



KIPCO Asset Management Company (KAMCO) K.S.C. (Closed)
A Member of KIPCO Group

ASPIRE

To desire is to obtain;
to **aspire** is to achieve.

James Allen

ANNUAL REPORT **2005**

IN MEMORIAM



H.H. Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait
1928-2006

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



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

KIPCO combines the very best products and service, crafting them into a local package with truly international standards – all the while remaining faithful to our heritage and values.

The individual companies contained within our Group all have different functions and capabilities, but together they are united in a single purpose; the advancement of our region and a better quality of life for all.

Kuwait Projects Company – KIPCO – is one of the leading diversified operating holding companies in the Middle East and North Africa, with more than \$15 billion under management or control.

KIPCO has substantial ownership interests in a portfolio of 55 companies operating throughout the region and internationally in two major business sectors: Financial Services and Media & Telecommunications. Subsidiaries and affiliates of KIPCO companies with interests in Real Estate and Industry are contained in a sub-sector of Financial Services and other subsidiaries and affiliates are contained in the Management and Advisory sector.

FINANCIAL SERVICES

KIPCO's holdings in financial services include investments in commercial banks, investment banks, asset management companies, and insurance companies. These institutions meet the needs of individual and corporate customers by developing innovative products, maintaining service excellence and harnessing technology to broaden distribution channels.

REAL ESTATE

KIPCO Group companies are involved in the development and management of properties in the MENA region. These companies are focused on developing landmark properties, primarily in the retail, office and hospitality sectors. The selection of real estate investments is based on the identification of quality properties that provide attractive return potential.

INDUSTRY

With a view to assisting local governments in developing the industrial infrastructure of the region, KIPCO has invested in key foodstuff and industrial sectors such as dairy, food services, fisheries and industrial coatings. These companies have progressively contributed to the region achieving self sufficiency in these sectors.

