the Hotel the ideal place for both business and social activities and functions.

The JW Marriott on the other hand continues to be the hotel of preference for visitors and activities requiring the highest levels of luxury and personal treatment. Located at the heart of the Kuwait City, all business functions are just minutes away.

Super Block Project

At a distinct location overlooking Fahad Al-Salem street, a number of aging buildings have been torn down and a spread of land estimated at 3,605 square meters was cleared and prepared for construction. Salhia Real Estate Company contracted a prestigious international firm to design this building which is anticipated to be yet another landmark in Kuwait.

The Super Block Project consists of two main parts. The first of which will host a group of stores and an office tower, while the second will be a multiple story building for cars. The surrounding will also be reorganized and beautified with exquisite landscaping.

Al-Asima Project

Resuming the trend, Salhia Real Estate Company took the lead in revitalizing the construction movement in the country that is necessary to escort the exponential growth in the country's economy and commercial activity.

The Company is currently developing Al-Asima project which will be built on 21,414 square meters of land with a primary location in Al-Sharq area that is surrounded by 4 streets, 2 of which are main roads: Abdulaziz Al-Sager street and Khaled Bin Al-Waleed street.

The Project will be one of the largest construction projects ever undertaken by the private sector. A mega-project that will not only be an insertion of beauty, but will also host the largest diversity of facilities, including:

- Commercial mall spreading over the entire land of the project.
- Carpark consisting of 3 basement levels that, too, spread over the entire land of the project.
- Cafés, restaurants and cinemas.
- Four-star hotel apartments, multiple-function halls and a healthclub.
- A 70-floor tower with each floor spanning from 1,400 to 1,600 square meters of office space.
- Landscaping and internal plaza.

Some of the world's leading specialized firms are contracted to design this project in harmony with the needs of the country and the necessities of the latest technology solutions used in business.

With the completion of the preliminary design, and the attainment of the necessary permits and paperwork, implementation began with prep works including digging and installing supports. These works are expected to be completed by June.

This giant project requires a commensurate large investment. Salhia Real Estate Company has therefore signed an agreement with the National Bank of Kuwait whereas the latter establishes and markets the public offering of 50% of Al-Asima Real Estate Company's capital (KD 40 million) the remaining 50% (KD 40 million) of the Company's capital is owned by Salhia Real Estate Company. The Bank has now completed the public offering and all shares have been successfully marketed.

Salhia Real Estate Company has successfully completed the sale of the project land to Al-Asima Real Estate Company realizing a profit of KD 49.05 million and receiving cash revenue of KD 75 million.

Al-Asima Project

Arraya Mall

Foreign Investments:

KPI

KPI, the joint venture between Salhia Real Estate Co. KSC and St Modwen Properties PLC now has an established property portfolio with a range of income producing investments, refurbishment and redevelopment opportunities.

The properties include shopping centres, offices and industrial sites throughout the UK with a number of industrial properties being subject to potential change of use to higher values through the planning process and development.

The strategy remains to improve income through development and asset management and dispose of properties when income and value have been maximised.

There are some very significant and exciting projects in the pipeline. The largest is Elephant and Castle, the proposed regeneration of a 40 acre central London area owned largely by the local authority, Southwark Borough Council, and KPI. Following an extensive 3 phase selection process, KPI is one of two potential joint venture partners to Southwark Borough Council to master plan and manage the future redevelopment of this site. A decision is expected imminently. The scheme, on completion is to be worth in excess of £1.5 billion pounds, will include retail, hotel, offices and residential accommodation. This project will be phased over 10 years, starting in around 2010.

Planning permission has also been obtained for the redevelopment of Farnborough town centre. Subject to concluding legal negotiations with the Council, construction is due to start towards the end of 2007 and the scheme will include retail, a hotel, residential and leisure uses. A major cinema and restaurant development is also proposed for a site adjoining KPI's landholding which will commence on site in approximately 1 year's time following receipt of a revised planning permission.

A number of other development opportunities, including land at Rugby, are being realised and will either be sold (residential developments) or started when appropriate.

£	Book Value	Fair Market Valuation	Difference
Total Assets	£ 155,768,373	£ 465,220,406	£ 309,452,034
Total Shareholders Assets	£ 133,195,115	£ 372,995,741	£ 242,800,626

Drawbridge Securities Limited

Drawbridge Securities Limited was established to acquire options for land acquisitions and to maximize value through planning negotiations and consent. The company currently has three principal projects within the portfolio.

The four storey building specification office building in Southampton held in a joint venture with Deeley Properties, was commenced yearly in 2006 and is due for completion in May 2007. The construction finance has been provided by Lloyds bank.

Three of the four floors of the project are under offer to a major UK tenant and the remaining (3rd floor) expected to be let soon.

Phase 1 of the project in Widnes has been acquired, following obtaining planning permission and the subsequent exercising of the option and Phase 2 is due to be completed soon. The proposed strategy is to let the buildings on short term arrangements while discussions are held with major logistics operators who are very interested in the intermodal capacity for the road/rail links offered by the project. These negotiations will lead to a joint venture or sale.

