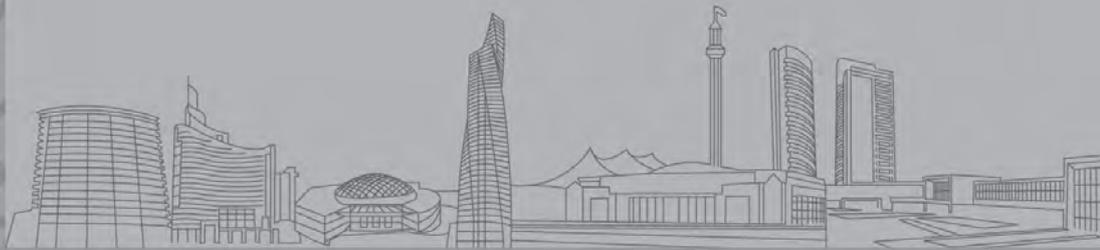


ANNUAL REPORT 2005



Annual Report 2005



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P.O.Box: 9144 Safat 24031 Kuwait

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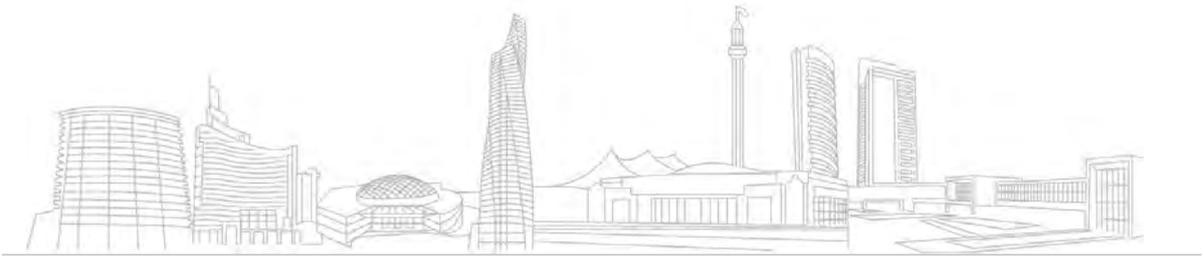
H.H. Sheikh Sabah Al-Ahmad Al-Sabah
Amir of the State of Kuwait



H.H. Sheikh Nawwaf Al-Ahmad Al-Sabah
Crown Prince of the State of Kuwait



H.H. Sheikh Nasser Al-Mohamed Al-Sabah
Prime Minister of the State of Kuwait



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Perseverance in performance
and continuity in achievements

Board of Directors



Abdul Fatah M. R. Marafie
Chairman & Managing Director



Adwan M. Al-Adwani
Deputy Chairman



Abdullah A. Al-Qandi
Board Member



Saeed Abdullah Al-Awadhi
Board Member



M. Jasim Al-Wazzan
Board Member



Abdul Aziz M. Al-Hassawi
Board Member



Ibrahim M. Al-Ghanim
Board Member



Hussain Abdullah Jowhar
Board Member

Chairman's Message

Dear honored Shareholders,

On behalf of the Board of Directors, it is my great pleasure to present to you the 2005 annual report of The Commercial Real Estate Company including the most important accomplishments and achievements during the year, in addition to the financial statements, the auditors' report and the report of the Shari'a Board for the financial year ending 31st of December, 2005.

Ladies and Gentlemen, during the year 2005, Al-Tijaria continued its strong performance with the objective to achieve the highest returns available to its shareholders. These accomplishments that have been achieved are the outcome of a carefully developed and adopted strategy. This strategy has led to the increase in net profit for the company in 2005 to KD 33 million in comparison with KD 26.9 million in 2004. Also, the shareholders' equity had increased by 5% in 2005 in comparison with 2004. The assets of the company increased from KD 234 million in 2004 to KD 284 million in 2005.

Therefore, and based on Al-Tijaria performance and results for the year ending 31st December, 2005, the Board of Directors is recommending the distribution of 10% cash dividends and the distribution of bonus shares by 10% of the total company's capital.

Ladies and Gentlemen, the year 2005 was another distinguished year for Al-Tijaria. As the company maintained its growth, accompanied with expansion in its scope of businesses, and strengthen its portfolio of real estate properties and investments, all for the purpose of diversifying its assets and minimizing the risk exposure. This will help us achieve the best results for our shareholders, in addition to pursuing the best methods in achieving our objectives.

Al-Tijaria is implementing a conservative strategy which is focused on measuring risk for its projects and investments for the purpose of seeking the best available opportunities. The strategy will have a great positive impact on the company's future, which was not fully exploited in the year 2005, but the seeds of this future has already been linked to the year 2005. This strategy confirms the fixed steps that has been taken towards more prosperity, success, and revenue generating.

At the beginning, Al-Tijaria had focused its investments and activities within the State of Kuwait. The focus was set on the real estate sector. In addition to that, different sectors in the services area has been entered; like the medical sector, and the educational sector and other sectors. This focus on the selected sectors has contributed and will have considerable effects on the sources of revenues in the future.

Also, the company has started seeking the best available investment opportunities in one of the most viable sectors in the world. The medical and healthcare services sector. The company has finally concluded the establishment of Al-Shifa'a Al-Kuwaitia Medical Care Services Company, which will play a core role in Al-Tijaria new strategy to invest in this essentially important, and vital sector. Also, Al-Tijaria has completed all the required studies concerning the commencement of constructing and operating an integral maternity and pediatrics hospital, in alliance and cooperation with one of the most reputable medical centers in the world, the University Medical Center Hamburg-Eppendorf in the Federal Republic of Germany, which will be owned by Al-Shifa'a Al-Kuwaitia Medical Care Services Company.

Al-Tijaria had also invested in the sector of educational services, by joining forces with the International Integrated Educational Services Company which is licensed for the establishing and operating an integral college that implements the Australian educational system.



And for the purpose of adding new forces for work in the real estate sector, Al-Tijaria had established two real estate companies, Al-Motajarah Real Estate Company and Al-Areen Real Estate Company, as it is expected from those two companies to have an essential role in the real estate sector in the State of Kuwait.

The company added during the year new assets described as being landmarks in the local real estate market by acquiring distinguished real estates properties. Above that, Al-Tijaria had also acquiring different stakes in several promising companies in various sectors and activity fields within and complementing the scope of its activities.

The year 2005 marked the first steps of Al-Tijaria outside the geographic borders of the State of Kuwait. For the purpose of geographically expanding its activities to the markets of the Gulf Cooperation Council Countries (especially the Kingdom of Saudi Arabia, the Kingdom of Bahrain, and the United Arab Emirates - State of Abu Dhabi), where The company had invested in one the most important projects in the Kingdom of Saudi Arabia, at The Holy City of Makkah, where the investment had targeted the real estate and investment sectors specifically.

Al-Tijaria had also entered in a group of strategic partners, and contributed in major investments in the Kingdom of Bahrain such as the establishment of an investment bank which started its activities in the last quarter of 2005. In addition to that, a high grade project in the Kingdom of Bahrain is expected to have a very high value after the completion of its construction and the start of its operations, both in the Kingdom of Bahrain and the region as a whole.

Also, a land was purchased at Hamad City in the Kingdom of Bahrain, where a team is currently reviewing and studying the best alternative to develop this land.

Al-Tijaria, and for the first time in its history, had issued Islamic Sokuk for a total value of \$100 million. The subscription witnessed a huge demand from investors, which is a clear evidence for the confidence of investors in our company.

Dear Shareholders, our dependence on God, and thereafter our wisdom and serious studies for the benefit of your company, through a strategy that was set for the success and the achievement of the best returns, has all the reflections of the methods approved and implemented by the Board of Directors.

We renew our promises that we have achieved. The continuity for of the company in the achievement of high revenues, the growth of its performance indicators is an evidence of the strength, power, and success of the strategy set and the financial position of the company, particularly in markets with intense fluctuation.

We are following the path set by our beloved His Highness Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah, may his soul rest in peace, and His Highness Sheikh Saad Al-Abdullah Al-Salem Al-Sabah, and under the high directions and wisdom of His Highness the Amir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and His Highness the Prime Minister, Sheikh Nasser Al-Mohammad Al-Ahmad Al-Sabah, may God preserve them all.

Finally, I would like to thank all of you for the confidence, which is of a great support to us in our path and I would like to thank the members of the Board for their valuable contribution in the achievement of this performance and these revenues. I also want to thank all the employees in Al-Tijaria for their major efforts resulting into a high performance of which we are all proud of. We ask God to grant us success for the achievement of the objectives and direct our steps for the benefit of our company and our country Kuwait.

