

Kuwait National Real Estate Services & Investment Company

KNRESI



العقارية
AL AQARIA

ANNUAL REPORT
2005

Kuwait National Real Estate Services & Investment Company

KNRESI

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AL AqARIA

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ





His Highness
**Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah**
Amir of Kuwait



His Highness
**Sheikh Naser Al-Mohammad
Al-Ahmad Al-Sabah**
Prime Minister



His Highness
**Sheikh Nawaf Al-Ahmad
Al-Jaber Al-Sabah**
Crown Prince

Board of Directors



Mr. Mohammad B. Al-Mutair
Chairman



Mr. Rasheed S. Y. Al-Tabtabaei
Vice Chairman



Mr. Hamad M. Al-Saad
Board Member



Mr. Najj. A. Al-Abdulahadi
Board Member



Mr. Ala'a H. Al-Roumi
Board Member



Mr. Nasser A. Al-Salem
Board Member



Mr. Faisal Y. Al-Mishari
Board Member

Executive Management

Mr. Waleed A. Al-Azzaz
General Manager

Eng. Samir Anton Kattura

Construction Management Manager

Eng. Khalid M. Al-Rashed

Real Estate Dept. & Maintenance Manager

Mr. Saad A. Al-Munayes

Financial Manager

Mr. Tarek I. Al-Mansour

Assets Management Manager
Administrative & Personal Affairs Manager

Eng. Khalid El-Laithy

Technical Dept. Manager

Mr. Ashraf M. Hindawi

Cleaning Department Manager

Dana K. Al-Sagabi

Legal Department



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Chairman Message

Dear shareholders,

I am glad on my behalf and on behalf of my colleagues the members of the Board of Directors and all workers in “Al-Aqaria”, to discuss the report of the Board of Directors for the financial year ending on 31/12/2005.

A year full of local and world economic events and activities has passed as well as for the National Kuwaiti “Al-Aqaria” Services and Investments Company.

Economically, the oil prices witnessed a remarkable improvement throughout last year, which had a positive effect on supporting the State budget and achieving record revenues that exceeded Kuwaiti Dinars 9 billion to have the year 2005 one of the best years witnessed by the Kuwaiti economy, where the average real progress of the gross domestic product registered 30% and the State budget witnessed a major surplus due to the continuous uprising trend of the oil prices during 2005 where the total surplus of the financial year 2004/2005 reached Kuwaiti Dinars 2.650 billion.

The reflection of the State financial situation improvement and the economic development that the Kuwaiti economy went through was on the stock exchange market where in 2005 it hit a record compared to the previous year for the market price index rose by 78% and the weight index by 67%, in addition to the rise in the market value of Kuwait Stock Exchange to more than Kuwaiti Dinars 41 billion. The market index also exceeded the barrier of 11 thousand points to reach 11.445 thousand points in addition the number of companies reaching 168 listed companies.

As for the current financial year, in the event where the strong demand on oil continued, its prices will remain at high levels, which will support the State budget. In the event where the Kuwaiti crude oil price varied between Dollars 49.1 and 49.9, the State budget revenues vary between Kuwaiti Dinars 13.2 and 13.4 where the indexes indicate the possibility to achieve a surplus varying between Kuwaiti Dinars 6.1 to 6.6 billion.

In light of the foregoing for the 2006 expectations, we look forward to have the current year witness an additional development and positive performance for the Kuwaiti and Gulf economy in general, especially in light of the guidelines aiming at consolidating the expenditure on the huge projects, developing the infrastructure projects and the BOT projects, focusing on the productive sectors and opening new sectors, the most important of which investing in the oil sector before the private sector.

All main sectors benefited from the prosperity witnessed by the Kuwaiti economy for the “Al-Aqaria” market achieved a remarkable activity compared to the previous years and it reflected on the performance of the “Al-Aqaria” companies listed in stock exchange where the architectural development in the country continued as well as executing the projects in addition to launching the BOT projects on the private sector on the government part.

This activity in the “Al-Aqaria” market was accompanied by an increasing demand in general whether on the residential or investment, commercial and entertainment “Al-Aqaria”, which predicts a promising future on the short and long term.

As for the positive developments realized by your company during the past year, they were fully consistent with the plans set and they reflected the success of the Board of Directors strategy.

“Al-Aqaria” finished the necessary designs and procedures to execute one of its vital and strategic projects, represented in building a commercial tower in a special site in Kuwait city, made of 50 floors and made of offices and parking lots in addition to the commercial part with a cost reaching Dinars 15 million.

Dear shareholders,

The most important achievement realized by the Board of Directors last year was listing the “Al-Aqaria” shares in the second quarter of 2005 and establishing a strategy of transferring the “Al-Aqaria” entity to a holding company, in accordance with the long term strategic plan, that aims at finding a complete and multi-activities huge entity under one umbrella.

The Board of Directors started taking the necessary actions to establish three subsidiary companies:

Handles the cleaning and security sector in all its activities and services, a company for the constructions sector and managing projects of all types, and Specialized Company handling the management of “Al-Aqaria” investments and properties of others as well as maintenance works and other.

There is also a plan to establishing a number of companies in some promising fields to create an added value, which will be announced on time.

There is no doubt that such entities will realize better performance thanks to the specialization and the force that will be achieved by such entities to each other, as to integration in the service offered as well as expanding their activities locally and regionally.

As for the internal performance and to guarantee the execution of the “Al-Aqaria” strategies and plans, the Assets Department was created to continue searching and studying a number of strategic projects inside and outside in parallel to the “Al-Aqaria” transformation plan to holding company and establishing several subsidiary entities.