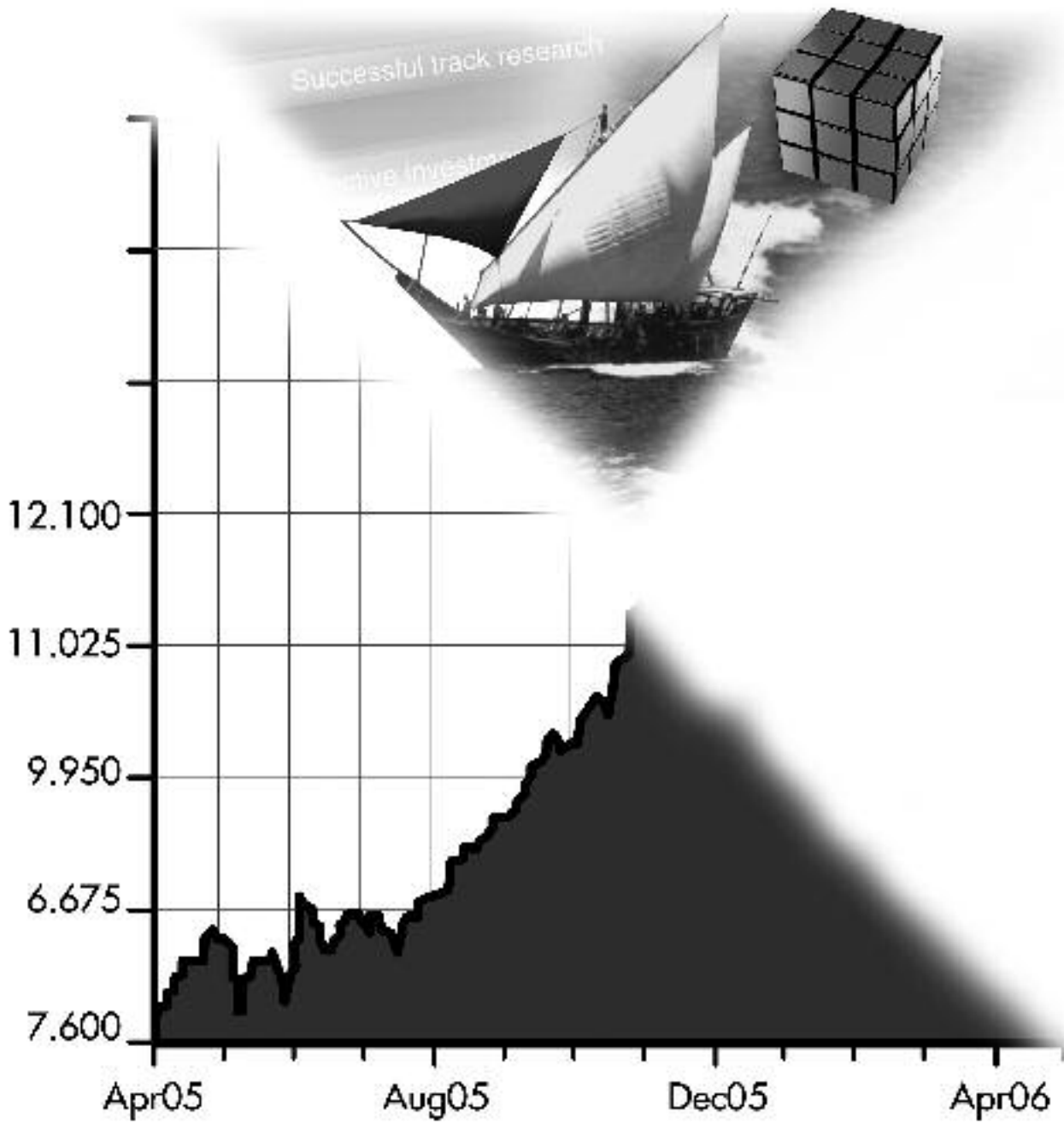
MEDIA & TELECOMMUNICATIONS

The rapid convergence of telecommunications, information technology and media has created numerous opportunities for providing commercial, educational and entertainment services in the region. With its portfolio of investments in mobile telecommunications, Pay-TV and Internet service companies, KIPCO is well positioned to capitalise on these opportunities. KIPCO's investments in the Media and Telecommunications sectors help people connect with each other using quality, cost effective services.

MANAGEMENT & ADVISORY

KIPCO provides management and advisory services through its strategically located operations in the U.S., U.K. and India. They provide a range of services, including corporate advisory, direct investments, private placement, derivatives and corporate restructuring, to KIPCO Group companies and external entities. The sector also comprises investments in growing service industries such as healthcare.

MISSION STATEMENT



To be among the premier investment companies in the region.

To provide innovative and customized solutions to meet our clients' entire Asset Management and Financial Services needs.

To adhere to the values of integrity and independence and thus earn the trust of our clients.

To cultivate innovation, high performance and confidentiality in all we do.

To provide clients with tangible results and full access to local and international capital markets.

To develop and nurture our relationships with local and international investors.

COMPANY PROFILE



In these times of accelerating change and market volatility, thorough knowledge and insight into local and global market conditions are more important than ever. This is where KAMCO leverages its extensive knowledge and expertise.

Established in 1998, KIPCO Asset Management Company (KAMCO) is a member of KIPCO Group. In June 2003, KAMCO increased its share capital from KD 15 million to KD 20 million, and in October 2003 the Company achieved further prominence by being listed on the Kuwait Stock Exchange.

KAMCO offers its client's comprehensive access to local and international capital markets, as well as a comprehensive selection of financial services. These services are provided by a team with a proven track record, which is able to develop customized solutions to meet individual client needs.

KAMCO focuses on two major activities: Asset Management and Financial Services.

Our Asset Management services include brokerage, tailored portfolio management, forward trading, IPOs, local and international fund management, own label and third party funds. KAMCO also offers comprehensive investment research services. KAMCO's strong presence in the financial marketplace has been reflected in the dynamic growth of its Assets Under Management, which now stands at KD 1.754 billion.

Our Financial Services comprise the full range of corporate finance advisory services, including mergers and acquisitions, underwriting, private placements, strategy development and strategic planning, project and investment evaluation and consulting, as well as private equity.