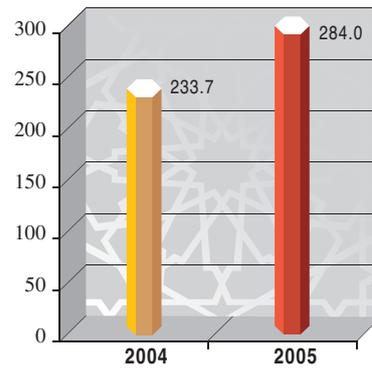


Abdul Fatah Mohammad Rafie Marafie
Chairman & Managing Director

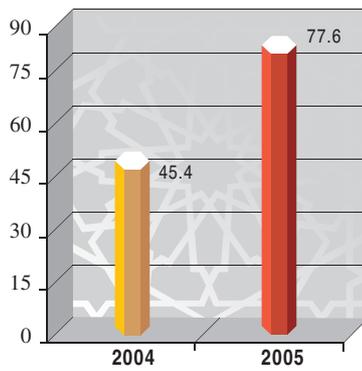
Financial Ratios

Assets & Shareholders' Equity

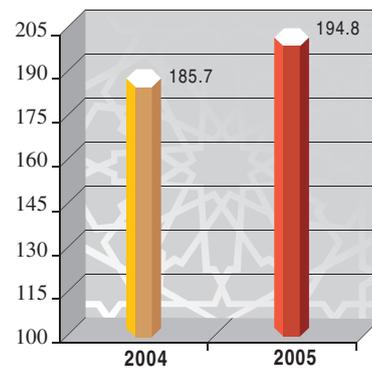
Total Assets (Millions)



Investment Properties (Millions)



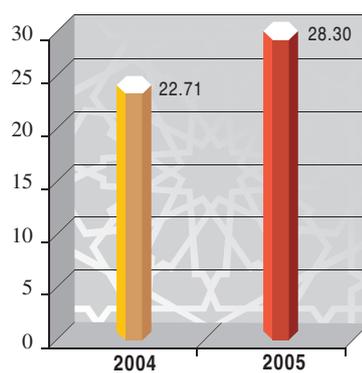
Shareholders' Equity (Millions)



Financial Ratios

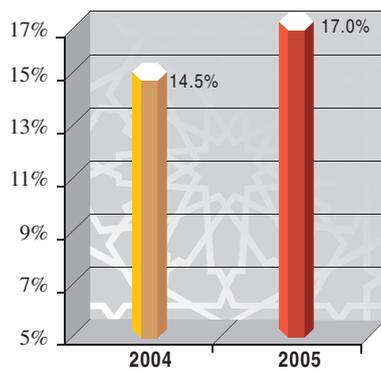
Share Profit

Earning per share (Fils)

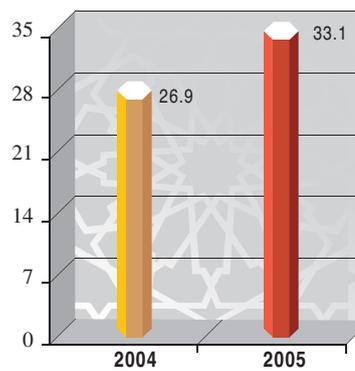


Profitability & Returns

Return on Equity (%)



Net Income (Millions)



An innovative Real Estate approach...
accordance to Sharia (Islamic Laws)

Al Mashora House

Report Sharia Audit Committee

The Shareholders of the Commercial Real Estate Co.

Dear Sirs,

According to the commitment contract signed with us, we checked the contracts and transactions concluded by the company to give our opinion concerning the commitment of the company towards the provisions of the Islamic Sharia', as already stated in the opinions, directions and legal resolutions issued by us during the period ending on 31.12.2005.

The liability of observing the provision of Islamic Sharia as stated by us in the execution of the contracts and transactions shall be borne by the Administration of the company and our liability is limited to giving an independent opinion concerning the commitment of the company thereto according to our audit.

We performed our audit according to the standard measures issued by the Accounting and Review Authority of the Islamic financial establishments requiring planning and performance of audit procedures and review to obtain all information, interpretations and declarations considered necessary to provide us with sufficient proofs for a reasonable confirmation that the company is bound to the provisions of the Islamic Sharia' as stated by us.

According to our request to confirm that the contributions of the company in other companies are conformant to the provisions of the Islamic Sharia', the company confirms that it will study the positions of the companies in which it contributed to ensure their conformity to the Sharia standards approved by us upon the issue of the financial reports of these companies and checking the final results thereof.

In our opinion, the company, during the specified period, performed its procedures to guarantee the commitment of the execution of the contracts and transactions Sharia Audit Committee in accordance with the provisions of the Islamic Sharia' as stated by the opinions, directions and legal declarations issued by us during the specified period.

Dr. Abdul Razzaq Khalifah Al-Shayji
Head of Committee

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by several horizontal lines and a final flourish.

Dr. Essam Khalaf Al-Enezi
Member

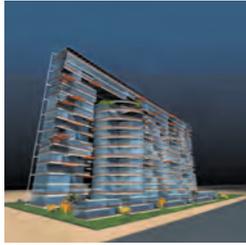
A handwritten signature in black ink, featuring a large, stylized 'E' followed by a series of loops and a final flourish.

Dr. Abdul Bari Mohammad Ali Mushel
Executive Member

A handwritten signature in black ink, starting with a large, stylized 'M' followed by several horizontal lines and a final flourish.

Faithful to your Trust

Our Projects





Kuwait Trade Center

Kuwait Trade Center (KTC) is a gem in the heart of the city. It brings an added dimension to the business area of the city. The project is situated on Al-Sour street, and its 41 floors overlook Al-Sour gardens. KTC is a commercial complex consisting of a basement, ground floor, mezzanine, first floor, which includes commercial shops, restaurants, places of entertainment, health club and a swimming pool and office tower of 35 floors. Every six floors there is an internal garden. The building is equipped with all the most up to date services and systems.

The project is under construction, concrete works for the basement, the ground floor and both mezzanines are completed along with the related electro-mechanical services. The work is in progress according to the project work program.



Symphony

Symphony Hotel and Complex consists of two towers; a tourist hotel with 20 floors and an office tower with 12 floors. The project also includes a commercial complex of four floors containing commercial shops, restaurants, cafes and health club. The project over looks Arabian Gulf Street to the north, and Salem Al-Mubarak Street to the south in Salmiya district with a total area of 11,749m².

The main construction packages had been awarded, mobilized and started on site. The concrete skeleton is in the last stage as the casting works from the second basement up to the 14th floor is completed. The electrical and mechanical works along with the architectural finishing are also in progress in all the project zones and floors. Moreover, the hotel operation has been signed with a well reputed international hotel management firm.





The Dome

The Dome entertainment project is situated on the coastal road in Abu Halifa district, and spreads over an area of 9897.5 m². The project has a very distinctive design. Its proximity to a commercial district made this entertainment project attractive to those wishing to make a different type of investment with a new style.

The project consists of two floors; the ground floor with an area of 4525 m² and the basement with an area of 4193 m². The huge entrance lobby leads to a big hall under the dome which leads to a group of restaurants and cafes. The basement includes a big area for video games, bowling area, billiards hall and cafes overlooking the central area which has beautiful water feature. The building has a panoramic elevator and escalator that connects the basement with the ground floor. The project has full utilities and a car park.

The project is almost completed, all the external cladding and most of the internal finishes are completed, as well as the electro-mechanical works. The project is under the process of handing it over to the Kuwait Municipality.



Al-Shorouq 2

The Al-Shorouq Tower 2 is a commercial office building alongside Jaber Al-Mubarak Street in Sharq area, next to Shorouq Tower 1. Together they form a complex with a distinctive architectural aspect.

The project consist of 21 typical floors, which includes offices, a mezzanine level, ground floor, basement, trade shops, in addition to a floor for mechanical and electrical services. The project is under construction. The second floor concrete slab has been casted and the work for the concrete skeleton of the remaining floors is in progressing along with the mechanical and electrical services. The work is progressing according to the approved Time Schedule of the project.





Al-Bodour Tower

Al-Bdour Tower is located at Ahmad Al-Jaber Street in Sharq on a total plot area 315 m². The project is located at the heart of Kuwait city which harbor all the government and commercial activities.

The tower is a combination of offices in 17 floors excluding the commercial shops which are located at the basement floor, ground floor and mezzanine floor.

The building is equipped with high standard mechanical and electrical services, three super deluxe high speed elevators and provide several services operated by an emergency diesel generator, and external window cleaning system.



Al-Manar Residential Complex

A residential complex located in Bneid Al-Gar area, overlooking on the gulf street (occupation rate is full). It consists of 16 floors, each one includes five flats, four of them have 2 bedrooms (Model 1) and one flat consists of 3 bedrooms (Model 2). All flats overlook on the gulf, the first modal flats include: hall, 2 rooms, two baths and guest toilet, full kitchen, waiter room. The Model (2) include: hall, 3 bedrooms, 3 bathroom, guest toilet, full kitchen and maid's room. The third model is 6 villas No. The complex is provided with the following services:

- Reception hall & seating at ground floor.
- Two floors for underground car parks.
- Swimming pool for adults and children.
- Squash and tennis playgrounds.
- A hall equipped with all sports equipment gym.
- Maintenance & guard around the clock.



X-Zone Project

The X-Zone entertainment project is located in Abu-Halifa district facing the coastal road with plot area of 5,940 m². The design provides an opportunity for family gatherings among different activities. The project consists of basement floor, ground floor and mezzanine floor containing restaurants, coffee shops, games area, other advanced entertainment activities and also includes two level car park. The first phase work is in the process of tendering.



