

# 06 AQAR REAL ESTATE INVESTMENTS ANNUAL REPORT





His Highness  
Sheikh Nawaf Al-Ahmad  
Al-Jaber Al-Sabah  
Crown Prince of the State of Kuwait



His Highness  
Sheikh Sabah Al-Ahmad  
Al-Jaber Al-Sabah  
Amir of the State of Kuwait



His Highness  
Sheikh Naser Al-Mohammad Al-Sabah  
Prime Minister of  
the State of Kuwait



Aqar Real Estate Investments Co. (K.S.C.C.)

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## MESSAGE FROM THE CHAIRMAN



Dear Shareholders

For myself and on behalf of my brothers the directors of the Board, I am pleased to present to you the annual report on the company's operations during the fiscal year ended on 31st December 2006. This report includes the most significant works and achievements which were realized during this year as well as the statement of profit and loss.

Dear Shareholders

The year 2006 witnessed the completion of the efforts which the company started in 2005 to build up diversified investment assets that are expected to be fruitful in the nearest future and to realize smooth and distinctive operational returns through the development and construction of unique assorted real estate projects. The company has extended its real estate business abroad through participations in real estate projects and securing strategic partners to participate with in joint venture projects in the nearest future.

### Financial Results

Although 2006 witnessed significant economical fluctuations at all investment sectors including the real estate sector and despite the fact that most of the company projects are in the process of development, the company managed to realize total revenues of KD 1,254,783. Overheads and administrative expenditures amounted to KD 467,941. Net profit totaled KD 760,379 while the share return amounted to 3.54 Fils.

### Real Estate and Investment Development

During 2006, the company had interests to participate in various real estate projects either through direct ownership projects or via strategic partnerships with other companies.

The American School Teaching Staff Project in Mahaboulah area is under execution based on a "Lease to own" scheme. This project is unprecedented in the State of Kuwait. The company is keen to develop more similar projects to a number of potential targeted clients. The first phase of design and procurement of licenses required to complete Mahaboulah Residential Towers Project has been commenced. The idea of this project was based on broad level of flexibility in case of selling the property partially or wholly. The company entered into a partnership aimed at completing a distinctive high level luxurious project in Barsha Area in Dubai, UAE. Further, the company entered into a joint venture with a strategic partner for the completion of Sharq Tower. The obtainment of the required licenses to complete this remarkable project is yet in progress. Procedures to increase the Built Up in this project have been initiated. The purchase contracts for additional space by 400% of the building have been signed with Kuwait Municipality.

Currently, the work for the completion of the first phase design and obtaining the licenses for Shaab Marine Project which the company is constructing on a plot it owns in Shaab marine area directly overlooking the Arabian Gulf Road is advancing diligently.

Additionally, the company has invested in Gulf Spring Real Estate Fund. An agreement has been signed with the Fund naming Aqar Real Estate Company the Fund's strategic partner in the State of Kuwait. These activities shall have a tangible impact on the company results during the forthcoming period.

The management of the company pays special attention to BOT projects. The company through a consortium comprising a number of major companies in Kuwait has developed a BOT project in the Syrian Arab Republic. Currently, the bids are being evaluated by the competent authorities.

The company is proceeding with the search for distinctive opportunities that meet its objectives and satisfy the prospects of the shareholders. We emphasize that the Board of Directors and Executive Management care not to spare any efforts for upgrading the company performance and progress in the real estate sector in local and regional markets alike.

#### **Praise and Appreciation**

I wish to avail myself of this opportunity to express my gratitude and appreciation once again for your constant support provided thus far to the Company Management. Meanwhile, I would like to praise on your behalf the fellow Board Directors for their sincere efforts exerted during the last year as well as the executive management team and all company personnel.