Headquartered in Kuwait, but with affiliations that span the globe, KAMCO enjoys a leading position and competitive advantages over other investment firms in Kuwait. Our aim is to serve all our clients' needs and constantly bolster our position as one of the leaders and innovators in Asset Management and Financial Services in the Middle East.

CHAIRMAN'S STATEMENT



Dear Shareholders,

I am delighted to report, on behalf of the Board of Directors, an excellent performance by your Company during the year ended 31 December 2005.

KAMCO recorded a net profit of KD 25.041 million in 2005, which represents an increase of 208% compared to 2004's net profit of KD 8.138 million. Basic earnings per share rose 202% in 2005 to reach 114.1 fils (2004: 37.8 fils). In addition, Return on Equity (based on the level of shareholders' equity at the beginning of the year) reached 51.2% (2004: 16.6%). These results are a major achievement by your Company resulting from the effective implementation of a sound business strategy.

Based on these strong results, the Board of Directors is pleased to recommend a cash dividend of 40 per cent of each share's nominal value (40 fils per share) (2004: 25 fils per share) and a bonus share dividend of 10 per cent of paid up share capital (2004: nil). This represents a 60% increase in cash dividends payable to the Company's shareholders.

KAMCO is presently largely invested in and economically dependent on the State of Kuwait. During 2005, increased world crude oil prices further enhanced the already favourable macro-economic performance of the Kuwaiti economy, which helped to maintain a generally high level of investor and consumer confidence in the country. This, in turn, helped the Kuwait Stock Exchange Price Index to increase by almost 79% during the year. We believe that a continuation of the strength of the Kuwaiti economy and capital markets is likely in the short to medium term, although we may well experience greater volatility in asset pricing; in general, these conditions should be positive for KAMCO's activities.

KAMCO is and will remain focused on being a leading regional provider of its core client service activities of asset management and investment banking. Total revenues increased 155% in 2005 to reach KD 34.769 million (2004: KD 13.652 million) and Assets Under Management also recorded a solid 34% increase, reaching KD 1.754 billion as at 31 December 2005 (31 December 2004: KD 1.311 billion), further strengthening KAMCO's position as one of the premier private sector asset managers in the MENA region. Other major sources of revenues in 2005 arose from our investments and KAMCO's total assets and shareholders' equity reached KD 128.185 million and KD 82.38 million respectively as at 31 December 2005 (31 December 2004: KD 91.903 million and KD 48.907 million respectively).

Your company is expected to continue to develop positively over the long-term with the serious aim of achieving a deserved and sustainable position among an emerging coterie of leading indigenous investment companies that will eventually dominate across the MENA region. The Board and management of your company now look forward with optimism to a even more successful long-term future.

It is now my sad duty as Chairman of KAMCO to formally express, on behalf of the Board, management and staff of the Company, our deepest condolences to the Al-Sabah family and the Government and people of the State of Kuwait on the recent death of the late Amir His Highness Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah. At the same time KAMCO remains immensely appreciative of the role of His Highness Sheikh Saad Al-Abdullah Al-Salem Al-Sabah as the Amiri Father of the Nation, praying to Almighty God to support him with all His mercy.

KAMCO would like to congratulate His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and His Highness Sheikh Nasser Al-Mohammad Al-Ahmad Al-Sabah on their assumption of their illustrious capacities of Amir, Crown Prince & Prime Minister of the State of Kuwait respectively. All concerned with KAMCO will be proud to respond to the new leadership's future guidance and we acknowledge and thank them for their tireless dedication to the future development of the State of Kuwait and the enhancement of the security and prosperity of its people.

At the beginning of 2006 Mr. Tariq Mohammed Abdul Salam left the position of KAMCO General Manager, which he had held since the Company's establishment. The Board acknowledges and appreciates Mr. Abdul Salam's valuable past contribution to KAMCO's growth and success and is grateful that he will be remaining as a Director of the Company. At the same time, the Board is very pleased that the Company has been fortunate to obtain the services of Mr. Saudoun Abdullah Ali, who has extensive financial sector experience, as its new General Manager.