Garden Complex

Residential Project located on a plot area 7,950 m² facing the Fahaheel Express Road in Mahboula.

The design consists of two buildings, 12 floors each. The design consists of two and three bedroom apartments, penthouses and town houses. In contrast to the desert landscape, the Oasis landscape is created in the center of the project to provide a unique experience with swimming pools, children paradise island, waterfall. It also includes other activates such as tennis courts, gymnasium and commercial shops.



Green Hills Complex

Green Hills Project is a residential building located in Mahboula with an area of 5,373 m² 250% FAR adjacent to Fahaheel Expressway. Contains 15 floors and basement 1 & 2. This project consists of a mix of different dwelling units such as individual townhouses, 2 bedroom, 3 bedroom units and penthouses. As well as outdoor and indoor recreational components. For example, health club, squash court, swimming pools, kids play area and landscaped area.



Hilton Resort & Hotel (Kuwait)

This is a new concept for leisure facilities which offers unparalleled luxury. Kuwait Hilton Resort has a five star rating. It is situated on one of the best parts of the Kuwaiti coastline and has a long clean sandy beachfront. This resort offers the complete package for the discerning guest who expects the best of everything. There are many luxurious rooms and furnished chalets, 52 residential chalets and 12 Royal chalets in addition to studio rooms, 5 restaurants, a health spa, and sports club.





Ain Athari- Bahrain Park

Within the projects in which the Commercial Real Estate Co. contributed outside the State of Kuwait on B.O.T system, Ain Athari park project in participation with the markets complexes and Gulf Construction Co. (Bahrain).

It is located at the Kingdom of Bahrain, Sheikh Essa Ben Selman Street, 5 minutes away from the Bridge of King Fahd. The surface of the project is of 170,000 square meters, joining several entertainment means, commercial centers, halls and restaurants.

It is expected to have a special position in the Kingdom of Bahrain, because of its unique components with no other competitor in any other project at the Kingdom, in addition to the location of the project considered a historical sign in Bahrain and Gulf countries.

جوار دائم
وخير قائم
برج هاجر



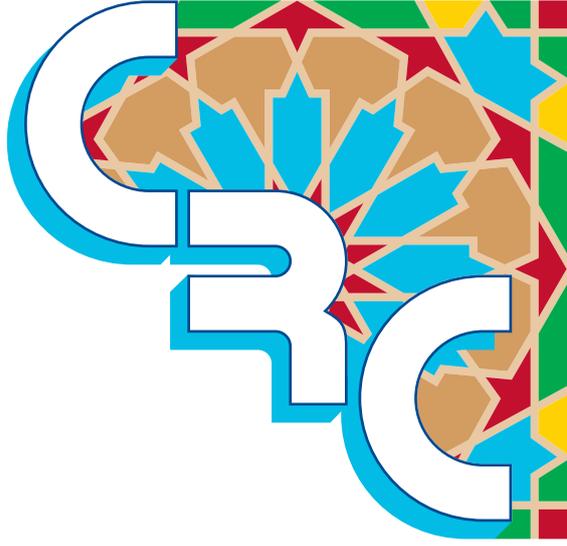
House Towers Project "Hajer Tower"

Directly on the squares of the sanctuary, few steps away from the Kaaba, Hajer Tower is one of the house towers project, on the door of King Abdul Aziz, for a category of people honored by the Islamic religion and seeking the possession of a new house at the threshold of the Kaaba.

Hajer Tower is formed of 31 floors, 10 floors of which are occupied by Movenpick Hotel, and the remaining floors are considered a complex of furnished hotel apartments, available for possession throughout the year. The most important privilege of Hajer Tower is the Administration of Movenpick Hotel that assumes the service of the residential apartments to grant their owners, throughout their residence period, a special feeling of high hotel service.

21 floors of hotel apartments, of which the possession will have a perfect opportunity for rituals and pious deeds away from any occupation because the provision of absolute comfort will be of the specialization of Hajer Tower Administration.

The investment of the Commercial Real Estate Co. in Hajer Tower forms a special addition of valuable investments, in accordance with the strategy of development in the region.



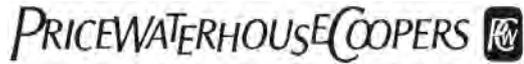
The Commercial Real Estate Company K.S.C. (Closed)
State of Kuwait

Consolidated financial statements and
independent auditors' report
for the year ended 31 December 2005

C o n t e n t s

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Consolidated Statement of Income	34
Consolidated Statement of Changes in Equity	35
Consolidated Statement of Cash Flows	37
Notes to Consolidated Financial Statements	38-60

Independent Auditor's Report



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 Ahmed Al-Jaber Street, Sharq - Kuwait
 Telephone (965) 2408844
 Facsimile (965) 2408855
 E-mail: pwc.kwt@kw.pwc.com

MOORE STEPHENS

PUBLIC ACCOUNTANTS

AL NISF & PARTNERS

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 Al Shaheed Tower, 4th Floor
 Khaled Ben Al-Waleed Street,
 Sharq, Kuwait
 Tel +965 2426 999
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The Commercial Real Estate Company K.S.C. (Closed)

State of Kuwait

Independent auditors' report to the shareholders

We have audited the accompanying consolidated balance sheet of The Commercial Real Estate Company K.S.C. (Closed) ("the Parent Company") and its subsidiary (together referred to as "the Group") as of 31 December 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended.

Respective responsibilities of management and auditors

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

Basis of opinion

Except as discussed in the following paragraph, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note (9.1) to the consolidated financial statements, the Group has recorded its shares in joint investment portfolios managed by others by an amount which is less than the amount referred in portfolio manager's report by KD 22,403,387 as of 31 December 2005 (KD 6,188,937 - as of 31 December 2004). As the portfolio manager did not confirm components of the portfolios, basis of valuation and any related obligations and as we could not perform an alternative audit procedures to satisfy ourselves, we were unable to verify validity of the valuation of these portfolios as of 31 December 2005.

Opinion

In our opinion, except for the effect of such adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had we been able to examine evidence regarding the assertions referred to in the above mentioned paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2005, and of the results of its operations, and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion proper books of accounts have been kept by the Parent Company and the financial information included in the report of the Board of Directors are in agreement with Parent Company's books of account. We further report that we obtained the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all the information that is required by the Commercial Companies Law of 1960, as amended, and by the Articles of Association of Parent Company, 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, or of the Articles of Association of the Parent Company have occurred during the year ended 31 December 2005 that might have had a material effect on the Group's consolidated financial position or on its consolidated results of operations.

A blue ink signature of Bader A. Al-Wazzan, consisting of a stylized 'B' and 'A' followed by a horizontal line.

Bader A. Al-Wazzan

Licence No. 62A

Bader & Co. PricewaterhouseCoopers

Kuwait:

11 March 2006

A blue ink signature of Qais M. Al-Nisf, consisting of a stylized 'Q' and 'M' followed by a horizontal line.

Qais M. Al-Nisf

Licence No. 38A

Moore Stephens Al-Nisf & Partners

Member firm of Moore Stephens International

Consolidated Balance Sheet

As of 31 December 2005

(All amounts are in Kuwaiti Dinars)

	Note	2005	2004 (Restated)
Assets			
Non-current assets			
Property, plant and equipment	3	31,865,950	33,927,759
Projects in progress	4	34,327,689	32,269,719
Investment properties	5	77,598,000	45,436,000
Investment in unconsolidated subsidiaries	6	3,000,000	-
Investment in associates	7	25,945,685	25,436,419
Goodwill arising from acquisition of a subsidiary		371,833	371,833
Investment in joint project	8	7,893,782	-
Available for sale investments	9	46,342,398	46,521,344
		227,345,337	183,963,074
Current assets			
Land and real estate held for trading	10	35,410,501	36,444,126
Inventory		96,888	109,768
Receivables and other debit balances	11	14,217,072	6,530,273
Investments at fair value through profit and loss	12	1,738,976	851,110
Cash and cash equivalents	13	5,184,598	5,759,128
		56,648,035	49,694,405
Total assets		283,993,372	233,657,479

Consolidated Balance Sheet (Continued)

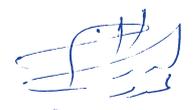
As of 31 December 2005

(All amounts are in Kuwaiti Dinars)

	Note	2005	2004 (Restated)
Equity and liabilities			
Equity			
Share capital	14	121,882,520	121,882,520
Treasury shares	15	(12,446,360)	(9,135,490)
Statutory reserve	16	11,986,847	8,598,280
Voluntary reserve	17	9,165,505	5,776,938
Change in fair value reserve		22,734,598	21,988,029
Group's share in associates' reserves		5,289,429	5,254,665
Gain from sale of treasury shares		12,643	12,643
Retained earnings		36,167,990	31,299,205
Equity attributable to shareholders' of the Parent Company		194,793,172	185,676,790
Minority interest		2,041,859	1,324,868
Total Equity		196,835,031	187,001,658
Non-current liabilities			
End of service indemnity		649,123	483,901
Term financing – Non current portion	18	43,403,176	14,287,476
		44,052,299	14,771,377
Current liabilities			
Payables and other credit balances	19	19,598,319	11,512,966
Term financing – Current portion	18	23,507,723	20,371,478
		43,106,042	31,884,444
Total equity and liabilities		283,993,372	233,657,479