Issam Abdulaziz Al Usaimi  
**Chairman**

## BOARD OF DIRECTORS

Issam Abdulaziz Al Usaimi  
Chairman

Muneer Abdul Mohsen Alsharhan  
Vice Chairman

Yousif Dakheel Al Dakheel  
Board Member

Bader Abdul Aziz Abul  
Board Member

Khaled Abdulaziz Al Usaimi  
Board Member

Soud Abdul Mohsen Al Zeben  
Board Member

Adel Sami Al Meshri  
Board Member

## MANAGEMENT

Emad Abdullah Al Essa  
General Manager

Hamed Fatouh Hamed  
Financial & Administration Manager

Khaled Abdul Aziz Al Saleh  
Marketing Manager

Soud Abdullah Al Osaimi  
Assistant Manager of  
Real Estate Investments Department

Abdulaziz Abdulrazzaq. Al Mejel  
Assistant Manager of  
Project Development Department

# Company Projects







### American School Project

This project is designated as a residential building for the teaching staff of the American School of Kuwait. It is being constructed on an area of 4000 square meters in Mahaboulah area. The building consists of two residential towers and a basement. The project includes 110 attractive housing units of various areas, it also includes car parking, outdoor swimming pool, fitness club, shopping and other service facilities.





### Shaab Marine Project

This project is located in Shaab Marine quarter over an area of 1000 square meters. It directly overlooks the Arabian Gulf Road. The project consists of a residential tower comprising 15 floors in addition to a basement. The project includes 19 distinctive residential units in addition to a fitness club, tennis court, swimming pool, and outdoor park, sporting, and kids entertainment areas. The project is distinguished by the luxurious design and unique location.



### Mahaboulah Residential Project

The project is situated in Mahaboulah over in area of 3000 square meters. The project consists of 2 residential towers. The project comprises of 8 villas over an area that exceeds 400 square meters in addition to 52 luxurious flats of various areas, 2 fitness clubs, out door swimming pool, out door parks and car parking. The project has luxurious high level designs that match the latest developments and marvels of modern taste.



## Barsha Project

This project is situated in Dubai city, United Arab Emirates at Barsha Area (1). It is to be constructed on an area of 3,221 square meters. The project consists of 3 level basements, ground floor, and six floors. It is distinguished for the multiuse design in which the ground floor can be utilized as commercial area while the five other floors can be used as administrative offices. The top level can be used as residential floor in addition to the use of basements as car parkings.





## Sharq Tower Project

The project is located in Sharq Area near Raya Complex and rests on an area of 3000 square meters, it is 34 floors high. This project will be developed as administrative offices. It is distinguished for the availability car parking, distinctive location and modern design. Sharq Tower design won the architecture award for the year 2007 held in cannes international property exhibition.





### BOT Projects (Build, Operate and Transfer)

The company was awarded the first investment opportunity under BOT system. The company submitted the best offers to utilize a space of 3000 square meters in a distinctive area to construct a multi activity complex. The design has been completed and the procurement of licenses required to commence execution is under way. The project will be invested in and managed by Aqar Real Estate Investments Company for 20 years following completion. This project will be Aqar's first BOT project.



The company has also prequalified for other BOT projects as it has submitted technical and financial bids for a significant project to be invited by the State. The architectural designs have been prepared and are in place for the upcoming project.

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## AUDITOR'S REPORT

### To The Shareholders Of AQAR Real Estate Investments Company K.S.C. (Closed)

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

#### Directors' Responsibility For the Consolidated Financial Statements

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

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, 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 Requirements

Furthermore, in our opinion proper books of account have been kept by the parent company and consolidated the 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 group or on its financial position.



WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
OF ERNST & YOUNG  
28 February 2007  
Kuwait