Options on land at Peterborough have been acquired and negotiations are at an advanced stage with the UK's major distribution developers over joint-venturing the scheme and taking it forward to completion. On completion of the joint venture, all equity committed will be have re-reimbursed with profit shares to follow. This is expected to be completed within the next two months.

A variety of new projects are also being considered to complement the existing projects and these are at various early stages of progress.

Elephant and Castle

Haddia Holding

Haddia Holding and its subsidiaries continued in 2006 the consolidation period set by the board and the management. This consolidation period became necessary after the significant expansion of the company. The goals for 2006 have been to sustain and enhance the occupancy rates and to further develop the management structure. This included changes in process as well as in part of the management itself in order to deal with the changes of the market.

The focus on these issues are set to lead to better occupancy rates. The introduction of new products and services, along with the continuous development in quality standards, were major factors in enhancing and maintaining over the long term a higher occupancy rate. One of the main services introduced in 2006 was the " mobile nursing" or nursing at home. This service is not new to the market but introducing it along with Senior Residences and the stationed nursing home services was new. The licensing process for the "nursing at home" took longer than had been expected, leading to a delay in launching this service. Therefore, it is expected that more combined services will be fully operational in 2007. An additional service that was introduced to our clients was the "wellness and cosmetics" facility. The standard cosmetic service previously provided was improved to include more "wellness" elements, making it an exciting experience for both our tenants and their visitors.

All these new services were initiated during a weak market to make our properties more competitive.
This has helped occupancy rates increase throughout the year.

Non-Real Estate Investments

As of the end of the year, the company's non-real estate investment portfolio, mainly private equities, stood at over KD10M, with an average vintage of 5 years. As a part of a new strategy going into effect beginning 2007, Salhia has redeemed a few of its private equity investments, namely; Weather Investments S.P.A. and Hilding Andres.

In a shift from the previous years, the parameters of this new investment philosophy will be yield enhancing, full or partial capital guaranteed, liquid assets which are projected to generate healthy returns.

Information Systems Department

Salhia Real Estate Company's Information Systems Department is where daily interaction between man and machine takes place to facilitate and cover the needs of the Company. A team of highly qualified individuals with state-of-the-art technologies at their disposal, contribute chiefly to our current needs and future aspirations.

The Department has put out a Request for Proposal that includes the specifications of the communications network to be installed in the new Arraya Tower, which will be equipped with the latest technology, making it a very 'smart building'.

The infrastructure for Salhia Commercial Complex and the Al-Sahab Towers' communications network has also been upgraded and can now offer users more diversity of electronic and digital services.

The Department is currently studying the technological services needs for the new Al-Asima Project.

Human Resources Department

Salhia Real Estate Company is committed to projects that are truly different. Expansion plans adopted by the Company are not restricted by any borders, and growth not limited by any heights.

The Company's Board of Directors' awareness that this can only be achieved by the finest of professionals has led to no effort being spared in the selection, induction, and constant development of team members. The Company ensures staff members are equipped with the latest knowledge and skills through participation in reputable local and international training programs.

The Senior Management of the Company are constantly looking into streamlining processes and adopting management systems that make the Company more flexible and provides incentive to members at all levels to innovate. Through this, the Company's position is created and sustainable profits are generated.

The Company's team at the end of 2006 comprised of 250 members.

Executive Management

Anwar Abdulaziz Al-Usaimi
Deputy Managing Director

Abdulaziz Ghazi Alnafisi
Investment Group Head

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

Ali Mohammed Al-Hamdan
Corporate Affairs Group Head

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

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

Nasser Bader Al-Ghanim
Senior Foreign Investment Manager

Eng. Kifah Georges
Construction Department Manager

Abdul Nasser Al-Turkait
I.T. Manager

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

Eng. Bader Khalifah Al-Adsani
Manager of Real Estate Dept.


Neustadt Nursing Home
and Senior Residence

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED)

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

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED) (continued)

Opinion

In our opinion, the consolidated financial statements present fairly the financial position of the group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Matters

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 parent company's 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 parent company's articles of association have occurred during the year ended 31 December 2006 that might have had a material effect on the business of the parent company 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

12 March 2007

Kuwait

Salhia Real Estate Company K.S.C. (Closed) and Subsidiaries
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2006

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

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	**2006 KD**	2005 KD
Revenues		**36,503,370**	33,777,609
Operating costs		**(16,179,798)**	(13,667,315)
Gross profit		**20,323,572**	20,110,294
Share in joint venture's results	8	**1,667,576**	1,497,748
General and administrative expenses		**(5,322,741)**	(5,204,004)
Depreciation		**(5,200,448)**	(5,198,216)
Sales and marketing expenses		**(986,940)**	(2,140,232)
Investment income	3	**884,544**	11,467,025
Gain on sale of properties	14	**49,056,614**	4,911,750
Foreign exchange gain		**30,282**	286,233
Interest income		**131,375**	69,011
Other income		**285,219**	101,764
Provision for impairment		**(200,000)**	(123,105)
Finance costs		**(8,846,378)**	(7,144,652)
Profit before tax		**51,822,675**	18,633,616
Foreign tax		**(971,917)**	(455,854)
PROFIT BEFORE CONTRIBUTION TO KFAS, NLST AND DIRECTORS' FEES		**50,850,758**	18,177,762
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**(457,657)**	(163,985)
National Labour Support tax (NLST)		**(1,271,269)**	(403,114)
Directors' fees		**(165,000)**	(110,000)
PROFIT FOR THE YEAR		**48,956,832**	17,500,663
Attributable to:			
Equity holders of the parent company		**49,030,836**	17,543,488
Minority interest		**(74,004)**	(42,825)
		48,956,832	17,500,663
Basic and diluted earnings per share attributable to equity holders of the parent company	4	**163.2 fils**	57.9 fils