As for the external field, “Al-Aqaria” is currently studying many investment opportunities in the Gulf region and the United States of America.

“Al-Aqaria” also continued supporting its staff with the specialized technical competences, especially the Kuwaiti ones at the highest level of experience and professionalism.

This was reflected on the competence of “Al-Aqaria” competing for a number of contracts it obtained last year against different bodies, whether the cleaning or “Al-Aqaria” and constructions sectors.

The financial results for “Al-Aqaria” last year came as a model to performance and development:

- “Al-Aqaria” achieved net profits for 2005 that reached Dinars 7,082,241 million with a profitability of Fils 23.69 for the share with an increase of 4,560,082 K.D, i.e. a development percentage of 181 % above 2004.

The total “Al-Aqaria” revenues were also 10,628,574 from the heart of commissioning operations and main activities.

The total assets also rose by 50,2 % and the total shareholders rights rose from 33,018,671 K.Dto become 41,833,651 KD and 26.7 % as development percentage. The revenue on the shareholders rights reached 17%.

Finally, the Board of Directors is looking forward to more achievements and realization of a better performance for the coming periods in light of optimism in a bright future for our national economy.

I take this opportunity on my behalf and on behalf of the members of the Board of Directors and all workers in “Al-Aqaria” to pray for the Creator, the Almighty, to have Kuwait late Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah at his mercy and have him in paradise with the righteous and martyrs and to grant his Highness Father Sheikh Saad Al-Abdullah Al-Salem Al-Sabah health and poor security and safety on our beloved country under the wise leadership of His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, Prince of the State, God protect him, wishing the heir Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and Prime Minister Sheikh Naser Al-Mohammad Al-Ahmad Al-Sabah all the luck for the sake of our precious Kuwait.

I also express my gratitude to the shareholders of “Al-Aqaria” for the precious confidence given to us and I thank all the workers at the company for the swift efforts they made in serving “Al-Aqaria” interests.

Best regards,

Achievements and Expectations

Kuwait National Real Estate Services and Investments Co

Kuwaiti National Real Estate Services and Investments Company was established in January 1980 at a KD 0,525 million. In April 2004, the capital was increased to become KD 30,000,000. In line with its ambitious expansions and development plans, the company was listed its stock's in April 2005 in Kuwait Stock Exchange.



Kuwait National Real Estate Services and Investments Company works with pride according to the Islamic Sharia'a.

Our services include:

- Assets Management
- Property Management
- Property Maintenance
- Project Management
- Cleaning and Security Management

Assets Management

Since “Al-Aqaria” at the final stages of completing the set plan and convert to a holding company, and in view of its commitment to many investment projects, assets management was required including an investment staff of high expertise in many and various investment fields.



Business Development Unit:

- Strategic planning and development
- Marketing the investment products
- Attracting investment opportunities

Financing Companies Unit:

- Assess projects and feasibility studies
- Selling and establishing companies
- Merging and acquisition operations
- Structuring the financial resources
- Cooperating with other companies to offer the public and private subscriptions
- Listing the affiliate companies in stock exchange markets

Property Management

Managing others real estate properties consists of managing the real estate properties of the company's customers including the authorities, the companies, the establishments, and the individuals in a developed way depending on an elite of specialized and highly qualified staff.



The administration offers many and various services such as:

- Marketing and renting the vacant units to appropriate tenant through marketing plans that suit each project apart.
- Provide usual maintenance services, follow up on the technical and judicial real estate issues with the authorities.
- Supply security and cleanliness services
- Elaborate marketing studies in order to determine the rent amount for the customers
- Provide the real estate properties owners with periodic, statistic and analytical reports
- Hold marketing campaigns for the commercial centers and complex.

Achievements :

- The department manages over KD 106 million of real estate properties and portfolios.
- The aggregate annual income of real estate under management is over KD 6 million.
- The department manages real estate for prestigious and well known companies and individuals such as: Kuwait Investment Authority, Zakat House, The Investment Dar and Kuwait Investment Fund.

Since 'alqaaria' is in the final stages to be transformed to a holding company as planned, the department will be transferred to an affiliated company in the first quarter of 2006.

Property Maintenance

Seeking to offer services for other management, real estate portfolio and other services offered by Real Estate Company, a group of highly qualified experts was devoted to operate the management, handle technical works, and offer comprehensive services of high quality for our customers.



Property Maintenance carries out the following:

- Assess periodic maintenance and preventive works for the buildings
- Perform construction and restoration works, different specialized works; follow up on the civil, sanitary and electrical maintenance.
- Perform contracting, tenders and supervision in addition to providing needed technical consultancies

Objectives:

Kuwait National Real Estate Services and Investment Company aims at transferring to a holding company in order to invest in new promising sectors. Through this strategy, the company started to convert the current working sectors to companies having an administrative, financial and legal entity. Such sectors are:

- Real Estate Investment Sector
- Other properties management sector (Investment Real State Company)
- Construction projects management sector (Constraction Management Co.)
- Cleanliness Sector (A cleaning & Security company)

"ALAQARIA" seeks to own considerable shares in the affiliate companies and to offer the remainder to the new shareholders.

Project Management

Management of construction projects offers specialized, comprehensive and integral services that cover design, construction and management of projects whereby such services are made available according to the needs of each customer.



It offers as well other various services including:

- Review of designs, prepare the timeliness schedules, calculate the project cost, managing construction contracts and many other technical aspects.
- The administration insists upon cooperating with many international companies specialized in construction management and large projects. Through implementing the recent technologies and developed information systems in order to ensure sufficient management for all projects.