ALI A. AL HASAWI  
LICENCE NO. 30 A  
BDO BURGAN  
INTERNATIONAL ACCOUNTANTS



## CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

	Note	2006 KD	2005 KD
<b>INCOME</b>			
Gain on sale of investment properties		-	151,642
Realised gain on available for sale investments		3,114	726,848
Unrealised (loss) gain on investments at fair value through income statement		(41,395)	52,575
Change in fair value of investment properties	10	22,913	928,144
Real estate income	3	333,318	304,500
Dividend income		75,455	17,500
Rental income		20,537	25,600
Share of profits of associates	9	484,693	-
Interest income		348,081	387,656
Other income		8,067	3,952
		<b>1,254,783</b>	<b>2,598,417</b>
<b>EXPENSES</b>			
Staff costs		(298,718)	(344,062)
Finance costs		(2,349)	-
General and administrative expenses		(157,468)	(168,811)
Depreciation		(9,406)	(8,271)
		<b>786,842</b>	<b>2,077,273</b>
<b>PROFIT BEFORE KFAS, NLST AND DIRECTORS' FEES</b>			
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(7,082)	(18,695)
National Labour Support Tax (NLST)		(19,381)	(45,271)
Directors' fees		-	(40,000)
		<b>760,379</b>	<b>1,973,307</b>
<b>PROFIT FOR THE YEAR</b>			
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>			
	4	<b>fls 3.54</b>	<b>fls 9.18</b>

The attached notes 1 to 23 form part of these consolidated financial statements.

## CONSOLIDATED BALANCE SHEET

Year ended 31 December 2006

	Note	2006 KD	2005 KD
<b>ASSETS</b>			
Cash and bank balances	5	183,892	984,707
Fixed deposits	5	4,690,825	5,629,658
Investments at fair value through income statement	6	266,180	307,575
Accounts receivable and other assets	7	1,574,181	1,644,840
Available for sale investments	8	5,645,531	4,282,464
Investments in associates	9	6,293,347	4,527,784
Investment properties	10	4,257,000	6,184,087
Properties under development	11	2,780,027	56,390
Furniture and equipments		24,355	32,914
<b>TOTAL ASSETS</b>		<b>25,715,338</b>	<b>23,650,419</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Term loan	12	1,445,700	-
Accounts payable and other liabilities	13	224,406	270,990
		<b>1,670,106</b>	<b>270,990</b>
<b>Equity</b>			
Share capital	14	21,500,000	20,000,000
Share premium		129,167	129,167
Statutory reserve	15	424,714	346,030
General reserve	15	424,714	346,030
Cumulative changes in fair values		(179,629)	(85,053)
Retained earnings		1,746,266	2,643,255
		<b>24,045,232</b>	<b>23,379,429</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>25,715,338</b>	<b>23,650,419</b>



Issam Abdulaziz Al Usaimi  
Chairman



Emad Abdullah Al-Essa  
General Manager

The attached notes 1 to 23 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF HANGES IN EQUITY

Year ended 31 December 2006

	Share capital	Share premium	Statutory reserve	General reserve	Cumulative changes in fair values	Retained earnings	Total
	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2006	20,000,000	129,167	346,030	346,030	(85,053)	2,643,255	23,379,429
Net movement in fair value of available for sale investments during the year	-	-	-	-	(94,576)	-	(94,576)
Total expenses recognised directly in equity	-	-	-	-	(94,576)	-	(94,576)
Profit for the year	-	-	-	-	-	760,379	760,379
Total (expenses) and income for the year	-	-	-	-	(94,576)	760,379	665,803
Issue of bonus shares ( Note 14)	1,500,000	-	-	-	-	(1,500,000)	-
Transfers to reserves	-	-	78,684	78,684	-	(157,368)	-
<b>Balance at 31 December 2006</b>	<b>21,500,000</b>	<b>129,167</b>	<b>424,714</b>	<b>424,714</b>	<b>(179,629)</b>	<b>1,746,266</b>	<b>24,045,232</b>
Balance at 1 January 2005	20,000,000	129,167	138,303	138,303	(25,865)	1,085,402	21,465,310
Net movement in fair value of available for sale investments during the year	-	-	-	-	(59,188)	-	(59,188)
Total expenses recognised directly in equity	-	-	-	-	(59,188)	-	(59,188)
Profit for the year	-	-	-	-	-	1,973,307	1,973,307
Total (expenses) and income for the year	-	-	-	-	(59,188)	1,973,307	1,914,119
Transfers to reserves	-	-	207,727	207,727	-	(415,454)	-
Balance at 31 December 2005	20,000,000	129,167	346,030	346,030	(85,053)	2,643,255	23,379,429