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

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

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 KD	2005 KD
ASSETS			
Cash and bank balances	19	**2,458,249**	2,540,085
Fixed deposits	19	**20,000,000**	-
Inventories		**462,308**	430,222
Accounts receivable and other assets	5	**8,369,777**	7,107,680
Available for sale investments	6	**36,819,030**	28,098,958
Investment in associate	14	**-**	-
Investment in joint venture	8	**18,575,195**	15,446,824
Investment properties	9	**51,812,449**	64,158,563
Property, plant and equipment	10	**103,955,924**	99,281,129
TOTAL ASSETS		**242,452,932**	217,063,461
LIABILITIES, DEFERRED GAIN AND TOTAL EQUITY			
LIABILITIES			
Due to banks	11	**6,925,347**	19,477,462
Accounts payable and other liabilities	12	**11,559,613**	10,769,952
Long-term loans	13	**79,875,419**	83,910,926
TOTAL LIABILITIES		**98,360,379**	114,158,340
DEFERRED GAIN	14	**9,056,614**	-
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	15	**31,492,370**	31,492,370
Share premium		**27,524,906**	27,524,906
Treasury shares	16	**(9,439,596)**	(8,745,531)
Treasury shares reserve		**994,242**	994,242
Statutory reserve	17	**15,035,055**	9,942,579
Voluntary reserve	17	**15,035,055**	9,942,579
General reserve		**4,250,000**	4,250,000
Foreign currency translation reserve		**3,376,005**	1,897,798
Cumulative changes in fair value	18	**(2,695,527)**	(66,452)
Retained earnings		**48,537,767**	24,732,713
		134,110,277	101,965,204
Minority interest		**925,662**	939,917
TOTAL EQUITY		**135,035,939**	102,905,121
TOTAL LIABILITIES, DEFERRED GAIN AND TOTAL EQUITY		**242,452,932**	217,063,461

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 STATEMENT OF CASH FLOWS
Year ended 31 December 2006

	Note	2006 KD	2005 KD
OPERATING ACTIVITIES			
Profit for the year		**50,850,758**	18,177,762
Adjustments for:			
Share in joint venture's results net of tax		**(789,228)**	(907,759)
Depreciation		**5,200,448**	5,198,216
Provision for employees' terminal benefits		**284,084**	738,247
Investment income		**(884,544)**	(11,467,025)
Gain on sale of properties		**(49,056,614)**	(4,911,750)
Foreign exchange gain		**(30,282)**	(286,233)
Interest income		**(131,375)**	(69,011)
Finance costs		**8,846,378**	7,144,652
Provision for impairment		**200,000**	123,105
		14,489,625	13,740,204
Working capital changes			
Inventories		**(32,086)**	(21,067)
Accounts receivable and other assets		**(2,431,815)**	(396,292)
Accounts payable and other liabilities		**142,823**	540,579
Cash from operations		**12,168,547**	13,863,424
Employees' terminal benefits paid		**(189,666)**	(375,012)
KFAS paid		**(403,114)**	(95,943)
Provision for national labour support tax paid		**(163,985)**	(235,534)
Directors' fees paid		**(110,000)**	(77,000)
Net cash from operating activities		**11,301,782**	13,079,935
INVESTING ACTIVITIES			
Purchase of available for sale investments		**(20,457,131)**	(24,987,338)
Proceeds from sale of investments		**9,254,178**	28,031,917
Additions to investment properties and properties, plant and equipment		**(16,138,861)**	(7,650,921)
Proceeds from sale of investment properties and fixed assets		**115,257,366**	7,543,449
Additions to investment in associate		**(39,000,000)**	-
Dividend income received		**738,350**	1,032,355
Dividend received from joint venture		**-**	855,000
Interest income received		**131,375**	69,011
Net cash from investing activities		**49,785,277**	4,893,473
FINANCING ACTIVITIES			
Purchase of treasury shares		**(694,065)**	(10,113,635)
Sale of treasury shares		**-**	5,141,659
Loans repaid		**(4,035,507)**	(9,585,413)
Finance costs paid		**(8,846,378)**	(7,233,375)
Dividends paid		**(15,040,830)**	(7,609,211)
Net cash used in financing activities		**(28,616,780)**	(29,399,975)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**32,470,279**	(11,426,567)
Cash and cash equivalents at the beginning of the year		**(16,937,377)**	(5,510,810)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	19	**15,532,902**	(16,937,377)