Abdul Fatah M.R. Marafie
Chairman and Managing Director



Adwan M. Al-Adwani
Vice Chairman

Consolidated Statement of Income

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars)

	Note	2005	2004
Profit from investment properties	20	9,217,434	7,513,907
Profit from land and real estate held for trading	21	8,189,987	3,893,466
Hotel income	22	6,274,265	5,911,281
Profit from investments at fair value through profit and loss		1,343,059	1,177,780
Administrative expenses and other charges		(2,500,004)	(1,713,434)
Depreciation of property, plant and equipment		(2,521,447)	(2,771,039)
Foreign currency exchange differences		(118,733)	-
Other operating income		108,848	39,573
Operating profit		19,993,409	14,051,534
Profit from available for sale investments	23	14,185,299	15,452,979
Amortization of goodwill		-	(933,310)
Profit from investment in associates	24	4,151,969	1,722,844
Finance charges		(3,792,483)	(2,297,511)
Contribution to Kuwait Foundation for the Advancement of Science "KFAS"	25	(290,774)	(247,315)
National Labour Support Tax		(685,067)	(575,278)
Board of directors' remuneration	26	(123,000)	(102,500)
Net profit for the year		33,439,353	27,071,443
Attributable to :			
Shareholders of the Parent Company		33,127,153	26,940,369
Minority interest		312,200	131,074
Net profit for the year		33,439,353	27,071,443
Earnings per share (Fils)	28	28.30	22.71

The accompanying notes from 1 to 37 an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

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

	Equity attributable to shareholders of the Parent Company							Minority interest	Total		
	Share capital	Treasury shares	Statutory reserve	Voluntary reserve	Change in fair value reserve	Group's share in associates' reserves	Gain from sale of treasury shares			Retained earnings	
Balance as of 31 December 2003	121,882,520	(5,555,611)	5,816,583	2,995,241	55,344,770	-	12,643	28,043,089	208,539,235	1,254,174	209,793,409
Change in fair value of available for sale investments	-	-	-	-	(17,760,060)	-	-	-	(17,760,060)	-	(17,760,060)
Transferred to statement of income from sale of available for sale investments	-	-	-	-	(15,596,681)	-	-	-	(15,596,681)	-	(15,596,681)
Group's share in associates' reserves	-	-	-	-	-	3,562,306	-	-	3,562,306	-	3,562,306
Net changes recognised directly in equity	-	-	-	-	(33,356,741)	3,562,306	-	-	(29,794,435)	-	(29,794,435)
Net profit for the year	-	-	-	-	-	-	-	26,940,369	26,940,369	131,074	27,071,443
Total recognised income for the year	-	-	-	-	(33,356,741)	3,562,306	-	26,940,369	(2,854,066)	131,074	(2,722,992)
Purchase of treasury shares	-	(3,579,879)	-	-	-	-	-	-	(3,579,879)	-	(3,579,879)
Dividends	-	-	-	-	-	-	-	(16,598,132)	(16,598,132)	-	(16,598,132)
Cash dividends by the subsidiary	-	-	-	-	-	-	-	-	-	(60,380)	(60,380)
Transferred to reserves	-	-	2,781,697	2,781,697	-	-	-	(5,563,394)	-	-	-
Balance as of 31 December 2004	121,882,520	(9,135,490)	8,598,280	5,776,938	21,988,029	3,562,306	12,643	32,821,932	185,507,158	1,324,868	186,832,026

The accompanying notes from 1 to 37 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars)

	Equity attributable to shareholders of the Parent Company							Minority interest	Total		
	Share capital	Treasury shares	Statutory reserve	Voluntary reserve	Change in fair value reserve	Group's share in associates' reserves	Gain from sale of treasury shares			Retained earnings	Total
Balance as of 31 December 2004											
(as previously reported)	121,882,520	(9,135,490)	8,598,280	5,776,938	21,988,029	3,562,306	12,643	32,821,932	185,507,158	1,324,868	186,832,026
Effect of reclassification of investment (Note 33)	-	-	-	-	-	632,183	-	(462,551)	169,632	-	169,632
Effect of reclassification of investment in the financial statements of the associates (Note 33)	-	-	-	-	-	1,060,176	-	(1,060,176)	-	-	-
Balance as of 31 December 2004 (Restated)	121,882,520	(9,135,490)	8,598,280	5,776,938	21,988,029	5,254,665	12,643	31,299,205	185,676,790	1,324,868	187,001,658
Change in fair value of available for sale investments	-	-	-	-	15,178,405	-	-	-	15,178,405	488,451	15,666,856
Transferred to statement of income from sale of available for sale investments	-	-	-	-	(14,431,836)	-	-	-	(14,431,836)	-	(14,431,836)
Group's share in associates' reserves	-	-	-	-	-	34,764	-	-	34,764	-	34,764
Net changes recognised directly in equity	-	-	-	-	746,569	34,764	-	-	781,333	488,451	1,269,784
Net profit for the year	-	-	-	-	-	34,764	-	33,127,153	33,127,153	312,200	33,439,353
Total recognised income for the year	-	-	-	-	746,569	34,764	-	33,127,153	33,908,486	800,651	34,709,137
Purchase of treasury shares	-	(3,310,870)	-	-	-	-	-	-	(3,310,870)	-	(3,310,870)
Dividends (Note 29)	-	-	-	-	-	-	-	(21,481,234)	(21,481,234)	-	(21,481,234)
Cash dividends by the subsidiary	-	-	-	-	-	-	-	-	-	(83,660)	(83,660)
Transferred to reserves	-	-	3,388,567	3,388,567	-	-	-	(6,777,134)	-	-	-
Balance as of 31 December 2005	121,882,520	(12,446,360)	11,986,847	9,165,505	22,734,598	5,289,429	12,643	36,167,990	194,793,172	2,041,859	196,835,031

The accompanying notes from 1 to 37 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)

	Note	2005	2004
Net cash from operating activities	36	15,987,060	10,354,563
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		(459,638)	(246,658)
Proceeds from sale of property, plant and equipment		-	1,679
Payments for projects in progress		(12,585,345)	(10,724,206)
Investment in unconsolidated subsidiaries		(3,000,000)	-
Payments for purchase of investment properties		(17,166,382)	(46,987)
Proceeds from sale of investment properties		1,549,000	-
Investments in joint project		(7,893,782)	-
Investment in associates		(3,507,149)	(3,213,264)
Proceeds from sale of investment in associates		7,673,067	703,821
Payments for purchase of available for sale investments		(8,353,690)	-
Proceeds from sale of available for sale investments		10,496,440	8,974,088
Cash dividends received		1,126,729	1,522,691
Net cash used in investing activities		<u>(32,120,750)</u>	<u>(3,028,836)</u>
Cash flows from financing activities			
Paid of liabilities arising from purchase of investment properties		(418,035)	-
Net proceeds from term financing		32,251,945	8,960,367
Purchase of treasury share		(3,310,870)	(3,579,879)
Dividends paid		(9,844,210)	(8,265,731)
Finance charges paid		(3,119,670)	(1,775,794)
Net cash from/ (used in) financing activities		<u>15,559,160</u>	<u>(4,661,037)</u>
Net (decrease)/ increase in cash and cash equivalents		(574,530)	2,664,690
Cash and cash equivalents at beginning of the year		5,759,128	3,094,438
Cash and cash equivalents at end of the year	13	<u>5,184,598</u>	<u>5,759,128</u>

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

1. Incorporation and activities

The Commercial Real Estate Company - Kuwaiti Shareholding Company - Closed ("the Parent Company") was incorporated in Kuwait in 1968 according to Commercial Companies Law. The main objectives of the Parent Company comprise of performing various real estate, agricultural, industrial and commercial activities, carrying out contracting, road and building construction, including sale, purchase and lease of land and real estate property, construction of buildings, utilizing of the financial surplus available to the parent Company by investing it in financial portfolios managed by specialized companies and financial institutions; and establishing real estate funds and portfolio including management of these funds for its own and for third parties. The parent Company's management shall carry out all its objectives for which it have been established in accordance with the Islamic Sharia doctrines.

The head office of the parent Company is located at Jaber Al-Mubarak Street, Commercial Real Estate Company's Building, Sharq, P.O. Box. 4119 Safat, 13042 Kuwait.

The parent Company has been registered in the Kuwait Stock Exchange on 21 December 2004.

The consolidated financial statements for the Group include the financial statements of the Parent Company and its subsidiary Kuwait Resorts Company –K.S.C (Closed)- which mainly engaged in managing and operating Kuwait Helton Resort, together referred to as "the Group".

The consolidated financial statements were approved for issue by the board of directors on 11 March 2006. The shareholders in the general assembly meeting have the right to amend these consolidated financial statements after their issuance.