The Achievements of the administration amongst the largest projects achieved:

- Embassies of the State of Kuwait abroad
- Al Manakh market
- Building of Kuwait Stock Exchange
- The new headquarters of the Social Security

Cleaning and Security Management

Security and cleanliness management offers all services related to internal and external cleaning operations for public and private bodies. It owns also a large collection of equipments and large number of trained employees to perform the contracts.



The services provided by the administration:

- Cleaning the cities and protecting the environment
- Immediate and comprehensive cleaning operations
- Make cleaning workers available for the public and private contracts
- Removal and disposal of residues
- Provide security and guard services for the establishments and companies in both public and private sectors

Achievements of administration:

- Executed and under execution contracts reached 59 contracts
- The value of executed contracts and contracts under execution reached Dinars 17 million.

Important contributions of year 2005:

- 1) To receive a cleaning contract from Public Authority for Applied Education
- 2) To receive a cleaning contract on 25.05.2005 from Kuwait Municipality : (Hawalli – AlNughra – Midan Hawali – Al Shaab – Al Jabriya)
- 3) To obtain a cleaning contract at Kuwait University - Khaldia.

Other sectors

Real Estate Company is devoted at present to establish companies in order to enter new sectors in line with segregating the foregoing departments where Real Estate is now establishing companies in the following sectors:



- Oil sector: Establish a company to work in the oil services
- Sanitary services sector: establish a company working in the sanitary services
- Education sector: establishment of a company in the education sector
- Transport sector: establishment of a company in the land and maritime transport
- Investment Sector: Establishing an investment company

The most important contributions and deals of year 2005:

- 1) Listing the company in Kuwait Stock Exchange on 17.04.2005
- 2) Investing in Al Soukook Holding Company
- 3) Investing in Gulf Dvelopment Company (Kingdom of Saudi Arabia)
- 4) Investing in Kuwait Iranian Holding Company
- 5) Investing in Bahrain First Real Estate Development Company
- 6) Investing in Sakan Real Estate Company (Kingdom of Bahrain)
- 7) Investing in Al – Massar Leasing and Investment Company

8) Investing in Manazel Real Estate Company (United Arab Emirates – Abu Dhabi)

9) Purchasing Bruges Man Projects Management Company on 9/7/2005 and increasing its capital to KD 18250000 by transferring all its real estate assets in order to separate the real estate investment sector by transferring the real estate ownership and separating the sector of Others Properties Department to this company and enlisting it in Kuwait Stock Exchange one year after the separation.



10) Establish Inter Projects Management Company on 25.10.2005 to segregate Construction Projects Management Sector to this company.

11) Establish First Cleaning Kuwaiti Co on 27.11.2005 to segregate Cleaning sector to this company.

Report of the Legal Control Authority

Thanks God, and Gods Peace and Blessing upon the Prophet, his family and his companions
Shareholders of the Kuwait National Real Estate Services & Investment Company

Dear Sirs,

Based on the engagement contract concluded with us, we have audited the contracts and transactions made by the company in order to state an opinion regarding the commitment of the company to the provisions of the Islamic Sharia as mentioned in the legal opinions, instructions and resolutions issued by us during the period starting from 01/07 to 31/12/2004 AD.

The responsibility to perform the contracts and transactions according to the provisions of the Islamic Sharia as indicated by us, shall be born by the company. Our responsibility is limited to stating an independent opinion concerning the commitment of the company to these provisions based on our audit.

We have performed our audit according to the restraints criteria issued by the Accounting and Review Authority of the Islamic Financial Establishments which require from us planning and making audit and review in order to obtain all the information, explanations and resolutions that we deem necessary to provide us with proves sufficient to give us a reasonable confirmation that the company is committed to the provisions of the Islamic Sharia as indicated by us.

We have done our audit based on the examination on all kinds of contracts and transactions performed during this period and we think that the audit operations performed and provided by us with an appropriate grounding to state our opinion.

In our opinion, the company is committed to perform the contracts and transactions during the determined period according to the provisions of the Islamic Sharia as stated in the legal opinions, instructions and resolutions issued by us during the said period and we did not find any legal violations contradicting with this opinion.

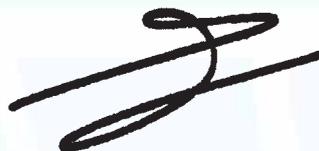
As for the Zakat, and according to the companys declaration, the part of the passed period of the financial year ending 31/12/2004 will be added to the part of the financial year ending 31/05/2005.

Leal Control Authority

Dr. Abdul Raqzzak Khalifa Al Shaiji
Head of the Authority



Dr. Issam Khalaf Al Anzi
Member



Dr. Abdul Bari Muhammad Ali Mashaal
Executive Member



Kuwait National Real Estate Services & Investment Company

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Independent auditors' report and consolidated financial statements
for the year ended 31 December 2005



The Shareholders

**Kuwait National Real Estate Services & Investment Company
and its subsidiaries
K.S.C. (Closed)
State of Kuwait**

Independent auditors' report

We have audited the accompanying consolidated balance sheet of Kuwait National Real Estate Services & Investment Company and its subsidiaries (together referred to as the "Group") as at 31 December 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended.

Respective responsibilities of management and auditors

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

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

Opinion

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

Other regulatory matters

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Kuwait Commercial Companies' Law of 1960, as amended, and the Company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Group, and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2005, of the Kuwait Commercial Companies' Law of 1960, as amended, or of the Company's articles and memorandum of association that would materially affect the Group's activities or its financial position.