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	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*
At 1 January 2006	31,492,370	27,524,906	(8,745,531)	994,242	9,942,579	9,942,579	4,250,000
Net movement in cumulative change in fair values (Note 18)	-	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-
Net income (expense) recognised directly in equity	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-
Total recognised income and (expense) for the year	-	-	-	-	-	-	-
Cash dividend distributed	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	(694,065)	-	-	-	-
Transfer to reserves	-	-	-	-	5,092,476	5,092,476	-
At 31 December 2006	**31,492,370**	**27,524,906**	**(9,439,596)**	**994,242**	**15,035,055**	**15,035,055**	**4,250,000**
At 1 January 2005	31,492,370	27,524,906	(2,779,313)	-	8,120,520	8,120,520	4,250,000
Net movement in cumulative change in fair values (Note 18)	-	-	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-
Gain on sale of treasury shares				994,242	-	-	-
Net (expense) income recognised directly in equity	-	-	-	994,242	-	-	-
Net profit for the year	-	-	-	-	-	-	-
Total recognised (expense) and income for the year	-	-	-	994,242	-	-	-
Cash dividend distributed	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	(10,113,635)	-	-	-	-
Sale of treasury shares	-	-	4,147,417		-	-	-
Transfer to reserves	-	-	-	-	1,822,059	1,822,059	-
At 31 December 2005	31,492,370	27,524,906	(8,745,531)	994,242	9,942,579	9,942,579	4,250,000

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the parent company					
	Foreign currency translation reserve KD	*Cumulative change in fair values KD*	*Retained earnings KD*	*Subtotal KD*	*Minority interest KD*	*Total equity KD*
At 1 January 2006	1,897,798	(66,452)	24,732,713	101,965,204	939,917	102,905,121
Net movement in cumulative change in fair values (Note 18)	-	(2,629,075)	-	(2,629,075)	-	(2,629,075)
Foreign currency translation adjustments	1,478,207	-	-	1,478,207	59,749	1,537,956
Net income (expense) recognised directly in equity	1,478,207	(2,629,075)	-	(1,150,868)	59,749	(1,091,119)
Profit for the year	-	-	49,030,836	49,030,836	(74,004)	48,956,832
Total recognised income and (expense) for the year	1,478,207	(2,629,075)	49,030,836	47,879,968	(14,255)	47,865,713
Cash dividend distributed	-	-	(15,040,830)	(15,040,830)	-	(15,040,830)
Purchase of treasury shares	-	-	-	(694,065)	-	(694,065)
Transfer to reserves	-	-	(10,184,952)	-	-	-
At 31 December 2006	**3,376,005**	**(2,695,527)**	**48,537,767**	**134,110,277**	**925,662**	**135,035,939**
At 1 January 2005	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 18)	-	(1,044,034)	-	(1,044,034)	-	(1,044,034)
Foreign currency translation adjustment	(2,739,172)	-	-	(2,739,172)	48,173	(2,690,999)
Gain on sale of treasury shares	-	-	-	994,242	-	994,242
Net (expense) income recognised directly in equity	(2,739,172)	(1,044,034)	-	(2,788,964)	48,173	(2,740,791)
Net profit for the year	-	-	17,543,488	17,543,488	(42,825)	17,500,663
Total recognised (expense) and income for the year	(2,739,172)	(1,044,034)	17,543,488	14,754,524	5,348	14,759,872
Cash dividend distributed	-	-	(7,617,540)	(7,617,540)	-	(7,617,540)
Purchase of treasury shares	-	-	-	(10,113,635)	-	(10,113,635)
Sale of treasury shares	-	-	-	4,147,417	-	4,147,417
Transfer to reserves	-	-	(3,644,118)	-	-	-
At 31 December 2005	1,897,798	(66,452)	24,732,713	101,965,204	939,917	102,905,121

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

1- ACTIVITIES

The consolidated financial statements of Salhia Real Estate Company K.S.C. (Closed) (the parent company) and Subsidiaries (the group) for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the parent company's Board of Directors on 12 March 2007. The general assembly of the equity holders of the parent company has the power to amend these consolidated financial statements after issuance.

The parent company is a Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. The group's 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.

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

2- SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

The accounting policies used in the preparation for the consolidated financial statements are consistent with those used in the previous year except for the policy adopted in respect of the investment in associate discussed below.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the parent company and its subsidiaries, set out in Note 7, for the year ended 31 December 2006.

Some of the consolidated subsidiaries use accounting policies other than that adopted in the consolidated financial statements for certain transactions and assets. Appropriate adjustments are made to their financial statements when used in preparing the consolidated financial statements to bring these in line with group accounting policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

The financial statements of the subsidiaries are prepared within three months of the reporting period of the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The financial statements of the subsidiary companies are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Minority interest represents the portion of profit or loss and net assets not held by the group and is presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent company's shareholders' equity. Acquisition of minority interest is accounted for using the parent company extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognised directly in the consolidated income statement in the year of acquisition.