Finally, I wish to thank the company's shareholders for the trust that they have invested in the Board of Directors and to express, on behalf of the Board, appreciation to the company's executive management and staff for their sincere efforts during the year on behalf of the company.

May Almighty God grant us all continued success and prosperity.

Masaud Mahmoud Jawhar Hayat
Chairman

BOARD OF DIRECTORS



Masaud Mahmoud Jawhar Hayat
Chairman

Intisar Abdul Raheem Al-Suwaidi
Vice Chairman

Tariq Mohammed Abdul Salam
Board Member

William L. Khouri
Board Member

Sheikha Danah Nasser Sabah Al-Ahmed Al-Sabah
Board Member (not pictured)

Ahmad Saud Al-Sumait
Secretary of the Board

EXECUTIVE MANAGEMENT



NAME

Masaud Mahmoud Jawhar Hayat
Intisar Abdul Raheem Al-Suwaidi
Tariq Mohammed AbdulSalam
Anthony H. Kyprianou
Khaled Abdul Jabbar Al-Sharrad
Radwan Abdullah Jamal
Ahmad Saud Al-Sumait
Dhafer Ibraheem Al-Hilal
Hassan Jassim Al-Shammali
Ziad Hassan Al-Qaissi
Dr. Hamad Ali Abbas Al-Hasawi
Hazem Khalid Al-Braikan
Abdul Aziz Saad Al-Rashed
Majed Ahmed Al-Adwani
Safa Abdul Rahman Al-Hashem
Mahmoud Hamid Idris
Dana Ebrahim Al-Ebrahim
Ahmed Abdel Khalek A. El Seoud
Khalil Selim El-Khoury
Eisa Abdullah Al-Weggian
Mona Bader Al-Tukhaim
Mohammed Hanafi Ahmed Hanafi
Lina Abdul Kader Adlouni

TITLE

Chairman
 Vice-Chairman
 General Manager
 Deputy General Manager, Financial Services Division
 Assistant General Manager, Management Services Division
 Assistant General Manager, Business Development Division
 Assistant General Manager, Finance & Operations Division
 Financial Controller
 Senior Manager, Treasury Dept.
 Senior Manager, Investment Research Dept.
 Senior Manager, Client Relations Dept.
 Senior Manager, International Trading Dept.
 Senior Manager, Local & Gulf Trading Dept.
 Manager, Information Technology Dept.
 Manager, Consulting Dept.
 Manager, Operations Dept.
 Manager, Marketing Dept.
 Manager, Private Equity Dept.
 Manager, Direct Investments Dept.
 Head of Product Development Dept.
 Acting Head, Human Resources Dept.
 Internal Auditor, Internal Audit Dept.
 Legal Advisor, Legal Dept.

REVIEW OF THE YEAR



INTRODUCTION

KAMCO recorded an excellent financial performance in 2005 and consolidated its position as one of Kuwait's leading investment companies. The key performance figures are illustrated below:

	2005	2004	
	KD million	KD million	Change
Total assets	128.185	91.903	+39.5%
Shareholders' equity	82.380	48.909	+68.4%
Total revenues	34.769	13.652	+154.7%
Net profit	25.042	8.138	+207.7%
Return on opening equity	51.2%	16.6%	
Basic earnings per share (fils)	114.1	37.8	+201.7%
Assets under management	1,753.5	1,311.4	+33.7%

In 2005 KAMCO clearly demonstrated that it can deliver a superior financial performance to its shareholders, based on offering attractive products and services to the market, an enviable asset management performance and transaction completion track record, significant financial resources, dedication to client service and dedicated management and staff.