2. Basis of preparation and significant accounting policies

The following is the significant accounting policies used in preparation of these consolidated financial statements. These policies have been adopted in consistency during all the years presented in these consolidated financial statements. The group has applied the amendments on some of International Accounting Standards that became effective from 1 January 2005. There are no effects on the financial statements of the current year or the previous year as a result of the application of these amendments.

2.1 *Basis of financial statements' preparation*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost basis adjusted by fair value of in investments at fair value through profit and loss, available for sale and investment properties.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions.

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.2 *Basis of consolidation*

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements effective from the date of control commences until the date of effective cease that control. Inter-group balances and transactions, including inter-group profits and unrealised gains (losses), are eliminated in preparing the consolidated financial statements. The consolidated financial statements are prepared by using unified accounting policies for the like transactions.

Subsidiaries which are under incorporation or immaterial, subsidiaries are not consolidated and carried in the financial statements by its cost less any impairment in value.

2.3 *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy 2.7). Depreciation is charged to consolidated statement of income on straight line basis over the estimated useful lives of property, plant and equipment as follows:

	Years
Buildings	17 - 20
Vehicles & decoration	5
Stationery & computers	3 - 6
Furniture & fixtures	5 - 6
Uniform, carpets, pots and tools	2
Equipment and machinery	5

The initial cost of property, plant and equipment includes cost of purchase and any directly related cost necessary in bringing these assets to their current location and condition.

The estimated useful lives of the property, plant and equipment are reviewed periodically. If there is a change in the estimated useful lives, this change took place starting from the year of change with no retroactive effect.

2.4 *Investment properties*

Land and real estate held by the Group for the purpose of capital appreciation or for leasing it to others are included in investment properties. Land and real estate are initially stated on acquisition at cost and subsequently remeasured at fair value that is being determined based on market value annually by independent valuers. Profit and losses arising from valuation are included in the consolidated statement of income.

2.5 *Investment in associates*

Associates are those enterprises in which the Group owns 20% to 50% of voting rights, or generally has significant influence on their financial, operating, and administrative policies but does not extend to a direct or indirect control by the Group over those companies. Investment in associates are accounted for under equity method taking into consideration impairment in value. In accordance with equity method, the Group's share in operating results of associates are reported in the consolidated statement of income. Investment in associates are presented in the consolidated balance sheet at a value that reflects the Group's share in net assets of associates.

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.6 *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the Group's share in the fair value of the net assets of the acquired subsidiary or the associate or joint venture at the date of acquisition.

Goodwill resulting from the acquisition of subsidiaries or associates after 31 March 2004, stated at cost less impairment losses, which reconsidered annually.

Previously, till 31 March 2004, the goodwill is stated at cost less accumulated amortization and accumulated impairment in value.

2.7 *Impairment of non financial assets*

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Impairment losses are recognised in the income statement for the period in which they arise.

2.8 *Financial assets*

Classification

The Group determines the classification of its financial assets at initial recognition and based on the purpose for which the financial assets were acquired and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or it is a part of a portfolio generates short term profits.

Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides goods and services directly to a debtor with no intention of trading the receivables.

Available for sale assets

These are non-derivative financial assets that are either designated or not included in any of the above categories and are principally, those acquired to be held, for an indefinite period of time which could be sold when liquidity is needed or upon changes in rates of profit.

Recognition and de-recognition

Financial instruments are recognised when the Group becomes a party in a contractual agreement of the financial instrument. Regular purchases and sales of financial asset are recognized on trading date - the date on which the Group commits to sell or purchase the asset. Financial assets are de-recognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Measurement

Financial assets are initially recognized at fair value (plus transaction costs for all financial assets not carried at fair value through profit and loss). Subsequently, financial assets are carried at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the income statement for the period in which they arise. Changes in the fair value of financial assets classified as available for sale are recognized in equity. When available for sale financial assets are sold or impaired, the accumulated changes in fair value recognized in equity are included in the income statement.

The fair values of quoted financial instruments are determined based on current bid prices and the fair values of un-quoted financial instruments are determined based on appropriate valuation methods.

Impairment in value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets are impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income.

A specific provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the specified provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the effective rate of return. The amount of the provision is recognised in the statement of income.

2.9 *Lands and real estate held for trading*

Land and real estate held for trading are stated at cost when acquired. Cost is determined on an individual basis for such land or real estate, cost represents the fair value of the consideration given, plus ownership transfer fee and brokerage expenses. Land and real estate held for trading are classified under current assets and are valued at the lower of cost or realisable value on an individual basis. Realisable value is determined on the basis of estimated sale value, less the estimated expenses necessary to complete the sale. Gains and losses from the sale of land and real estate held for trading are reported in the consolidated statement of income by the difference between sale value and its book value.

2.10 *Inventory*

Inventory is carried at cost net realisable value whichever is lower. The net realisable value is determined based on the selling price less cost to complete the sale.

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.11 Receivables

Receivables are initially recognised at fair value, subsequently, receivables are stated at amortised cost by using the effective rate less impairment in value. The impairment in value is determined by the difference between book value of these debts at the financial statements date and recoverable amount for these debts which is determined by the present value of expected future cash flows taking into account the guarantee and collaterals related to such receivables.

2.12 Cash and cash equivalents

Cash and cash equivalents represent cash on hand and at banks and with financial institutions that mature within three months from the placement date.

2.13 Treasury share

Treasury shares represent the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or cancelled. Treasury shares are accounted for using the cost method. Under the cost method, the total cost of the shares acquired is reported as a contra account within shareholders' equity. When the treasury shares reissued, gains are credited to a separate undistributable account in shareholders' equity "gain on sale of treasury shares". 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 reserves, retained earnings and the gain on sale of treasury shares account respectively. 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.

2.14 Employees' end of service indemnity

The Group is liable under its by-laws to make payments to the employees at their end of service through a defined benefit plan. Such settlements are made by one payment at the end of an employees' service.

This liability is unfunded and has been accounted for on the basis of amount payable as a result of involuntary termination of employees' contracts at the consolidated balance sheet date. The management believes that this method results in an adequate approximation of the present value of the Group's obligation thereof.

2.15 Term financing

Finance obtained by the Group from others is recognized at fair value less transaction costs. Subsequently such finance is stated at amortised cost. The difference between the amount collected (less any transaction cost) and value to be paid is recognised over the contract term in the consolidated statement of income using effective cost rate.

2.16 Provisions

Provisions are recognized in the consolidated balance sheet when the Group has a legal or constructive obligations as a result of past events, and it is probable that an outflow of economic benefits will be required to settle these obligations. 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 obligation.

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.17 Payables

Payables are stated at cost, and represented in the amounts due to the Group against supplying goods and services whether invoiced or not.

2.18 Operating lease – In case the Group is the lessor

Revenues of leased assets under operating leases are recorded on straight-line basis over the lease contract period.

2.19 Revenue recognition

Gains and losses resulted from the sale of financial investments, investment property and land and real estate held for trading are recognised in consolidated statement of income when sale is completed.

Rental income from investment properties are recorded as mentioned in note (2.18).

Hotel income is reported on accrual basis and according to the management contracts signed with the management companies.

Dividends income is recognized when the right to receive it is established.

2.20 Foreign currencies

Transactions in foreign currencies are translated to Kuwaiti Dinars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Kuwaiti Dinars at the foreign exchange rate ruling at the consolidated balance sheet date. Gains or losses on exchange are recorded in the consolidated statement of income.

As for non-monetary assets which carried by fair value, foreign exchange difference is considered part from the change in the fair value.

2.21 Zakat

Responsibility of paying zakat lies on the shareholders and not the company.

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

3. Property, plant and equipment

	2005							2004	
	Land	Buildings	Vehicles	Decorations	Stationery and Computers	Furniture and Fixtures	Uniforms, Carpets, Pots and Tools	Equipment and machinery	Total
Cost									
As of 1 January	5,360,000	30,111,729	74,510	62,983	516,794	2,237,115	744,740	323,161	39,431,032
Additions	-	161,480	4,069	6,405	89,552	183,919	9,245	4,968	459,638
Transfers (Note 5)	-	-	-	-	-	-	-	-	7,000,000
Disposals	-	-	-	-	(1,500)	-	-	-	(1,500)
As of 31 December	5,360,000	30,273,209	78,579	69,388	604,846	2,421,034	753,985	328,129	39,889,170
Accumulated depreciation and impairment losses									
As of 1 January	-	3,415,116	21,363	58,519	350,241	938,089	624,097	95,848	5,503,273
Charge for the year	-	1,759,220	16,550	3,032	105,669	455,567	115,687	65,722	2,521,447
Related to disposals	-	-	-	-	(1,500)	-	-	-	(1,500)
As of 31 December	-	5,174,336	37,913	61,551	454,410	1,393,656	739,784	161,570	8,023,220
Net book value									
As of 31 December	5,360,000	25,098,873	40,666	7,837	150,436	1,027,378	14,201	166,559	31,865,950
									33,927,759

The buildings included Kuwait Hilton Resort building. This buildings is depreciated at lower of the useful live of the buildings or utilization contract term of the location occupied by the resort, which is signed with Kuwait Touristic Enterprises Company. As per the aforesaid utilization contract, all resort's property, plant and equipment will be transferred to Kuwait Touristic Enterprises without any consideration or compensation. The net assets of Kuwait Hilton Resort included in property, plant and equipment is amounting to KD 24,800,898 as of 31 December 2005 (KD 26,859,309 as of 31 December 2004) and the utilization contract will expire on 2019.