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, fixed deposits maturing within three months from the balance sheet date net of due to banks.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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 is de-recognised either when the contractual rights to cash flows from the financial asset expire, 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, but 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. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

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.

Available for sale investments
After initial recognition at cost, being the fair value of the consideration given including acquisition charges associated with the investment, available for sale 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.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and the fair value estimates.

Underlying the definitions of fair value is the presumption that the group is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms.

Available for sale investments

For investments that actively 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 recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

Other financial assets and liabilities

For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or a group of assets 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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for equity instruments classified as available for sale, reversals of impairment losses are recognised in the consolidated income statement to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Reversals in respect of equity instruments classified as available for sale are recognised in the fair value reserve.

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.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts.
An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Investment in joint venture

The group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

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 investment has been impaired or the impairment losses recognised in prior years no longer exists.

Investment in associate

An associate is an entity over which the group exerts significant influence. Investment in associates is accounted for under the equity method of accounting.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associate (continued)
Under the equity method, the investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of the associate's equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The group recognises in the consolidated income statement its share of the total recognised profit or loss of the associate from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate arising from changes in the associate's equity. The group's share of those changes is recognised directly in equity; fair value reserve or foreign currency translation reserve as appropriate.

Unrealised gains on transactions with associate are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The associate's financial statements are prepared to the parent company's reporting date. Where practicable, adjustments are made to the associate's audited financial statements to bring them in line with group accounting policies.

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.

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

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment
Property, plant and equipment are stated at depreciated cost less impairment in value. Freehold land is not depreciated. Depreciation is provided on a straight line basis 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.

Impairment of non-financial assets
The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. 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 (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. After such reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

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.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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 currency translation
The consolidated financial statements are presented in Kuwaiti Dinars, which is the parent company's functional and presentational currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to general and administrative expenses in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Group companies
As at the reporting date, the assets and liabilities of foreign subsidiaries translated into the parent company's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated income statement.

On equity accounting, the carrying values of the associate and joint venture are translated into the parent company's presentation currency at the period end rates of exchange and the results of the associate and joint venture are translated into Kuwaiti dinars at the average rates of exchange for the year. All foreign exchange translation adjustments are taken to the foreign exchange translation reserve until disposal at which time they are recognised in the consolidated income statement.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The group classifies property as property under development if it is acquired with the intention of development. Properties under development are classified under capital work in progress within property, plant and equipment.

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.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements (continued)

Impairment of receivables

An estimate of the collectible amount of receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

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;
- an earnings multiple or industry specific earnings multiple;
- 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

	2006	*2005*
	KD	*KD*
Gain on sale of investments	**146,194**	10,434,670
Dividend income	**738,350**	1,032,355
	884,544	11,467,025

4 -BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic and diluted earnings per share attributable to equity holders of the parent company is computed by dividing the 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).

	2006	*2005*
Profit for the year attributable to equity holders of the parent company (KD)	**49,030,836**	17,543,488
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	**300,523,330**	303,217,617
Basic and diluted earnings per share attributable to equity holders ofthe parent company	**163.2 fils**	57.9 fils

5- ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2006	*2005*
	KD	*KD*
Hotel guests and care home residents receivables	**2,436,208**	2,357,520
Rent receivable	**343,269**	176,549
Due from related parties (Note 20)	**2,247,075**	613,966
Staff receivables (Note 20)	**1,217,782**	1,659,654
Deposits and prepaid expenses	**515,059**	439,258
Advance payments to contractors	**1,172,550**	67,032
Other receivables	**437,834**	1,793,701
	8,369,777	7,107,680

Due from related parties include an amount of KD 443,502 (2005: KD 404,028) 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% (2005: 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- AVAILABLE FOR SALE INVESTMENTS

	2006	*2005*
	KD	*KD*
Managed portfolios	**10,895,113**	8,881,290
Managed funds	**7,070,599**	7,274,249
Unquoted funds	**2,568,500**	2,258,000
Unquoted securities	**16,284,818**	9,685,419
	36,819,030	28,098,958

	2006	*2005*
	KD	*KD*
Local	**20,093,919**	18,277,896
Foreign	**16,725,111**	9,821,062
	36,819,030	28,098,958

Unquoted funds and securities amounting to KD 18,853,318 (2005: KD 11,943,419) 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 investments.

7- SUBSIDIARIES

Details of subsidiaries are set out below:

Name of the company	*Percentage of ownership*		*Country of incorporation*	*Principal activity*
	2006	*2005*		
Haddia Holding GMBH	89.72%	89.72%	Germany	Holding company
SAREC GMBH	89.72%	89.72%	Germany	Leasing of properties
Dana GMBH	89.72%	89.72%	Germany	Care home operator
Dana ambulante GMBH	89.72%	89.72%	Germany	Care home service provider
Gredo GMBH	89.72%	89.72%	Germany	Care home catering service provider
Drawbridge Securities Limited	50.00%	50.00%	United Kingdom	Property development
Bunyan Al-Salhia Project Management Company W.L.L.	100%	-	Kuwait	Project management

During the year, the parent company established a local subsidiary, Bunyan Al-Salhia Project Management Company W.L.L., with a capital of KD 100,000.