MARKET ENVIRONMENT

The Kuwaiti economy continued to perform well in 2005 on the back of higher world crude oil prices and responsible fiscal and economic policies by the Government. The Kuwait Stock Exchange also performed strongly in 2005, well above 2004 levels, recording a gain of 59.42% based on the KAMCO Total Return Weighted (TRW) Index (2004: 9.67%) and a gain of 78.56% (2004: 33.8%) based on the KSE Price Index. Kuwaiti Dinar interest rates also rose gradually during the year, broadly in line with increases in US interest rates, resulting in higher borrowing costs for corporations. Regional stock markets generally performed very strongly throughout 2005, leading some commentators to remark that stock markets in Saudi Arabia, Qatar and the United Arab Emirates may be significantly overvalued. The major international capital markets did not perform so well with the Dow Jones Industrial Average Index falling slightly to close at 10,717.5 points at the end of 2005. A positive local development was the significant increase in the number of companies being admitted to listing on the Kuwait Stock Exchange, with 158 companies listed as at the end of 2005, compared to 125 listed as at the end of 2004.

Overall, the business environment in which KAMCO operates was buoyant but competition from existing and new investment companies has increased and, in future, asset prices may become more volatile. Nevertheless, KAMCO is well resourced and sufficiently experienced to be in a position to perform effectively in a more competitive business environment and with less buoyant capital market conditions.

ASSET MANAGEMENT

Asset management is a core activity of KAMCO. With our own assets of KD 128.2 million and KD 1.75 billion of client assets under management, KAMCO is one of the largest private sector managers of financial assets in the Middle East. The company continued to attract new client funds at a good rate in 2005, with the value of client assets increasing by 33.7%.

Our management fees from our asset management services reached a new high of KD 9.2 million in 2005, up 110% compared to 2004. This was a result of the increased value of client assets under management and high returns generated on managed portfolios and funds, largely due to the aforementioned significant rise in the Kuwait Stock Exchange (KSE) in 2005.

KAMCO's asset management services are supported by the company's investment research activities, which are ultimately for the benefit of our clients. KAMCO's original research analysis, covering both equities and bonds, continues to be published daily in a number of leading Kuwaiti newspapers. During 2005, KAMCO also extended its research coverage to cover all the Gulf Cooperation Council (GCC) stock markets.

In addition, to increase transparency in the Kuwaiti equity market, in 2005 KAMCO organized a series of public information seminars, entitled the "Shafafiyah: KIPCO Financial Outlook Forum", in which the results and future outlook of the largest listed companies in the Kuwait Projects (Holding) Co. group were presented.

PROPRIETARY INVESTMENTS

During 2005, KAMCO was active in proprietary investing which resulted in a very significant increase in gains from the sale of investments available for sale, from KD 0.44 million in 2004 to KD 6.22

million in 2005. The Company was successful in identifying attractive short-term investment opportunities in 2005 and will continue to actively seek attractive investment opportunities in various markets with the aim of enhancing shareholder value.

Income from associated companies rose 236% in the year to 31 December 2005 to reach KD 6.2 million, with solid contributions from United Medical Services Company as well as United Industries Company, which improved its operational results and benefited from a sale of shares in its affiliate, Saudi Arabian Dairy and Foodstuffs Company (SADAFCO), which underwent a successful IPO in Saudi Arabia in 2005.

Overall, the improved results from our associates provide evidence of the soundness of the Company's earlier strategic investment decisions.

In addition, dividend income showed a marked increase in 2005 to reach KD 5.2 million, principally due to a special dividend from a local investment fund in which KAMCO has a significant holding, managed by an affiliated company.

During 2005, KAMCO also successfully promoted the establishment of a new Kuwaiti investment company, Manafae Investment Company, which will operate in accordance with Islamic Shariah principles, and in which KAMCO holds a 24.8% stake. This investment gives KAMCO exposure to the fast growing Islamic financial services sector in Kuwait.

PRIVATE EQUITY MANAGEMENT

KAMCO has been investing in private equity, both locally and internationally, since its establishment and has a track record of significant achievement in this field. In 2005, KAMCO was active in investing its

first local private equity fund, Kuwait Private Equity Opportunities Fund. Private equity management is considered an attractive growth sector and KAMCO will continue to seek to actively develop and enhance its private equity management capabilities, locally and regionally.

CORPORATE FINANCE

KAMCO Corporate Finance continued to be active in 2005, completing and/or launching six transactions with an aggregate value of KD 175 million. The Company's fees from advisory services increased by 93% in 2005 to reach KD 2.26 million.