Qais M. Al Nisf
Licence No. 38 "A"

Of Moore Stephens Al Nisf & Partners

**Member firm of Moore Stephens International
Kuwait: 27 March 2006**

Barrak Abdul Mohsen Al-Ateeqi
Licence No. 69 "A"

Al-Ateeqi Certified Accountants

Member firm of B.K.R International

Consolidated Balance sheet*For the year ended 31 December 2005 (All amounts are in Kuwaiti Dinars)*

	Note	31 December 2005	31 December 2004 (unconsolidated)
Assets			
Property, plant and equipment	3	3,213,242	1,517,848
Intangible assets		14,900	14,900
Investment in unconsolidated subsidiaries		100,020	-
Amounts paid under settlement – subsidiaries under establishment	4	100,000	-
Investments properties	5	17,555,926	11,326,510
Land and property under development	6	4,667,500	-
Available for sale investments	7	12,525,786	4,683,149
Total non-current assets		38,177,374	17,542,407
Spare parts and materials inventory		64,714	49,468
Receivables and other debit balances	8	3,504,818	675,929
Due from related parties	9	-	1,020,771
Financial assets at fair value through statement of income	10	7,014,964	5,234,735
Cash and cash equivalents	11	3,587,427	10,331,817
Total current assets		14,171,923	17,312,720
Total assets		52,349,297	34,855,127
Shareholders' equity and liabilities			
Share capital	12	30,000,000	30,000,000
Statutory reserve	13	1,070,990	339,394
Voluntary reserve	14	1,070,990	339,394
Treasury shares		(983,672)	-
Gains on sale of Treasury shares		46,038	-
Cumulative changes in fair value		2,730,000	59,627
Retained earnings		7,899,305	2,280,256
Total shareholders' equity		41,833,651	33,018,671
Employees' end of service indemnity		405,785	345,785
Payables and other credit balances	15	4,367,172	1,440,626
Murabaha Payables	16	5,720,399	-
Due to related parties	9	22,290	50,045
Total current liabilities		10,109,861	1,490,671
Total liabilities		10,515,646	1,836,456
Total shareholders' equity and liabilities		52,349,297	34,855,127

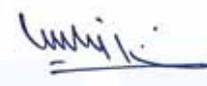
The accompanying notes are an integral part of these consolidated financial statements.



Mohammad Barrak Al-Mutair
Chairman



Rasheed Al-Tabtaba'e
Deputy Chairman



Waleed A. Al-Azzaz
General Manager

Consolidated statement of income

For the year ended 31 December 2005 (All amounts are in Kuwaiti Dinars)

	Note	For the year ended 31 December 2005	For the period from 1 October 2003 to 31 December 2004 (unconsolidated)
Net rental income	17	636,771	75,829
Profit from sale of investment properties		60,510	-
Unrealized gain from valuation of investment properties		4,448,012	1,714,500
Profit from financial assets	18	2,808,058	775,682
Net profit from management and maintenance of third parties	19	52,322	170,795
Net (losses)/ profit from construction contracts	20	(35,195)	26,213
Net profit from cleaning contracts	21	30,471	105,785
Administrative expenses and other charges	22	(1,003,439)	(591,166)
Provision for doubtful debts		-	(24,370)
Other operating income	23	57,743	4,823
Net operating profit		<u>7,055,253</u>	<u>2,258,091</u>
Write back of provision		56,375	-
Net income from financial institutions		204,326	335,410
Contribution to Kuwait Foundation for the Advancement of sciences		(65,844)	(23,342)
National labour tax		(117,869)	-
Directors' remuneration	24	(50,000)	(50,000)
Net profit for the year/period		<u>7,082,241</u>	<u>2,520,159</u>
Earnings per share (fils)	25	<u>23.69</u>	<u>10.56</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2005 (All amounts are in Kuwaiti Dinars)

	Share capital	Statutory reserve	Voluntary reserve	Treasury shares (Note 26)	Gains on sale of treasury shares	Cumulative changes in fair value	Retained earnings	Total
Balance at 31 September 2003	525,000	80,044	80,044	-	-	-	278,797	963,885
Increase in share capital	29,475,000	-	-	-	-	-	-	29,475,000
Change in fair value for available for sale investments	-	-	-	-	-	59,627	-	59,627
Net profit for the period	-	-	-	-	-	-	2,520,159	2,520,159
Transfer to reserves	-	259,350	259,350	-	-	-	(518,700)	-
Balance at 31 December 2004	30,000,000	339,394	339,394	-	-	59,627	2,280,256	33,018,671
Change in fair value of available for sale investments	-	-	-	-	-	2,670,373	-	2,670,373
Purchase of treasury shares	-	-	-	(1,640,470)	-	-	-	(1,640,470)
Sale of treasury shares	-	-	-	656,798	-	-	-	656,798
Gain from sale of treasury shares	-	-	-	-	46,038	-	-	46,038
Net profit for the year	-	-	-	-	-	-	7,082,241	7,082,241
Transfer to reserves	-	731,596	731,596	-	-	-	(1,463,192)	-
Balance at 31 December 2005	30,000,000	1,070,990	1,070,990	(983,672)	46,038	2,730,000	7,899,305	41,833,651

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2005 (All amounts are in Kuwaiti Dinars)