Lands amounting to KD 5,360,000 and buildings which its net book value amounting to KD 1,514,305 are mortgaged in favour of local financial institutions against the finance obtained by the Group (Note 18).

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

4. Projects in progress

Analysis of movement over projects in progress is as follows:

	<u>2005</u>	<u>2004</u>
Balance as of 1 January	32,269,719	19,156,329
Additions during the year	12,585,345	10,724,206
Transferred from lands and real estate held for trading (Note 10)	-	6,994,220
Transferred to lands and real estate held for trading (Note 10)	(8,137,371)	(3,578,891)
Transferred from investment properties (Note 5)	-	1,160,408
Transferred to investment properties (Note 5)	(2,390,004)	(2,186,553)
Balance as of 31 December	<u>34,327,689</u>	<u>32,269,719</u>

4.1 Projects in progress include land amounted to KD 1,761,875 owned by a special power of attorney as of 31 December 2005 (1,761,795 as of 31 December 2004).

4.2 Projects in progress include lands amounted to KD 7,025,990 as of 31 December 2005 (7,025,990 as of 31 December 2004) mortgaged in favour of local financial institutions against the finance obtained by the Group (Note 18).

5. Investment properties

Analysis of movement over investment properties is as follows:

	<u>2005</u>	<u>2004</u>
Balance as of 1 January	45,436,000	46,181,874
Additions during the year	26,659,507	46,987
Sales during the year	(1,573,000)	-
Transferred to property, plant and equipment (Note 3)	-	(7,000,000)
Transferred from projects in progress (Note 4)	2,390,004	2,186,553
Transferred to projects in progress (Note 4)	-	(1,160,408)
Change in fair value of investment properties (Note 20)	4,685,489	5,180,994
Balance as of 31 December	<u>77,598,000</u>	<u>45,436,000</u>

Investment properties include properties amounted to KD 39,116,000 as at 31 December 2005 (KD 44,730,000 - as of 31 December 2004) mortgaged in favour of local financial institutions against the finance obtained by the Group (Note 18).

This item includes properties amounted to KD 9,493,125 as of 31 December 2005, purchased with preliminary contracts and its ownership has not transferred yet to the Group, as the ownership will be transferred after the payment of all installments. This amount has been eliminated from the payments for purchase of buildings in the statement of cash flows.

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

6. Investment in unconsolidated subsidiaries

	Percentage of ownership	2005	2004
Al-Areen Real Estate Co. K.S.C.C	100%	1,000,000	-
Al-Mutajara Real Estate Co. K.S.C.C	100%	1,000,000	-
Al-Shefa'a Kuwaiti Medical Care Co. K.S.C.C	100%	1,000,000	-
		<u>3,000,000</u>	<u>-</u>

The financial statements of these subsidiaries have not been consolidated, as those subsidiaries were established at the end of the year 2005 and did not start its operation yet.

7. Investment in associates

	2005		2004	
	Ownership %	Balance	Ownership %	Balance
Arab Ready-Mix Concrete Center Co. (K.S.C.C.)	49.56	362,335	23.15	75,407
Industrial & Financial Investment Co. (K.S.C.C)	18.74	13,604,644	24.19	16,316,386
Kuwait Commercial Markets Complex Co. (K.S.C.)	20.87	11,978,706	21.34	9,044,626
		<u>25,945,685</u>		<u>25,436,419</u>

Investments in associates include goodwill by an amount of KD 3,810,403 as of 31 December 2005 (KD 4,766,745 as of 31 December 2004).

The percentage of ownership represents in the Group's participation in the share capital of the associates after excluding treasury shares outstanding as of 30 September 2005.

The Group's share in net assets and results of the associates have been recorded based on the latest available financial statements of these associates. The following is a summary of the financial statements of these associates based on the latest available financial statements as well as the fair value of the Group's share in these companies:

	Total Assets	Total Liabilities	Total Revenue	Net (loss)/profit
Arab Ready-Mix Concrete Center	2,276,451	1,650,132	2,114,635	(337,111)
Industrial and Financial Investment Co.	102,358,317	36,373,398	9,843,838	7,108,088
Kuwait Commercial Markets Complex Co.	79,343,041	31,889,812	3,861,978	4,006,408

Notes to the consolidated Financial Statements

For the year ended 31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

The fair value of the Group's share in these companies as of 31 December 2005 amounted to:

Company Name	Fair Value
Arab Ready-Mix Concrete Center (unquoted)	Unquoted
Industrial and Financial Investment Company	17,946,198
Kuwait Commercial Markets Complex Company	16,659,909

8. Investment in joint project

The Group has investment of 20% in Hajar Tower Project in Mecca. For this purpose, closed shareholding company was established which its purpose is to operate this investment. As operating the investment requires entering into certain legal agreements and these procedures cannot be postponed till establishing this company. The partners agreed to establish investment portfolio to invest at Hajar Tower until establishing of the company. Such portfolio is managed by local investment company.

9. Available for sale investments

	2005	2004
Investment in quoted shares	29,544,897	34,912,152
Investment in unquoted shares	10,417,651	4,777,763
Investment in quoted real estate funds	6,073,100	6,514,780
Investment in unquoted real estate funds	306,750	316,649
	<u>46,342,398</u>	<u>46,521,344</u>

9.1 The Group has investments in joint investment portfolios managed by others as per portfolios managers report's (local investment company) amounting KD 22,403,387 as of 31 December 2005 (KD 6,188,937 as of 31 December 2004). Due to the nature of joint investment portfolio agreement managed by others and lack of detailed reports from the manager of these portfolios that indicate portfolios components, basis of valuation and any related liabilities, the Group recognised these portfolios at cost less impairment in value which is estimated by the management at the total value of all shares during the year. The Group has signed initial agreement in order to liquidate these portfolios introductory to signing final agreement in this subject. Because of not signing final agreement neither starting the liquidation, No effect has been determined on the current financial statements.

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9.2 Investments in quoted shares include, shares in a local company quoted in Kuwait Stock Exchange with a total amount of KD 17,938,499 as of 31 December 2005 (KD 25,030,576 as of 31 December 2004). These shares had been abstained from voting based on Kuwait Stock Exchange decision. According to the correspondences with Kuwait Stock Exchange. The required procedures in order to remove this restriction at 9 April 2006 will take place.

9.3 This item includes investment in shares managed by external portfolio managers with net book value of KD 8,664,845 as of 31 December 2005 (KD 2,244,249 as of 31 December 2004). This include an amount of KD 1,212,953 as of 31 December 2005 (KD 1,098,806 as of 31 December 2004) managed by a related party. (Note 30).

10. Land and real estate held for trading

Analysis of movement on land and real estate held for trading is as follows:

	<u>2005</u>	<u>2004</u>
Balance as of 1 January	36,444,126	36,956,563
Additions during the year	1,401,170	8,874,924
Sales during the year	(10,938,275)	(5,164,188)
Transferred to projects in progress (Note 4)	-	(6,994,220)
Transferred from projects in progress (Note 4)	8,137,371	3,578,891
	<u>35,044,392</u>	<u>37,251,970</u>
Reversal of impairment / (Impairment) in value (Note 21)	366,109	(807,844)
Balance as at 31 December	<u><u>35,410,501</u></u>	<u><u>36,444,126</u></u>

10.1 Land and real estate held for trading include lands with a net book value of KD 10,853,391 as of 31 December 2005 (KD 11,783,773 as of 31 December 2004) registered in the name of a third party and there are letters of assignment in favour of the Group.

10.2 Land and real estate held for trading include lands with a net book value of KD 1,519,515 as of 31 December 2005 (KD 1,590,215 as of 31 December 2004) owned by the Group through a special power of attorney.

10.3 Land and real estate held for trading include lands with value of KD 1,594,878 as of 31 December 2005 (KD 1,594,878 as of 31 December 2004) represents the Group's share from real estate portfolio managed by Kuwait Finance House.

10.4 Land and real estate held for trading include lands with a net book value of KD 15,285,964 as of 31 December 2005 (KD 8,009,230 as of 31 December 2004) mortgaged in favour of financial institutions against the finance obtained by the Group (Note 18).

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For the year ended 31 December 2005

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11. Receivables and other debit balances

	<u>2005</u>	<u>2004</u>
Trade receivables	2,390,353	2,024,629
Non-trade receivables	1,950,000	1,950,000
Impairment in value	(2,423,181)	(2,381,398)
	<u>1,917,172</u>	<u>1,593,231</u>
Down payments for purchased lands	3,744,878	701,412
Prepaid expenses	731,492	157,053
Projects under study	745,706	106,856
Subscription in shares under allocation	5,913,035	2,580,000
Refundable deposits	212,565	172,145
Due from related parties (Note 30)	617,716	-
Other debit balances	334,508	1,219,576
	<u><u>14,217,072</u></u>	<u><u>6,530,273</u></u>

12. Investments at fair value through profit and loss

Investments at fair value through income statement are represented in local quoted shares revaluated at fair value according to the last bid price at Kuwait Stock Exchange as of 31 December 2005. This item Included shares amounting KD 1,738,976 as at 31 December 2005 (KD 672,922 as of 31 December 2004) managed by a related party (Note 30).