KAMCO has a distinguished experience track record in the field of corporate finance advisory. Specifically, in the period from mid 2001 to end 2005, KAMCO Corporate Finance completed and/or launched 39 transactions, with an aggregate value of KD 720 million (around USD 2.45 billion). The clients we advised in the year included Mushrif Trading & Contracting Company, Combined Group Company, United Projects For Aviation Company and Al Dhiyafa Holding Company. KAMCO's current corporate finance assignment pipeline is also strong.

In December 2005, KAMCO commenced fund-raising for North Africa Holding Company, a new KD 50 million share capital company promoted by KAMCO. KAMCO shall participate in the share capital of North Africa Holding Company and play a leading advisory role as this new investment vehicle seeks investment opportunities in the attractive North Africa region.

Corporate Finance is a core component of KAMCO's service offerings and the Company will continue to invest in marketing, recruitment and training in order to grow this important business line, increasingly targeting larger scale assignments and suitable regional or cross-border mandates. The

market for corporate finance services in Kuwait and the region is anticipated to remain attractive for the foreseeable future.

At the beginning of 2006, KAMCO's Consulting Department was spun-off to form a new company, Advantage Consulting Company, which becomes a 58% subsidiary of KAMCO. Advantage Consulting specializes in providing Human Resources and Organizational consulting to companies in Kuwait.

EMPLOYEE SHARE PURCHASE SCHEME

KAMCO operates on an equity-settled, share-based Employee Stock Option Plan (ESOP). Under the terms of the plan, share options are granted to permanent employees. The options are exercisable in future period. The fair value of the options is recognized as an expense over the vesting period with corresponding effect to equity. The fair value of the options is determined using the Black-Scholes option pricing model.

Share Options totaling 3,725,000 shares were granted on 19th July 2003 at a price approved by the Board of Directors with a vesting period of 3 years.

CORPORATE MATTERS

In the fourth quarter of 2005 KAMCO implemented a new Oracle based accounting system to strengthen its financial control and reporting and also began to implement the global International Financial Reporting Standards (IFRS). In addition, the Company took steps to enhance its corporate governance and internal compliance functions in line with international standards and to better control operational risk.

KAMCO increased its overall staffing level during 2005 to 137 (2004: 132), of which 38% are Kuwaiti nationals. The Company adopts a proactive "Kuwaitisation" policy in accordance with prevalent regulations and to fulfil a social objective of providing attractive employment opportunities for suitably qualified Kuwaiti nationals.

BOARD OF DIRECTORS

In 2005, the Company welcomed Sheikha Dana Nasser Sabah Al Ahmed Al Sabah and Mr. William Khouri (Chief Executive Officer of United Gulf Bank, KAMCO's parent company) to its Board of Directors.

Leaving the Board of Directors during 2005 were Mr. Radwan Abdullah Jamal and Mr. Khalid Fahad Al Zouman, whose service while on the Board is greatly appreciated.

OUTLOOK

KAMCO has a fairly cautious outlook on the regional capital markets in 2006 although we believe that, if investors are selective, the Kuwait Stock Exchange still offers value and certainly better value than a number of other stock exchanges in the region.

The continued increase in competition among investment companies, whether local companies or regional/international companies, is a challenge but one which KAMCO is well-equipped to meet and to overcome successfully by implementing a sound business strategy. KAMCO's strategy in this regard entails, inter-alia, the launching of attractive new products and services, further enhancing our placing power, a continuing dedication to client service, choice and quality, and selective expansion outside Kuwait. In this latter regard, KAMCO is presently evaluating proposals for strategic expansion in the United Arab Emirates and the State of Qatar.

The primary goal of the Company's Board, management and staff continues to be to implement the Company's strategy effectively, so that, based also on favourable economic and market conditions, an even better service can be provided to our clients and the company's value is also further increased.