8- INVESTMENT IN JOINT VENTURE

This represent the group's 50% (2005: 50%) interest in a United Kingdom based joint venture entity, Key Property Investments, engaged in real estate leasing and development.

	2006	*2005*
	KD	*KD*
Carrying amount of the investment in the joint venture:		
At 1 January	**15,446,824**	17,188,349
Dividend received	**-**	(855,000)
Share in the joint venture's results net of tax of KD 878,348 (2005: KD 589,989)	**789,228**	907,759
Foreign currency translation adjustment	**2,339,143**	(1,794,284)
At 31 December	**18,575,195**	15,446,824
Share of joint venture entity's assets and liabilities:		
Current assets	**2,694,390**	7,345,680
Long-term assets	**70,390,190**	56,030,690
Current liabilities	**1,215,525**	958,088
Long-term liabilities	**53,293,860**	46,971,458
Share of joint venture entity's revenue and expenses:		
Revenues	**6,968,268**	6,193,479
Expenses	**6,179,040**	5,285,720

9- INVESTMENT PROPERTIES

	Freehold land KD	*Buildings KD*	*Total KD*
Balance at 1 January 2006	27,915,669	36,242,894	64,158,563
Additions	-	209,305	209,305
Transfer to property, plant and equipment	(4,794,450)	(6,261,390)	(11,055,840)
Depreciation for the year	-	(1,499,579)	(1,499,579)
Balance at 31 December 2006	**23,121,219**	**28,691,230**	**51,812,449**
Cost	23,121,219	41,040,233	64,161,452
Accumulated depreciation	-	(12,349,003)	(12,349,003)
Balance at 31 December 2006	**23,121,219**	**28,691,230**	**51,812,449**

Freehold land and buildings with a carrying value of KD 14,717,963 (2005: KD 15,273,297) is mortgaged against certain bank loans (Note 13).

The fair value of the investment properties amounted to KD 231,779,178 at the balance sheet date (2005: KD 215,773,567). 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.

10- PROPERTY, PLANT AND EQUIPMENT

	Freehold land KD	*Buildings KD*	*Furniture and equipment KD*	*Motor vehicles KD*	*Capital work in progress KD*	*Total KD*
Balance at 1 January 2006	20,953,244	67,542,850	6,265,540	105,743	4,413,752	99,281,129
Additions	-	63,592	631,339	53,924	15,180,701	15,929,556
Disposals	(16,536,771)	-	(204,171)	-	(403,196)	(17,144,138)
Transfers from capital work in progress and investment properties	4,567,975	445,695	8,641,533	538	(2,599,901)	11,055,840
Depreciation for the year	-	(1,547,671)	(2,109,726)	(43,472)	-	(3,700,869)
Foreign currency translation adjustment	(211,715)	(1,412,942)	(56,130)	-	215,193	(1,465,594)
Balance at 31 December 2006	**8,772,733**	**65,091,524**	**13,168,385**	**116,733**	**16,806,549**	**103,955,924**
Cost	8,772,733	81,281,049	27,584,870	376,366	16,806,549	134,821,567
Accumulated depreciation	-	(16,189,525)	(14,416,485)	(259,633)	-	(30,865,643)
Net carrying amount at 31 December 2006	**8,772,733**	**65,091,524**	**13,168,385**	**116,733**	**16,806,549**	**103,955,924**

During the year, the parent company sold a plot of land to its associate and recorded a gain of KD 49,056,614 (Note 14).

Freehold land and buildings with a carrying value of KD 18,187,127 (2005: KD 18,390,587) are mortgaged against certain loans (Note 13).

11- DUE TO BANKS

Due to banks represent bank overdrafts and are subject to effective interest rates ranging from 7.75% to 8.25% per annum (2005: 7.5% to 8.5% per annum).

12- ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2006	*2005*
	KD	*KD*
Accounts payable	**1,524,660**	1,931,279
Retentions payable	**57,535**	1,126,699
Accrued expenses	**2,480,300**	1,330,137
Deposits from tenants, hotel and care home guests	**2,166,173**	1,301,155
Rents received in advance	**732,615**	374,882
Employees' terminal benefits	**1,988,998**	1,704,914
Provisions	**133,071**	103,700
Kuwait Foundation for the Advancement of Sciences	**457,657**	163,985
National Labour Support Tax	**1,271,269**	403,114
Directors fees	**165,000**	110,000
Other payables	**582,335**	2,220,087
	11,559,613	10,769,952

13- LONG-TERM LOANS

Long-term loans are denominated in the following currencies:

	2006 KD	*2005 KD*
Kuwaiti Dinars	**34,100,000**	41,746,250
Euro	**35,963,919**	38,532,676
Japanese Yen	**2,695,000**	2,750,000
US Dollars	**-**	882,000
Pound sterling	**7,116,500**	-
	79,875,419	83,910,926

The loans are due for repayment as follows:

	2006 KD	*2005 KD*
Installments payable within one year	**10,414,841**	9,806,721
Installments payable within one year to two years	**11,035,812**	10,450,492
Installments payable within two years to three years	**10,860,543**	11,079,905
Installments payable within three years to four years	**8,351,989**	10,914,085
Installments payable after four years	**39,212,234**	41,659,723
	79,875,419	83,910,926

The loans are repayable in equal periodic installments over variable periods of time with maturities extending to 31 December 2015.