	For the year ended 31 December 2005	For the period from 1 October 2003 to 31 December 2004 (unconsolidated)
Cash flows from operating activities:		
Net profit for the year/period	7,082,241	2,520,159
Adjustments:		
Depreciation	432,346	444,448
Provision for end of service's indemnity	171,096	114,950
Kuwait foundation for the Advancement of Sciences	65,844	23,342
Directors' remuneration	50,000	50,000
National labour support tax	117,869	-
Profits from change in financial assets at fair value through statement of income	(2,242,537)	(754,911)
Gain from valuation of investment properties	(4,448,012)	(1,714,500)
Revenue from financial institutions	(204,326)	(335,410)
Gain from sale of property, plant and equipment	(1,000)	(4,823)
Cash dividends	(152,665)	-
Operating profit before changes in working capital	870,856	343,255
Spare parts and materials inventory	(15,246)	(15,470)
Receivables and other debit balances	(2,860,512)	(371,540)
Investments in unconsolidated subsidiaries	(100,020)	-
Amounts paid under settlement-subsiidiaries under establishment	(100,000)	-
Due from related parties	1,020,771	(1,002,015)
Financial assets at fair value through statement of income	462,308	(4,479,824)
Payables and other credit balances	2,692,833	219,618
Murabah payable	5,720,399	-
Due to related parties	(27,755)	(47,343)
Net cash from /(used in) operation	7,663,634	(5,353,319)
Payment of end of service indemnity	(111,096)	(161,209)
Net cash from /(used in) operating activities	7,552,538	(5,514,528)
Cash flows from investing activities:		
Paid for purchase of property, plant and equipment	(2,127,740)	(46,333)
Paid for purchase of intangible assets	-	(4,600)
Paid for purchase of investments properties	(2,585,894)	(9,612,010)
Paid for purchase of land and properties under development	(4,667,500)	-
Proceeds form sale of investment properties	804,490	-
Proceeds from sale of available for sale investment	1,499,838	-
Paid for purchase of available for sale investment	(6,672,102)	(4,623,522)
Proceeds from sale of property, plant and equipment	1,000	7,020
Income received from financial institutions	235,949	335,410
Cash dividends received	152,665	-
Net cash used in investing activities	(13,359,294)	(13,944,035)

Consolidated statement of cash flows (cont.)*For the year ended 31 December 2005 (All amounts are in Kuwaiti Dinars)*

	For the year ended 31 December 2005	For the period from 1 October 2003 to 31 December 2004 (unconsolidated)
Cash flows from financing activities:		
Proceeds from increase in share capital	-	29,475,000
Paid for purchase of treasury shares	(1,640,470)	-
Proceeds from sale of treasury shares	656,798	-
Profits from sale of treasury shares	46,038	-
Payment of long term loan	-	(850,000)
Net cash (used in)/ from financing activities	<u>(937,634)</u>	<u>28,625,000</u>
Net (decrease)/ increase in cash and cash equivalents	(6,744,390)	9,166,437
Cash and cash equivalents at beginning of the year/ period	10,331,817	1,165,380
Cash and cash equivalents at end of the year/period	11 <u>3,587,427</u>	<u>10,331,817</u>

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2005 (All amounts are in Kuwaiti Dinars)

1. Incorporation and activities

Kuwait National Real Estate Services Company (“the Company”) is a closed Kuwaiti shareholding company incorporated on 19 January 1980.

The Company and its subsidiaries (“together referred to as “the Group”) practice all activities in accordance with Noble Islamic Sharia principles. The main objectives of the Group are as follows:

- Managing third party properties and lease and rent of real estate.
- All maintenance activities including electricity and plumbing maintenance.
- Undertaking all cleaning work contracts and services relating to environment pollution and related services of improvement thereof.
- Providing of real estate management services and preparing the related studies.
- Security and safety of the government and private facilities and rendering related services.
- Establishing and managing real estate investment funds inside and outside Kuwait (after approval of Central Bank of Kuwait).
- Planning, financing and executing real estate projects offered by the Government.
- Utilizing surplus through investing in real estate companies or financial portfolios managed by specialized parties inside or outside Kuwait
- Acquiring, selling and purchasing shares and bonds of real estate companies and funds for the Company’s account inside and outside Kuwait.

All objectives are subject to provisions of law and in accordance with Noble Islamic Sharia principles.

The Company is domiciled in Kuwait and its principal address is: P.O. Box 26371 Safat 13124 State of Kuwait.

Total number of employees of the Group is 1,837 as at 31 December 2005 (1,685 employee as at 31 December 2004).

The financial statements were authorized for issue by the board of directors on 27 March 2006. The shareholders of the Company have the power to amend these financial statements at the annual general assembly meeting.

2. Basis of preparation and consolidation

A) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under historical cost basis. except for the financial instruments classified as investments at fair value through statement of income, available for sale investments and investment properties as they are stated at fair value when preparing these consolidated financial statements. Uniform accounting policies had been used by the companies of the Group for recognizing like transactions and other events in similar circumstances.

The preparation of consolidated financial statements in conformity with these standards requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, income and expenses in the consolidated financial statements. Actual results may differ from these estimates.

B) Basis of consolidation

The consolidated financial statements include subsidiaries controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial, operating and administrative policies of an enterprise to obtain benefits from its activities. All transactions and balances between the Parent Company and its subsidiaries are eliminated from the consolidated financial statements.

The total assets of subsidiaries amounted to KD 18,420,926 as at 31 December 2005 and their total profit amounted to KD 165,191 for the same year.

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries as disclosed in the following table:

<u>Company</u>	<u>Participation percentage</u>	
	<u>31 December</u> <u>2005</u>	<u>31 December</u> <u>2004</u>
Projman Project Management Co.	100%	-
Inter Project Management Co.	100%	-

During the year, the Parent Company established subsidiaries (Projman Project Management Co.) and (Inter Project Management Co.) with no resultant goodwill.

C) Basis of preparation of financial statements

The financial statements are presented in Kuwaiti Dinars.

The consolidated financial statements are stated at historical cost except financial assets at fair value through statement of income, investments available for sale and investment properties which are carried at fair value. The accounting policies have been consistently applied with those used in the previous year.