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Note	2006 KD	2005 KD
<b>OPERATING ACTIVITIES</b>			
Profit before KFAS, NLST and Directors' Fees for the year		786,842	2,077,273
Adjustments for:			
Depreciation		9,406	8,271
Realised gain on available for sale investments		(3,114)	(726,848)
Unrealised loss (gain) on investments at fair value through income statement		41,395	(52,575)
Gain on sale of investment properties		-	(151,642)
Real estate income		(333,318)	(304,500)
Change in fair value of investment properties		(22,913)	(928,144)
Dividend income		(75,455)	(17,500)
Interest income		(348,081)	(387,656)
Share of profits of associates		(484,693)	-
Provision for employees' end of service benefits		23,311	28,185
		(406,620)	(455,136)
Changes in operating assets and liabilities:			
Accounts receivable and other assets		451,083	(243,411)
Accounts payable and other liabilities		7,608	(4,832,551)
Cash from (used in) operation		52,071	(5,531,098)
Contribution paid to KFAS		(18,695)	(10,377)
Paid to NLST		(45,271)	-
Directors' fees paid		(40,000)	-
Net cash used in operating activities		(51,895)	(5,541,475)

The attached notes 1 to 23 form part of these consolidated financial statements.

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 31 December 2006

	Note	2006 KD	2005 KD
<b>INVESTING ACTIVITIES</b>			
Purchase of available for sale investments		(1,442,929)	(4,391,374)
Proceeds from sale of available for sale investments		-	2,974,837
Purchase of investment properties		-	(3,656,006)
Proceeds from sale of investment properties		-	4,951,705
Additions to properties under development		(773,637)	(56,390)
Investments in associates		(1,308,655)	(4,527,784)
Net movement in fixed deposits		(1,787,630)	14,230,000
Purchase of furniture and equipment		(847)	(14,353)
Interest income received		328,760	317,421
Dividend income received		63,855	17,500
Net cash (used in) from investing activities		(4,921,083)	9,845,556
<b>FINANCING ACTIVITIES</b>			
Proceeds from term loan		1,445,700	-
Net cash from financing activities		1,445,700	-
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(3,527,278)</b>	<b>4,304,081</b>
Cash and cash equivalents at beginning of the year		6,614,365	2,310,284
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>5</b>	<b>3,087,087</b>	<b>6,614,365</b>

The attached notes 1 to 23 form part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

### 1 - ACTIVITIES

The group comprises Aqar Real Estate Investment Company K.S.C. (Closed) (the parent company) and its wholly owned consolidated subsidiary, Al Ro'oya International Real Estate Company K.S.C. (the group). The parent company was established in April 1997 and listed on the Kuwait Stock Exchange on 11 April 2005. The group is engaged in real estate development and other real estate investment activities.

The consolidated financial statements of 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 28 February 2007. The general assembly of the equity holders of the parent company has the power to amend these consolidated financial statements after issuance.

The address of the parent company's registered office is PO Box 20017, Safat 13061, State of Kuwait.

### 2 - SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

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

The International Accounting Standards Board (IASB) has issued IFRS 7 "Financial Instruments: Disclosures". The application of IFRS 7 which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks.

The consolidated financial statements have been presented in Kuwaiti Dinars.

#### Accounting convention

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments and investment properties.

The accounting policies are consistent with those used in the previous year, except for the newly adopted policy in respect of financing income which is discussed under recognition of income.

## 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for

the year ended 31 December 2006, and the financial statements of its subsidiary prepared to that date, using consistent accounting policies.

All significant inter-company balances and transactions have been eliminated on consolidation.

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 upto the date of disposal, as appropriate.

Minority interests represent the portion of profit or loss and net assets not held by the group and are 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 interests are 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.

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.

### Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Income from sale of investment properties*

Income from the sale of investment properties is recognised when the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property;
- The group's receivable is not subject to future subordination; and
- The group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

## 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Income from pre-completion real estate sales*

Revenue on pre-completion real estate sales is recognised on the basis of percentage completion based on an independent survey of work performed or cost incurred to date as a proportion of total estimated cost or other suitable methods depending on the nature of the contract, as and when all the following conditions are met:

- The buyer's investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property;
- The construction contract execution is finished;
- The buyer is irrecoverably committed; and
- The aggregate sales proceeds and costs can be reasonably estimated.