13. Cash and cash equivalents

	<u>2005</u>	<u>2004</u>
Cash on hand	51,588	23,347
Current accounts and call deposits with banks and financial institutions	2,946,664	4,874,698
Murabaha	2,186,346	861,083
	<u><u>5,184,598</u></u>	<u><u>5,759,128</u></u>

Current accounts with banks and financial institutions include an amount of KD 8,490 as of 31 December 2005 (KD 2,090,370 as of 31 December 2004), which represents cash at investment portfolio managed by a related party (Note 30).

14. Share capital

Authorized, issued and fully paid up share capital amounted to KD 121,882,520 divided into 1,218,825,200 shares of 100 fils par value each.

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15. Treasury shares

	<u>2005</u>	<u>2004</u>
Number of shares – Share	52,116,254	40,956,254
Proportion to issued shares (%)	4.28%	3.36%
Cost – Kuwaiti Dinar	12,446,360	9,135,490
Market value – Kuwaiti Dinar	16,677,201	13,925,126

This item includes 33,696,254 shares from the parent company's shares, which were purchased by the subsidiary. These shares have been stated as treasury shares only for the consolidation purpose.

16. Statutory reserve

In accordance with the Commercial Companies Law and the Parent Company's Articles of Association, 10% of net profit before KFAS and National Labour Support Tax and Board of Directors remuneration is transferred to statutory reserve. Statutory reserve is not distributable to shareholders; however, the reserve could be utilized to secure payment of a dividend of 5% of share capital in years when retained earnings are not sufficient for the payment of a dividend of that amount. When the balance of the reserve exceeds 50% of share capital, the General Assembly is permitted to utilize amounts in excess of 50% of the share capital in aspects seen appropriate for the benefit of the Parent Company and its shareholders.

17. Voluntary reserve

In accordance with the Parent Company's Articles of Association, a percentage of Group's net profit for the year as proposed by the Board of Directors and approved by the General Assembly is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the General Assembly based on the proposal put forward by the Board of Directors. The Board of Directors proposed a transfer of 10% of net profit before KFAS, National labour Support Tax and Board of Directors remuneration for the year ended 31 December 2005 (10%:31 December 2004).

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18. Term financing

	<u>2005</u>	<u>2004</u>
Estisna contract	6,252,945	7,376,756
Murabaha, Ijara and Tawarq contracts	28,010,864	9,875,800
Ijara Islamic Sukuk	28,726,614	-
Short tem finance	-	7,200,000
Banking facilities	3,920,476	10,206,398
Total	<u>66,910,899</u>	<u>34,658,954</u>
Finance from others – current portion	23,507,723	20,371,478
Finance from others – non current portion	43,403,176	14,287,476
Total	<u>66,910,899</u>	<u>34,658,754</u>

Non current portion balance matures within a period ranges from 1 to 5 years.

Effective cost rate for term financing is as follows:

	<u>2005</u>	<u>2004</u>
Estisna contract	9.5%	9.5%
Murabah, Ijara and Tawarq contracts	5.5% - 8.25%	5.5%
Ijara Islamic Sukuk	5.81%	-
Short term finance	-	6.75%
Banking facilities	6% - 7%	5.88%

18.1 Islamic Sukuk Ijara

During the year, the Group issued Islamic Sukuk Ijara of USD 100 Million for 5 years with yield of 1.25% over libor, which paid every six Months.

This term financing was given against mortgaged Property, Planet and Equipment (Note 3) Project in progress (Note 4), Investment properties (Note 5), Land and Real estate held for trading (Note 10).

19. Payables and other credit balances

	<u>2005</u>	<u>2004</u>
Trade payables	11,936,632	5,947,552
Retention	1,510,645	1,060,137
Due to related parties (Note 30)	-	427,150
Kuwait Foundation for the Advancement of Science – KFAS	290,774	247,315
National Labour Support Tax	1,260,345	575,278
Revenues received in advance	194,400	195,528
Dividends payable to shareholders	250,535	371,186
Accruals and other credit balances	4,154,988	2,688,820
	<u>19,598,319</u>	<u>11,512,966</u>

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20. Profit from investment properties

	<u>2005</u>	<u>2004</u>
Real estates rental income	5,686,075	3,335,838
Operating expenses	(1,130,130)	(1,002,925)
Net real estate rental income	4,555,945	2,332,913
Loss from sale of investment properties	(24,000)	-
Change in fair value of investment properties (Note 5)	4,685,489	5,180,994
	<u>9,217,434</u>	<u>7,513,907</u>

21. Profit from land and real estate held for trading

	<u>2005</u>	<u>2004</u>
Sales of land and real estate	20,047,844	10,862,847
Cost of sale of land and real estate	(10,938,275)	(5,164,188)
Profit from sale of land and real estate	9,109,569	5,698,659
Other costs	(1,285,691)	(997,349)
Reversal of impairment loss / (Impairment) in value (Note 10)	366,109	(807,844)
	<u>8,189,987</u>	<u>3,893,466</u>

22. Hotel income

This item represents the Group's share in revenue from Kuwait Hilton Resort and Restar resort (formerly Safir Al Dana Hotel) owned by the Group.

23. Profit from available for sale investments

	<u>2005</u>	<u>2004</u>
Cash dividends	1,126,729	1,115,410
Profit from sale of available for sale investments	13,058,570	14,337,569
	<u>14,185,299</u>	<u>15,452,979</u>

Profit from available for sale investments include an amount of KD 6,402,023 represents the transferred amount from fair value reserve to the income statement during the year which represents the share of Kuwait Real Estate shares in the fair value reserve which have been distributed to the shareholders according to the General Assembly decision (Note 29).

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24. Profit from investment in associates

	<u>2005</u>	<u>2004</u>
Group's share in results of associates	2,299,132	1,722,844
Profit from sale investment in associate	1,852,837	-
	<u>4,151,969</u>	<u>1,722,844</u>

25. Kuwait Foundation for the Advancement of Science contribution - KFAS

	<u>2005</u>	<u>2004</u>
Kuwait Foundation for the Advancement of Science contribution from net profit of the parent Company	256,834	221,328
Kuwait Foundation for the Advancement of Science contribution from the subsidiary	33,940	25,987
	<u>290,774</u>	<u>247,315</u>

26. Board of Directors' remuneration

This item include an amount of KD 27,000 as of 31 December 2005 (KD 22,500 as of 31 December 2004) representing the Board of directors' remuneration related to the subsidiary. The Board of directors' remuneration is subject to approval of the general assembly of shareholders.

27. Staff costs

Staff costs charged to statement of income are as follows:

	<u>2005</u>	<u>2004</u>
Staff costs (operation)	172,774	163,683
Staff costs (management)	3,843,805	3,177,085
	<u>4,016,579</u>	<u>3,340,768</u>
Number of employees as of 31 December (employee)	<u>515</u>	<u>542</u>

28. Earnings per share

Earnings per share is accounted for by dividing net profit over the weighted average of the number of common shares issued and outstanding during the year taking into consideration the treasury shares. Earnings per share is calculated as follows:

	<u>2005</u>	<u>2004</u>
Net profit	33,127,153	26,940,369
Weighted average of the number of shares outstanding (Share)	1,170,445,275	1,186,364,269
Earnings per share (fils)	<u>28.30</u>	<u>22.71</u>

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29. Proposed dividends

29.1 The board of directors of the parent company proposed cash dividends equal 10% and bonus share 10% for the year ended 31 December 2005.

29.2 On 7 May 2005, the general assembly of shareholders of the parent company approved the following dividends for year 2004:

- Cash dividends equal 8.5%.
- Share in kind dividends equal 4 shares of Kuwait Real Estate Company non-voting shares for each 100 shares of the Commercial Real State shares and rounding up fractions of shares for each shareholder. As for small shareholders (those who own less than 50 shares of the Commercial Real Estate Company shares), they will have one share from Kuwait Real Estate Company, non-voting and available for distribution shares.

An amount of KD 11,841,335 from the dividends has been eliminated from the statement of cash flows as it is a non-cash transaction. This amount represents the value of Kuwait Real Estate's share distributed to the shareholders.

30. Related parties transactions

Related parties comprise of the Group's shareholders who have representation in the board of directors, senior management personnel, associates and companies in which the Group companies have representation in its board of directors. Significant transactions with related parties are as follows:-

	<u>2005</u>	<u>2004</u>
Available for sale investments - (Note 9)	1,212,953	1,098,806
Debtors and other debit balances - (Note 11)	617,716	-
Investments at fair value through profit and loss - (Note 12)	1,738,976	672,922
Cash and cash equivalents - (Note 13)	8,490	2,090,370
Creditors and other credit balances - (Note 19)	-	427,150
Board of Directors' remuneration	123,000	102,500

Transaction with related parties are subject to approval of the general assembly of the shareholders.