D) Change in significant accounting policies

Effective from 1 January 2005, the Group adopted all the revised International Accounting Standards (“IAS”), and the new IFRS, for which the result are described below:

Based on revised IAS 39, financial instruments: recognition and measurement, the Group determines the proper classification for its investments based on the purpose of acquiring these investments, as financial assets at fair value through income statement, including financial assets held for trading, financial assets carried at fair value, receivables, and investments available for sale.

As of 1 January 2005, impairment of available for sale investments which represent investment in equity instruments has not been reversed.

There was no significant financial effect on the Group’s financial statements from the adoption of above standards.

E) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses (see accounting policy 2-I). Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of assets and as per the following annual percentages:

	Years
Building	20
Vehicles	4-12
Cleaning materials and containers	3-5
Tools	5
Office furniture and equipment	5

F) Intangible assets

Development or maintenance charges for computer programs are included in statement of income except expenses incurred by the Group to develop certain and unique programs which are expected to benefit the Group during a future period of more than one year. In such a case, these expenses are capitalized at cost and thereafter amortized on a straight line basis over their estimated useful lives.

G) Investment properties

Investment properties that are held for capital appreciation or to earn rentals from others are included in non-current assets. Investment properties are carried initially at cost. After initial recognition the properties are re-measured at fair value being the market value determined annually by independent valuers on individual basis. Any gains or losses arising from the changes in fair value are included in the statement of income in the related period.

Properties held under operating lease are recognized as investment properties on individual basis which are held by the Group to earn rentals from others or for capital appreciation or both. Properties held under operating lease and included in investment properties are carried out at fair value.

H) Land and properties under development

Land and properties under development are stated at cost. On completion of the development, they are reclassified either as investment properties, land and properties held for trading or as property, plants and equipment based on the management intention toward the future usage of these lands and properties.

I) Financial assets at fair value through statement of income

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in prices are classified as investments held for trading and included in current assets in financial assets at fair value through statement of income. Investments held for trading are recognized initially at cost, including transaction costs and subsequently stated at fair value with any resultant gain or loss recognized in the statement of income. Investments which are not held-to-maturity or held for trading, are classified as available-for-sale and are included in non-current assets, unless management intention has express of holding the investments for less than twelve months from the balance sheet date, in which case they are included at initial recognition in financial assets at fair value through statement of income.

J) Financial liabilities

Financial liabilities arise from Murabha and Wekalah investment contracts. Subsequently they are measured and stated at amortized cost using effective interest rate.

K) Available for sale investments

Unquoted securities classified as investments available-for-sale and whose fair value cannot be reliably determined are initially measured at cost, including transaction costs and subsequently carried at cost less impairment losses (see accounting policy 2-J). Other investments available for sale are initially measured at cost, including transaction costs and subsequently stated at fair value with any unrealized gain or loss recognized directly in equity till they are sold then will be taken to statement of income.

L) Fair value

The fair value of financial assets at fair value through statement of income and available for sale investments is determined based on their quoted bid price. If a quoted bid price is not available, the fair value of the investment is estimated using generally accepted valuation methods such as discounted cash flow techniques or net asset value or market price of similar investments.

Financial assets at fair value through statement of income and available-for-sale investments are recognized/ derecognized on the trade date i.e., on the date the group commits to purchase/sell the investments. Investments held to maturity are recognized/derecognized on the settlement date.

M) Inventories

Inventories are stated at the lower of cost and net realizable value after making allowance for any slow moving, obsolete or damaged items. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost is based on the average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

I) Receivables and other debit balances

Receivables and other debit balances are stated at their cost less impairment losses (see accounting policy 2-J).

J) Impairment

Property, plant and equipment, receivables and investments available for sale are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Property, plant and equipment

An impairment loss is recognized whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Receivables

The recoverable amount of receivables is calculated as the total amount of expected collections. The receivables are of a short duration and therefore the expected future cash collections are not discounted.

Investments available for sale

The recoverable amount of investments available for sale is its fair value. If in a subsequent year the amount of an impairment loss for a debt instrument decreases and the decrease can be linked objectively to an event occurring after the write down, the write down is reversed through the statement of income.

P) Payables and other credit balances

Payables and other credit balances are stated at their cost.

Q) Provision for employees' end of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law and employment contracts where such contracts provide extra benefits. This provision, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date.

R) Other provisions

Other provision are recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

S) Revenue recognition

Management fees and cleaning contracts are recognized on time proportion basis according to principals and rates stated in the real estate portfolio management agreements and cleaning contracts. Yield income is recognized on a time proportion basis, taking into account the original principal amount and an applicable yield rate. Rental income is recognized on accrual basis.

T) Foreign currencies

Foreign currency transactions are recorded in Kuwaiti Dinars at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rate of exchange prevailing on the balance sheet date. Resulting differences of exchange are recorded as part of the results for the year.

Non-monetary assets and liabilities denominated in foreign currency, which are stated at historical cost are recorded at the exchange rate ruling at the date of transaction. Non-monetary assets and liabilities in foreign currency, which are stated at fair value are translated into Kuwaiti Dinars at the rate of exchange prevailing at the dates on which the values were determined.

U) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, balances with financial institutions, cash within investment portfolios and deposits with Islamic financial institutions.

(V) Treasury shares

Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued, sold or cancelled. No gain or loss is recognized in income statement on the purchase, sale, issue or cancellation of the treasury shares. Consideration paid or received is directly recognized in equity. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings and then to reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

w) Leased assets

Costs made under operating leases are recognized in the statement of income on a straight-line basis over the lease term. Acquired and leased assets under operating lease to third parties are included in investment properties.