### *Financing income on pre-completion real estate assets*

Financing income on pre-completion real estate assets are recognised on an effective yield basis.

### *Interest income*

Interest income is recognised on a time proportion basis, taking in to account the principal outstanding and the rate applicable.

### *Rental income*

Rental income is recognised on an accrual basis.

### *Dividend income*

Dividend income is recognised when the right to receive payment is established.

### **Finance costs**

Finance costs are recognised on a time proportion basis taking into account the outstanding balance payable and applicable interest rate.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances and short-term deposits maturing within three months from the date of inception net of any overdraft balances and balances secured for the term loans.



## 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments

The group classifies non-trading investments upon initial recognition into the following two categories:

- Investments carried at fair value through income statement
- Available for sale

#### *Investments at fair value through income statement*

Investments classified as “Investments at fair value through income statement” upon initial recognition are remeasured at fair value with all changes in fair value being recorded in the consolidated income statement. Transaction costs associated with the acquisition are expensed when incurred.

#### *Available for sale investments*

After initial recognition at cost being the fair value of the consideration given including translations costs, available for sale investments are remeasured at fair value unless fair value cannot be reliably measured.

Changes in fair value of available for sale investments are reported as a separate component of equity until the investment is either derecognised or is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

### 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.

### Impairment of financial assets

An assessment for a financial asset or a group of financial assets is made at each balance sheet date to determine whether there is an objective evidence that a financial asset or a specific group of financial assets may be impaired. If such an evidence exists, an impairment loss is recognised in the consolidated income statement.

#### Impairment is determined as follows:

- (a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective rate of return;
- (b) for assets carried at fair value, impairment is the difference between cost and fair value; and
- (c) for assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

## 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

### 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.

### Investments in associates

An associate is an entity over which the group exerts significant influence. Investment in associates is accounted for under the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale under IFRS 5.

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.

## 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 either to the parent company's reporting date or to a date not earlier than three months of the parent company's reporting date using consistent accounting policies. Where practicable, adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of the associates and the parent company's reporting date.

### Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are remeasured at fair value on an individual basis based on a valuation by independent registered real estate valuer. The valuation reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement.

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

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.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the group as an owner occupied property becomes an investment property, the group accounts for such property at depreciated cost less cumulative impairment losses up to the date of change in use.

## 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For a transfer from properties under development inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement. When the group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

### Properties under development

Properties acquired, constructed or in the course of construction for sale are classified as properties under development. Unsold properties are stated at the lower of cost or net realizable value. Sold properties in the course of development are stated at cost plus attributable profit/loss less progress billings. The cost of properties under development includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property. The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed. As that stage, cost, attributable profit and progress billings are eliminated from properties under development.

### 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.

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

## 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and accruals**

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

### **Provision for end of service indemnity**

Provision for end of service indemnity is calculated on the employees' accumulated periods of service at the balance sheet date in accordance with the Kuwait labour law for the private sector and the company's bye-laws.

### **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.

### *Investments*

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

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to 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, if any.

### *Investment properties*

Fair value is determined based on external valuation by independent, registered real estate valuers which have relevant experience in the real estate market.

## 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *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

### **Judgements**

In the process of applying the group's accounting policies, the parent company's directors have made the following 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.

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.

The group classifies investments as trading if they are acquired primarily for the purpose of making a short-term profit by the dealers.

Classification of investments as fair value through income statement depends on how the directors monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as at fair value through income statement.

All other investments are classified as available for sale.

## 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Impairment of investments*

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

### **Estimation uncertainty**

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

### *Valuation of unquoted equity investments*

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

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- 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. There are a number of investments where this estimation cannot be reliably determined. As a result these investments are carried at cost less any impairment in value.

## 3 - REAL ESTATE INCOME

	2006 KD	2005 KD
Sales	898,200	1,421,000
Cost of sales	770,781	1,116,500
Trading profit	127,419	304,500
Finance income	205,899	-
	333,318	304,500

Real estate income relates to pre-completion real estate sales. The average interest rate attributable to the sale of pre-completion assets is 12.55%. The project percentage of completion used to calculate the trading profit has been determined at 34.02% based on the costs incurred to date as a proportion of the total projected costs.