31. Capital commitments

	<u>2005</u>	<u>2004</u>
Uncalled capital – investments	19,877,515	5,500,911
Land purchasing	3,297,878	682,660
	<u>23,175,393</u>	<u>6,183,571</u>

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32. Contingent liabilities

	<u>2005</u>	<u>2004</u>
Letters of guarantee	5,944,065	5,485,840

33. Effect of reclassification of investments

33.1 Previously, the Group had classified part of its investments in Industrial and Financial Investment Company and Kuwait Commercial Markets Complex Company (associated companies) as held for trading investments, as the Group's intention was to sell these investments in the short term.

During the current year, the Group decided to hold these investments in order to maintain its significant influence over these companies.

Accordingly, the financial statements for comparative periods have been represented where the Group has recalculated goodwill resulted from acquisition during the year 2004 and recalculated the Group's share in the results and reserves of the associated companies. The statement of income and statement of cash flows for the year ended 31 December 2004 were not restated, as this reclassification is immaterial.

The following is the effect of this reclassification on the balance sheet as of 31 December 2004:

Company Name	Acquisition percentage (increase)	Investment in associated companies (increase)	Goodwill (net) as of 31 December 2004 (increase)	Group's share in reserves of associated companies (increase)	Effect on retained earnings (decrease)	Held for trading investments (decrease)
Industrial and Financial Investment Company	4.09%	2,329,122	1,029,196	232,264	50,634	1,695,650
Kuwait Commercial Markets Complex Company	2.70%	869,407	814,244	399,919	411,917	3,176,687
		<u>3,198,529</u>	<u>1,843,440</u>	<u>632,183</u>	<u>462,551</u>	<u>4,872,337</u>

This resulted to an increase in Group's share in associated companies as follows:

	<u>Before restatement</u>	<u>After restatement</u>
Industrial and Financial Investment Company	20.1%	24.19%
Kuwait Commercial Markets Complex Company	18.64%	21.34%

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33.2 As of 1 January 2005, the associated companies have reclassified certain investments based on the intention to maintain these investments, as it has reclassified certain investments from held for trading to available for sale investments. As a result, an amount of KD 1,060,176 was transferred from retained earnings to group's share in associate reserves, which represents the Group's share in this reclassification.

Reclassification has no effect on the total equity of the group.

The Statement of income, and Statement of Cash flows for the year ended 31 December 2004, were not restated since it was practically not possible to make such restatement since the financial statements of the associates which the Group uses in recording its results and share in and reserves for the year ended 2004 were prepared for the year ended 31 December 2004.

The financial statements for the year ended 31 December 2005 of those associates were not issued, to facilitate the required restatement on the comparative figures.

34. Financial instruments

The Group in the normal course of business, uses various types of financial instruments. The information on financial risks and fair value of these financial instruments is set out below:

Risks related to financial instruments

Credit risks

The Group is exposed to credit risks in respect of loss that would have to be incurred if counterparty fail to fulfil his obligations.

The Group's exposure to credit risks is primarily in respect of cash and cash equivalents, receivables and due from related parties. As at the consolidated balance sheet date, the Group's maximum exposure to credit risks is equal to the book value of the above assets as disclosed in the consolidated balance sheet date. The Group minimizes its credit risks by dealing with high credit quality financial institutions and setting prudent credit terms for instalment sale of its properties held for trading.

Foreign currency risks

Represents in variation in exchange rate which may affect adversely the Group's cash flows or assets and liabilities dominated in foreign currencies. The Group's transactions are mainly in local currency, as its activities is based in the local market of State of Kuwait.

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Liquidity risks

Liquidity risk is the risk that the Group may encounter difficulty in liquidating its assets by amounts equal its fair value to meet the financial obligations of the Group. The management attempts to minimize this risks balancing assets and liabilities' maturities and provide the required financing to meet its liabilities' maturities.

Return rate

Represents the risk of return rate fluctuations with respect to the financial instrument. The Group does not have any assets related to the rate of return. The Group obtains its credit facilities in favorable rates to fulfill its financing requirement.

Fair value of financial assets and liabilities

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

The estimated fair value of financial assets and liabilities that are not carried at fair value (receivables and other debit balances, cash and cash equivalents, payables and other credit balances) at the consolidated balance sheet date are not materially different from their book values.

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35. Parent company's financial statements

35.1 Parent Company's balance sheet

	2005	2004 (Restated)
Assets		
Non-current assets		
Property, plant and equipment	7,065,052	7,068,450
Projects in progress	34,027,021	32,269,719
Investment properties	77,598,000	45,436,000
Investment in subsidiary	18,549,780	12,133,908
Investment in unconsolidated subsidiaries	3,000,000	-
Investment in associates	23,072,839	20,394,451
Goodwill arising from acquisition of subsidiary	371,833	371,833
Investment in joint project	7,893,782	-
Due from subsidiary	13,807,823	11,210,140
Available for sale investments	44,244,070	45,478,195
	<u>229,630,200</u>	<u>174,362,696</u>
Current assets		
Land and real estate held for trading	35,410,501	36,444,126
Receivables and other debit balances	11,923,118	5,018,615
Investments at fair value through profit and loss	1,403,476	672,922
Cash and cash equivalents	2,918,768	1,912,522
	<u>51,655,863</u>	<u>44,048,185</u>
Total assets	<u>281,286,063</u>	<u>218,410,881</u>
Equity and liabilities		
Equity		
Share capital	121,882,520	121,882,520
Treasury shares	(6,269,279)	(3,270,355)
Statutory reserve	11,986,847	8,598,280
Voluntary reserve	9,165,505	5,776,938
Change in fair value reserve	22,405,675	21,988,029
Group's share from associates' reserves	5,311,686	3,562,306
Retained earnings	35,737,289	32,821,932
	<u>200,220,243</u>	<u>191,359,650</u>
Non-current liabilities		
End of service indemnity	511,235	387,367
Term financing – Non current portion	43,403,176	14,287,477
	<u>43,914,411</u>	<u>14,674,844</u>
Current liabilities		
Payables and other credit balances	17,564,162	9,411,307
Term financing – Current portion	19,587,247	2,965,080
	<u>37,151,409</u>	<u>12,376,387</u>
Total equity and liabilities	<u>281,286,063</u>	<u>218,410,881</u>

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35.2 Parent Company's statement of income

	<u>2005</u>	<u>2004</u>
Profit from investment properties	9,217,434	7,513,907
Profit from land and real estate held for trading	8,189,987	3,893,466
Hotel income	108,623	213,158
Profit from investments at fair value through profit and loss	1,419,494	1,157,780
Administrative expenses and other charges	(2,258,514)	(1,510,791)
Depreciation of property, plant and equipment	(149,026)	(175,942)
Foreign currency exchange difference	(118,733)	-
Other operating income	49,094	39,272
Operating profit	<u>16,458,359</u>	<u>11,130,850</u>
Amortization of goodwill	-	(933,310)
Profit from available for sale investments	14,104,599	15,452,979
Company's share of subsidiaries' results	2,809,798	1,179,664
Finance income from subsidiary	889,625	660,934
Company's share in results of associates	2,003,931	1,722,844
Profit on sale of investment in associates	715,834	-
Finance charges	(3,096,478)	(1,396,986)
Contribution to Kuwait Foundation for the Advancement of Science "KFAS"	(256,834)	(221,328)
National Labour Support Tax	(685,067)	(575,278)
Board of directors' remuneration	(96,000)	(80,000)
Net profit for the year	<u>32,847,767</u>	<u>26,940,369</u>
Earnings per share (Fils)	<u>27.29</u>	<u>22.71</u>

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36. Net cash from operating activities

	Note	2005	2004
Cash flows from operating activities			
Net profit for the year		33,439,353	27,071,443
Adjustments:			
Depreciation of property, plant and equipment		2,521,447	2,771,039
Gain on sale of property, plant and equipment		-	(1,270)
Change in fair value of investment properties		(4,685,489)	(5,180,994)
Loss from sale of investment properties		24,000	-
(Write back of impairment) / Impairment in value of land and real estate held for trading		(366,109)	807,844
Profit from investment in associates	24	(4,151,969)	(1,722,844)
Profit from sale of investments available for sale		(14,185,299)	(15,452,979)
Doubtful debts		41,783	104,935
Profit from investments at fair value through profit and loss		(1,343,059)	(1,177,780)
Finance charges		3,792,483	2,297,511
Employees' end of service indemnity		165,222	101,699
Amortization of goodwill		-	933,310
Operating profit before changes in working capital		15,252,363	10,551,914
Land and real estate held for trading		9,537,105	(3,710,736)
Inventory		12,880	1,184
Receivables and other debit balances		(7,728,582)	(458,985)
Investments at fair value through income profit and loss		455,193	2,299,347
Payables and other credit balances		(1,541,899)	1,671,839
Net cash from operating activities		<u>15,987,060</u>	<u>10,354,563</u>

37. Comparative figures

Comparative figures have been reclassified to conform with the current presentation of consolidated financial statement for the year ended 31 December 2005.