3. Property, plant and equipment

	Building	Vehicles	Cleaning equipments and containers	Tools	Office furniture and equipments	Total
Cost						
At 1 January 2005	417,849	3,497,571	326,755	17,288	239,320	4,498,783
Additions	-	1,628,138	208,093	305	291,204	2,127,740
Disposals	-	(6,000)	-	-	-	(6,000)
31 December 2005	417,849	5,119,709	534,848	17,593	530,524	6,620,523
Accumulated depreciation and impairment losses						
At 1 January 2005	417,849	2,029,580	294,819	17,238	221,449	2,980,935
Charge for the year	-	346,080	52,158	191	33,917	432,346
Disposals	-	(6,000)	-	-	-	(6,000)
At 31 December 2005	417,849	2,369,660	346,977	17,429	255,366	3,407,281
Net book value						
At 31 December 2005	-	2,750,049	187,871	164	275,158	3,213,242
At 31 December 2004(unconsolidated)	-	1,467,991	31,936	50	17,871	1,517,848

Depreciation charge have been allocated in the statement of income as follows:

	Year ended 31 December 2005	Period from 1 October 2003 to 31 December 2004 (unconsolidated)
Cost of operations	399,952	438,801
Administrative expenses and other charges	32,394	5,647
	432,346	444,448

4. Amounts paid under settlement – subsidiaries under establishment

Represents amounts paid for establishment of a subsidiary for which establishment process was not completed till 31 December 2005.

5. Investment properties

	31 December 2005	31 December 2004 (unconsolidated)
Balance at beginning of year	11,326,510	-
Additions during year	2,585,894	9,612,010
Disposals during year	(804,490)	-
Increase in fair value	4,448,012	1,714,500
	<u>17,555,926</u>	<u>11,326,510</u>

The Company's management early adopted the revised IAS 40 investment properties, accordingly, properties held under operating leases were stated in investment properties using the fair value model (Note2-G). This change in accounting policy has no impact on the statement of income and statement of changes in shareholders' equity.

6. Land and properties under development

During the period, the Company purchased a plot of land at sharq area for development purposes by an amount of KD 4,667,500 as at 31December 2005 (Nil as at 31 December 2004).

7. Available for sale investments

	31 December 2005	31 December 2004 (unconsolidated)
Investment in real estate fund	-	1,559,465
Investment in unquoted local securities	1,675,000	1,620,000
Investment in quoted local securities	4,350,000	-
Investment in unquoted foreign securities	6,500,786	1,503,684
	<u>12,525,786</u>	<u>4,683,149</u>

Movement on available for sale investments represents:

	31 December 2005	31 December 2004 (unconsolidated)
Balance at the beginning of year	4,683,149	-
Additions	6,672,102	4,623,522
Disposals	(1,499,838)	-
Increase in the fair value	2,670,373	59,627
	<u>12,525,786</u>	<u>4,683,149</u>

8. Receivables and other debit balances

	31 December 2005	31 December 2004 (unconsolidated)
Trade receivables	3,039,648	305,911
Other receivables	27,502	23,430
Provision for doubtful debts	(34,590)	(34,590)
	<hr/> 3,032,560	<hr/> 294,751
Prepaid expenses	29,446	5,720
Due from employees	118,646	19,669
Accrued income	324,166	355,789
	<hr/> <hr/> 3,504,818	<hr/> <hr/> 675,929

9. Related parties

This represents transactions with the Company's shareholders, individuals of senior management and board members. All transactions with related parties are subject to the approval of general assembly of shareholders.

	31 December 2005	31 December 2004 (unconsolidated)
Consolidated financial statements		
Group shareholders	<hr/> 1,809,171	<hr/> 1,139,273
Associates	-	-
Subsidiaries		
Investment properties	<hr/> 17,555,926	<hr/> -
Statement of income		
Group shareholders	670,240	139,273

10. Financial assets at fair value through statement of income

During the year, the Group invested in investment portfolios managed by local investment companies.

Investment portfolios managed by third party included shares amounting KD 1,809,171 as at 31 December 2005 (KD 1,139,273 as at 31 December 2004) managed by related party (Note 9).

11. Cash and cash equivalents

	31 December 2005	31 December 2004 (unconsolidated)
Cash on hand and with financial institutions	783,433	3,791,220
Cash in investment portfolios	262,125	49,140
Investment in saving account	2,541,869	6,491,457
	<hr/> 3,587,427	<hr/> 10,331,817

The return on the investment saving account was 4.538% as at 31 December 2005 (3.2% as at 31 December 2004).

12. Share capital

The authorised, issued and fully paid capital comprise of KD 30,000,000 allocated over 300,000,000 of 100 fils per share as at 31 December 2005.

13. Statutory reserve

In accordance with the Commercial Companies' Law of 1960, as amended, and the Company's memorandum and article of association, 10% of the net profit for the year, is required to be transferred to the statutory reserve until the reserve totals 50% of the share capital. Distribution of the statutory 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 retained earnings are not sufficient for the payment of a dividend of that amount.

14. Voluntary reserve

As required by the memorandum and article of association, 10% of the net profit of the year is required to be transferred to the voluntary reserve. There are no restrictions on the distribution of voluntary reserve.

15. Payables and other credit balances

	31 December 2005	31 December 2004 (unconsolidated)
Trade payables	3,419,914	859,867
Income received in advance	129,549	1,500
Accrued expenses and leave	449,987	330,645
Third party refundable deposits	96,892	80,886
Staff payable	10,511	31,881
Contribution to KFAS	65,844	23,342
Directors' remuneration	50,000	50,000
Other credit balances	26,606	62,505
Labour support tax	117,869	-
	4,367,172	1,440,626

16. Murabaha Payable

This represents the balance of murabaha contracts which have an average effective cost rate varying between 8.5% to 20% as at 31 December 2005 (Nil as at 31 December 2004).