#### 4 - BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2006	2005
Profit for the year (KD)	760,379	1,973,307
Weighted average number of shares outstanding during the year	215,000,000	215,000,000
Basic and diluted earnings per share	fls 3.54	fls 9.18

The comparative earnings per share has been restated for bonus shares issued in 2006.

#### 5 - CASH AND CASH EQUIVALENTS

	2006 KD	2005 KD
Cash and bank balances	183,892	984,707
Fixed deposits	4,690,825	5,629,658
Less: fixed deposits blocked against term loan (Note 12)	4,874,717 (1,787,630)	6,614,365 -
	3,087,087	6,614,365

Bank balances represent balances in non-interest bearing current accounts with high credit quality financial institutions.

Fixed deposits are with local banks and yield an effective interest rate ranging from 5.75% per annum to 6.5% per annum (2005: 5.0% to 5.1%) and mature within three months of the balance sheet date.

#### 6 - INVESTMENTS AT FAIR VALUE THROUGH INCOME STATEMENT

This represents an investment in a mutual fund investing in real estate.



## 7 - ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2006 KD	2005 KD
Accounts receivable	1,479,318	1,551,467
Amounts due from associates (Note 16)	53,550	-
Accrued interest and other assets	41,313	93,373
	<b>1,574,181</b>	<b>1,644,840</b>

Accounts receivable primarily comprises balances receivable on pre-completion sale of property under development.

## 8 - AVAILABLE FOR SALE INVESTMENTS

	2006 KD	2005 KD
Managed portfolios (comprising quoted securities)	953,831	1,034,824
Investment in real estate fund (unquoted)	1,445,700	-
Unquoted equity investments	3,246,000	3,246,000
Quoted equity investments	-	1,640
	<b>5,645,531</b>	<b>4,282,464</b>

The managed portfolios are managed by related parties.

Unquoted equity investments are carried at cost because fair value can not be reliably measured. In the opinion of management, there are no circumstances that would indicate any impairment in the value of these securities at the balance sheet date.

## 9 - INVESTMENTS IN ASSOCIATES

The group's associates consist of the following companies:

Name	Country of Incorporation	% equity interest 2006	2005	Activities
Al Mal & Aqar Joint Projects Company W.L.L.	Kuwait	33.3%	33.3%	Real estate development
Al Barsha Real Estate Company W.L.L.	Kuwait	35.0%		Real estate development

	2006 KD	2005 KD
<b>Carrying amount of investments in associates:</b>		
At 1 January	4,527,784	-
Additions during the year	1,308,655	4,527,784
Share of profit of associates	484,693	-
Reclassified to amounts due from associates	(27,785)	-
<b>At 31 December</b>	<b>6,293,347</b>	<b>4,527,784</b>

	2006 KD	2005 KD
<b>Share of associates' assets and liabilities:</b>		
Assets	6,347,768	4,527,785
Liabilities	(54,421)	-
<b>Net assets</b>	<b>6,293,347</b>	<b>4,527,785</b>

	2006 KD	2005 KD
<b>Share of associates' revenue and results:</b>		
Revenue	500,000	-
Profits	484,693	-

Since the associates are recently formed companies, the fair value of these associates is not materially different from the carrying value.

#### 10 - INVESTMENT PROPERTIES

	2006 KD	2005 KD
Balance at 1 January	6,184,087	6,400,000
Purchases during the year	-	3,656,006
Disposals during the year	-	(4,800,063)
Transfers to properties under development	(1,950,000)	-
<b>Change in fair value</b>	<b>22,913</b>	<b>928,144</b>
<b>Balance at 31 December</b>	<b>4,257,000</b>	<b>6,184,087</b>

**11- PROPERTIES UNDER DEVELOPMENT**

	2006 KD	2005 KD
At 1 January	56,390	-
Additions	773,637	56,390
Transferred from investment properties	1,950,000	-
At 31 December	2,780,027	56,390

**12 - TERM LOANS**

The group obtained a short-term revolving loan facility of USD 5,000,000 from a local financial institution. The term loan carries interest rate of 1.25% over LIBOR and is repayable within three months of the balance sheet date. The term loan is secured by fixed deposits in the amount of KD 1,787,630 (Note 5).