13- LONG-TERM LOANS (continued)

The Kuwaiti Dinar loans carry variable interest rates, which range from 1% to 2% per annum (2005: 1% to 2% 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 1.75% per annum (2005: 1.5% to 2.5% 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 79,875,419 (2005: KD 83,910,926) are secured by investment properties with a carrying value of KD 14,717,963 (2005: KD 15,273,297) and fixed assets with a carrying value of KD 18,187,127 (2005: KD 18,390,587) owned by the group. Of these, bank loans amounting to KD 34,238,029 (2005: KD 36,894,326) 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 four 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- INVESTMENT IN ASSOCIATE / DEFERRED GAIN

	2006 *KD*
Investment in associate	**40,000,000**
Elimination of gain on sale of real estate asset	**(49,056,614)**
Deferred gain	**(9,056,614)**

During the year, the parent company increased the share capital of a recently established, inactive wholly owned subsidiary, Al-Asima Real Estate Company K.S.C. from KD 1,000,000 to KD 80,000,000 resulting in the dilution of the parent company's equity interest to 50% and loss of control. Accordingly, the investment has been classified as an associate.

Subsequently, the parent company sold a real estate asset with a carrying value of KD 16,536,771 to its associate resulting in a gain of KD 98,113,228 of which the parent company recorded KD 49,056,614 after eliminating the share of the gain attributable to its interest in the associate's equity. The excess of the gain over the cost of the investment in the associate has been accounted for as deferred gain and will be offset against future increases in the carrying value of the associate until the deferred gain is fully utilised.

	2006 *KD*
Share of associates' assets and liabilities:	
Assets	**58,938,342**
Liabilities	**(18,938,342)**
Net assets	**40,000,000**
Adjustment to properties under development	**(49,056,614)**
Net assets after adjustment	**(9,056,614)**

Since the associate is a recently formed company, the fair value of this associate is not materially different from the carrying value.

15- SHARE CAPITAL

As at 31 December 2006, the parent company's authrised, issued and fully paid share capital consist of 314,923,698 shares of 100 fils each (2005: 314,923,698 shares of 100 fils each).

16- TREASURY SHARES

At 31 December 2006, the parent company held 15,137,108 of its own shares (2005: 13,972,108), equivalent to 4.8% (2005: 4.4%) of the total issued share capital at that date. The market value of these shares at the balance sheet date was KD 8,476,780 (2005: KD 10,758,523). Reserves of the parent company equivalent to the cost of the treasury shares have been ear-marked as non distributable.

17- 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 before contribution to KFAS, NLST and directors fees 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 before contribution to KFAS, NLST and directors fees is transferred to voluntary reserve. Such transfer may discontinue by a resolution at the General Assembly.

18- CUMULATIVE CHANGES IN FAIR VALUE

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

	2006 ***KD***	*2005* *KD*
Balance at 1 January	**(66,452)**	977,582
Realised gain on sale during the year	**-**	(987,971)
Change in fair value during the year	**(2,629,075)**	(56,063)
Balance at 31 December	**(2,695,527)**	(66,452)

19- CASH AND CASH EQUIVALENTS

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

	2006 KD	*2005 KD*
Cash and bank balances	**2,458,249**	2,540,085
Fixed deposits	**20,000,000**	-
Due to banks	**(6,925,347)**	(19,477,462)
Cash and cash equivalents	**15,532,902**	(16,937,377)

Fixed deposits are placed with local banks and yield an effective interest rate of 6.375% per annum and mature within three months of the placement date.

20- RELATED PARTY TRANSACTIONS

These represent transactions with certain parties (associates, major shareholders, directors and executive officers of the parent company, close members of their families and companies of which they are principal owners or over which they are able to exercise significant influence) entered into by the group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the group's management.

Transactions with related parties included in the consolidated income statement are as follows:

	Associates KD	*Major shareholders KD*	*Other related parties KD*	***Total 2006 KD***	*Total 2005 KD*
Operating costs	-	-	-	-	260,887
Gain on sale of properties	49,056,614	-	-	**49,056,614**	-

Balances with related parties included in the balance sheet are as follows:

	Associates KD	*Major share-holders KD*	*Other related parties KD*	***Total 2006 KD***	*Total 2005 KD*
Amounts due from related parties	1,440,975	-	806,100	**2,247,075**	613,966
Staff receivables	-	-	1,217,782	**1,217,782**	1,659,654

20- RELATED PARTY TRANSACTIONS (continued)

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

	2006 KD	*2005 KD*
Short-term benefits	**1,101,196**	1,201,458
Employees' end of service benefits	**907,940**	728,870
	2,009,136	1,930,328

21- STAFF COSTS

For the year ended 31 December 2006, staff costs amounted to KD 11,432,874 (2005: KD 12,007,951).