17. Net rental income

	For the year ended 31 December 2005	Period from 1 October 2003 to 31 December 2004 (unconsolidated)
Real estate rental income	665,438	87,222
Operating cost	(28,667)	(11,393)
	636,771	75,829

18. Profit from financial assets

	For the year ended 31 December 2005	Period from 1 October 2003 to 31 December 2004 (unconsolidated)
Unrealized profits from financial assets at fair value through statement of income	2,242,537	754,911
Realized Profit from available for sale investments	565,521	20,771
	2,808,058	775,682

19. Net profit from management and maintenance of third parties

	For the year ended 31 December 2005	Period from 1 October 2003 to 31 December 2004 (unconsolidated)
Income	386,144	506,916
Operating costs	(333,822)	(336,121)
	52,322	170,795

20. Net (loss)/ profit from constructions contracts

	For the year ended 31 December 2005	Period from 1 October 2003 to 31 December 2004 (unconsolidated)
Income	98,636	164,669
Operating costs	(133,831)	(138,456)
	(35,195)	26,213

21. Net profit from cleaning contracts

	For the year ended 31 December 2005	Period from 1 October 2003 to 31 December 2004 (unconsolidated)
Income	1,843,332	2,272,178
Operating costs	(1,812,861)	(2,166,393)
	30,471	105,785

22. Administrative expenses and other charges

This includes employee costs of KD 559,708 as at 31 December 2005 (KD 465,591 as at 31 December 2004).

23. Other operating revenues

This represents subscription commission gains of KD 57,743 as at 31 December 2005.

24. Board of directors' remuneration

Board of directors' remuneration is subject to approval of the general assembly of shareholders.

25. Earnings per share

Earnings per share is calculated by dividing net profit by the weighted average number of shares outstanding during the year.

	For the year ended 31 December 2005	Period from 1 October 2003 to 31 December 2004 (unconsolidated)
Net profit	7,082,241	2,520,159
Weighted average number of shares outstanding	298,961,836	238,727,118
Earnings per share (fils)	23.69	10.56

26. Treasury shares

The Company owned 4,000,000 number of treasury shares which is equivalent to 1.33% from the share capital as of 31 December 2005. The book value and the market value for the treasury shares amounted to KD 983,672 and 1,100,000 subsequently, as of 31 December 2005.

(31 December 2004: Nil)

27. Subsequent events

On 27 March 2006 the board of directors proposed cash dividend at 7% of par value of share (7 fils per share) for the year ended 31 December 2005 for shareholders who are registered in Company's records at the date of general assembly meeting. This recommendation is subject to the approval of shareholders of general assembly Meeting. Notes to the consolidated financial statements for the year ended 31 December 2005

(All amount are in Kuwaiti Dinars unless otherwise stated)

28. Segment information

Segment information is presented in respect of the Company's activities. The primary format, business segments is based on the management structure and internal reporting system.

Primary segment information

Financial information about business sectors is as follows:

	For the year ended 31 December 2005					Period from 1 October 2003 to 31 December 2004 (unconsolidated)				
	Management and maintenance of third parties sector	Investment property sector	Constructions contracts sector	Cleaning, services and security sector	Total	Management and maintenance of third parties sector	Investment property sector	Constructions contracts sector	Cleaning, services and security sector	Total
Segments revenue	386,144	665,438	98,636	1,843,332	2,993,550	506,916	87,222	164,669	2,272,178	3,030,985
Segments costs	(333,822)	(28,667)	(133,831)	(1,812,861)	(2,309,181)	(336,121)	(11,393)	(138,456)	(2,166,393)	(2,652,363)
Operation results	52,322	636,771	(35,195)	30,471	684,369	170,795	75,829	26,213	105,785	378,622
Unallocated expenses	-	-	-	-	(1,237,152)	-	-	-	-	(688,878)
Allocated finance charges	-	-	-	-	-	-	-	-	(17,411)	(17,411)
Other allocated revenue	-	4,508,522	-	-	4,508,522	-	1,714,500	-	4,803	1,719,303
Unallocated revenue	-	-	-	-	3,126,502	-	-	-	-	1,128,523
Net profit	-	-	-	-	7,082,241	-	-	-	-	2,520,159
Other information										
Segments assets	30,551	23,208,728	13,062	3,555,123	26,807,464	354,035	11,331,617	9,689	1,846,859	13,542,200
Unallocated assets	-	-	-	-	25,541,833	-	-	-	-	21,312,927
					52,349,297					34,855,127
Segments liabilities	232,699	3,321,250	108,195	2,261,419	5,923,563	489,156	450,000	83,777	470,993	1,493,926
Unallocated liabilities	-	-	-	-	4,592,083	-	-	-	-	342,530
					10,515,646					1,836,456
Depreciation	5,080	-	1,454	393,417	399,951	-	-	-	438,801	438,801
Unallocated Depreciation	-	-	-	-	32,395	-	-	-	-	5,647
					432,346					444,448

Geographic segments

The Company's assets and liabilities are based in the state of Kuwait.

29. Contingent liabilities and commitments

	31 December 2005	31 December 2004 (unconsolidated)
Letters of guarantee	4,353,379	1,896,046
Unpaid portion of purchase and development of computer program	1,600	1,600

30. Comparative figures

Where necessary, certain comparative figures were reclassified to conform with the current year presentation.

31. General

The figures in the financial statements and related notes are rounded to the nearest Kuwaiti Dinars.