**13 - ACCOUNTS PAYABLE AND OTHER LIABILITIES**

	2006 KD	2005 KD
Accounts payable	11,023	8,572
Other liabilities	159,494	224,066
Employees' end of service benefits	53,889	38,352
	224,406	270,990

**14 - SHARE CAPITAL**

The bonus shares of 7.5% of paid up capital as of 31 December 2005 amounting to KD 1,500,000 proposed by the parent company's board of directors were approved by the shareholders at the annual general meeting held on 22 April 2006.

The authorised, issued and fully paid share capital as of 31 December 2006 comprised 215,000,000 (2005: 200,000,000) shares of 100 fils each.

**15 - RESERVES****a) Statutory reserve**

In accordance with the Commercial Companies Law and the parent company's Articles of Association, 10% of the profit for the year before directors fees, contribution to Kuwait Foundation for the Advancement of Sciences and National Labour Support Tax has been transferred to the statutory reserve. The parent company may discontinue such transfer when the reserve totals 50% of paid-up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the payment of dividend of that amount.

**b) General reserve**

In accordance with the parent company's Articles of Association, 10% of the profit for the year before directors fees, contribution to Kuwait Foundation for the Advancement of Sciences and National Labour Support Tax has been transferred to the general reserve. The parent company may resolve to discontinue such annual transfers in accordance with a resolution of the parent company's ordinary general meeting based on proposal submitted by the parent company's board of directors.

**16 - RELATED PARTY TRANSACTIONS**

These represent transactions with certain parties (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.

The income and expenses in respect of related parties included in the consolidated income statement are as follow:

	2006 KD	2005 KD
Real estate income	-	46,705
Management fees	1,480	1,373

Balances in respect of related parties included in the consolidated balance sheet are disclosed in Note 7.

**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	139,150	214,578
Employees' end of service benefits	15,086	17,942
	154,236	232,520

**17 - SEGMENT INFORMATION**

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment) which is subject to risks and rewards that are different from those of other segments. The majority of the group's assets and operation are in the real estate business and are located in the State of Kuwait. The segmental revenues earned by the assets and operation in business segment other than real estate and/or outside the State of Kuwait are immaterial.

## **18 - RISK MANAGEMENT**

### **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 concentrations of credit risk, consist principally of cash and bank balances, fixed deposits and receivables. The group's bank balances and fixed deposits are placed with high credit quality financial institutions.

### **Interest rate risk**

Deposits carry interest at commercial rates and mature within three months from the deposit date.

### **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 the directors ensures that sufficient funds and borrowing lines are available to meet any commitments as they arise.

### **Market risk**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices.

The group is exposed to market risk with respect to its equity and real estate investments.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and the directors' estimate of long and short term changes in fair value.

## **19 - PROPOSED DISTRIBUTION**

For the year ended 31 December 2006, the parent company's Board of Directors does not propose to distribute dividends. For the year ended 31 December 2005, the parent company distributed bonus shares of 7.5% of paid up capital as of 31 December 2005 amounting to KD 1,500,000 following approval of the Annual General Meeting held on 22 April 2006.

## **20 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Except for the available for sale investments carried at cost (Note 8), in the opinion of the parent company's directors the carrying amounts of financial assets and liabilities as at 31 December 2006 approximated their fair values.

## **21 - COMMITMENTS AND CONTINGENCIES**

The group has commitments in respect of future capital expenditure amounting to KD 1,494,639 (2005: KD 2,265,420) relating to capital work in progress.

## **22 - FIDUCIARY ASSETS**

The aggregate value of assets held in a trust or fiduciary capacity by the group at 31 December 2006 amounted to KD 2,891,400 (2005: Nil).

## **23 - COMPARATIVE AMOUNTS**

Prior year gain on sale of properties under development, previously classified as such, has been reclassified as real estate income to conform with the presentation in the current year. This reclassification does not affect previously reported profit or equity.