22- PROPOSED DIVIDEND

The parent company's board of directors have proposed cash dividend of 50 fils (2005: 50 fils) per share for the year ended 31 December 2006 and issuance of bonus shares of 15% (2005: Nil) of the paid up share capital. This proposal is subject to the approval of the annual general assembly of the shareholders of the parent company and completion of legal formalities.

23- 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.

23- SEGMENTAL INFORMATION (continued)

The following is the detail of the above segments, which constitutes the primary segment information:

	31 December 2006			
	Real estate operations KD	*Hotel operations KD*	*Care home operations KD*	*Total KD*
Segment revenue	**10,203,045**	**13,262,412**	**13,037,913**	**36,503,370**
Segment operating costs	**(2,384,384)**	**(4,610,424)**	**(9,184,990)**	**(16,179,798)**
Segment results	**7,818,661**	**8,651,988**	**3,852,923**	**20,323,572**
Share of income from joint venture's result	**1,667,576**	**-**	**-**	**1,667,576**
Depreciation	**(3,975,820)**	**-**	**(1,224,628)**	**(5,200,448)**
Other operating expenses	**(1,155,262)**	**(3,927,946)**	**(1,226,473)**	**(6,309,681)**
Profit from operations	**4,355,155**	**4,724,042**	**1,401,822**	**10,481,019**
Interest income				**131,375**
Finance costs				**(8,846,378)**
Other non-operating income				**50,056,659**
Profit before tax				**51,822,675**
Foreign tax				**(971,917)**
Profit before contribution to KFAS, NLST and Directors' fees				**50,850,758**
Profit for the year				**48,956,832**
Other information:				
Segment assets	**171,824,245**	**3,837,086**	**48,216,406**	**223,877,737**
Investment in joint venture	**18,575,195**			**18,575,195**
Total assets				**242,452,932**
Segment liabilities	**63,122,459**	**3,837,086**	**31,400,834**	**98,360,379**
Total liabilities				**98,360,379**
Capital expenditure	**5,070,222**	**-**	**10,859,334**	**15,929,556**

23- SEGMENTAL INFORMATION (continued)

The following is the detail of the above segments, which constitutes the primary segment information:

	31 December 2005			
	Real estate operations KD	*Hotel operations KD*	*Care home operations KD*	*Total KD*
Segment revenue	9,267,710	12,018,944	12,490,955	33,777,609
Segment operating costs	(752,706)	(4,388,153)	(8,526,456)	(13,667,315)
Segment results	8,515,004	7,630,791	3,964,499	20,110,294
Share of income from joint venture's result	1,497,748	-	-	1,497,748
Depreciation	(3,987,205)	-	(1,211,011)	(5,198,216)
Other operating expenses	(2,039,530)	(4,187,921)	(1,116,785)	(7,344,236)
Profit from operations	3,986,017	3,442,870	1,636,703	9,065,590
Interest income				69,011
Finance costs				(7,144,652)
Other non-operating income				16,643,667
Profit before tax				18,633,616
Foreign tax				(455,854)
Profit before contribution to KFAS, NLST and Directors' fees				18,177,762
Other non-operating expenses				(677,099)
Profit for the year				17,500,663
Other information:				
Segment assets	151,650,061	2,282,965	47,683,611	201,616,637
Investment in joint venture	15,446,824	-	-	15,446,824
Total assets				217,063,461
Segment liabilities	73,256,380	2,829,957	38,072,003	114,158,340
Total liabilities				114,158,340
Capital expenditure	6,967,036	-	607,937	7,574,973

23- 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 2006			*31 December 2005*		
	Kuwait KD	***Europe KD***	***Total KD***	*Kuwait KD*	*Europe KD*	*Total KD*
Revenue	**23,465,457**	**13,037,913**	**36,503,370**	21,286,654	12,490,955	33,777,609
Assets	**194,236,526**	**48,216,406**	**242,452,932**	153,933,026	63,130,435	217,063,461
Capital expenditure	**5,070,222**	**10,859,334**	**15,929,556**	6,967,036	607,937	7,574,973

24- 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.

25- 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.

25- RISK MANAGEMENT (continued)

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, Japanese Yen, Euro and Pound Sterling denominated markets and otherwise by borrowing in currencies that approximately match its investments in non-US dollar denominated markets.

25- RISK MANAGEMENT (continued)

Currency risk (continued)

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

	2006	*2005*
	KD	*KD*
	Equivalent	Equivalent
	Long (short)	Long (short)
US Dollars	**12,546,541**	5,569,599
Japanese Yen	**(2,695,000)**	(3,632,360)
Euro	**11,381,493**	(8,766,680)
Pound Sterling	**469,955**	418,857

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.

26- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

	2006	*2005*
	KD	*KD*
Letters of guarantee	**23,878,840**	24,702,310
Uncalled capital of an unquoted investments	**1,218,777**	1,518,777
Construction project	**8,757,972**	1,420,500
	33,855,589	27,641,587