**Kipco Asset Management Company
K.S.C. (Closed) And Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

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Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

AUDITORS' REPORT

AUDITORS' REPORT TO THE SHAREHOLDERS OF KIPCO ASSET MANAGEMENT COMPANY K.S.C. (CLOSED)

We have audited the accompanying consolidated balance sheet of Kipco Asset Management Company K.S.C. (Closed) ("the parent company") and its subsidiaries ("the Group") as of 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

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

We further report that, during the course of our examination, we have not become aware of any material violations of the provisions of Law No.32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2005.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

Q.H. ALOTAIBI
LICENCE NO. 73-A
MEMBER OF THE INTERNATIONAL GROUP
OF ACCOUNTING FIRMS

15 February 2006
Kuwait

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 KD	2004 KD
ASSETS			
Bank balances and cash		3,123,389	1,221,769
Investments at fair value through consolidated statement of income	3	5,632,237	7,224,244
Investments available for sale	4	69,158,028	46,911,277
Investments in associates	5	35,128,205	23,879,383
Loans and advances	6	4,713,406	2,687,752
Other assets	7	10,429,548	9,978,896
TOTAL ASSETS		128,184,813	91,903,321
LIABILITIES AND EQUITY			
Liabilities			
Loans from related parties	8	20,090,700	19,125,800
Bonds	9	20,000,000	20,000,000
Other liabilities	10	5,599,834	3,866,600
Total liabilities		45,690,534	42,992,400
Equity			
Share capital	11	22,235,000	22,110,000
Share premium	12	7,576,500	7,534,000
Treasury shares	13	-	(3,278,477)
Statutory reserve	14	5,130,435	2,558,917
Voluntary reserve	15	5,130,435	2,558,917
Treasury shares reserve	13	1,272,051	-
Cumulative changes in fair values		10,448,787	2,234,150
Foreign currency translation reserve		(387,619)	(318,017)
Employees share option reserve	16	452,909	-
Retained earnings		30,521,300	15,507,431
Equity attributable to equity holders of the parent		82,379,798	48,906,921
Minority interest		114,481	4,000
Total equity		82,494,279	48,910,921
TOTAL LIABILITIES AND EQUITY		128,184,813	91,903,321



Masaud Mahmoud Jawhar Hayat
(Chairman)



Saudoun Abdullah Ali
(General Manager)

The attached notes 1 to 30 form part of these consolidated financial statements.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2005

	Notes	2005 KD	2004 KD
Revenues:			
Management fees		9,182,902	4,381,543
Brokerage		348,328	339,604
Advisory fees		2,263,213	1,171,015
Gain on sale of investments available for sale		6,221,167	444,730
Share of results of associates		6,209,268	1,846,460
Dividend income		5,194,526	1,635,424
Interest income		1,119,989	581,600
Gain on sale of investments at fair value through consolidated statement of income		2,574,341	1,964,162
Unrealised gains on investments at fair value through consolidated statement of income		215,549	1,081,212
Gain on sale of part investment in an associate		1,210,967	130,588
Other income		229,018	75,228
Total revenues		34,769,268	13,651,566
Expenses:			
Administration expenses		6,167,980	3,943,388
Finance costs		2,576,679	1,810,176
Foreign exchange loss		11,662	6,852
Impairment losses on investments available for sale		12,199	-
Charge (release of) for provision for doubtful debts and loans		285,568	(686,146)
Amortisation of goodwill		-	176,006
Total expenses		9,054,088	5,250,276
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), DIRECTORS' REMUNERATION AND NATIONAL LABOUR SUPPORT TAX		25,715,180	8,401,290
Contribution to KFAS		(176,267)	(61,406)
Directors' remuneration		(50,000)	(37,500)
National Labour Support Tax (NLST)		(447,175)	(164,091)
PROFIT FOR THE YEAR	17	25,041,738	8,138,293
Attributable to :			
Equity holders of the Parent		25,040,257	8,138,293
Minority interest		1,481	-
PROFIT FOR THE YEAR		25,041,738	8,138,293
BASIC EARNINGS PER SHARE	18	114.1 fils	37.8 fils
DILUTED EARNINGS PER SHARE	18	113.5 fils	37.4 fils

The attached notes 1 to 30 form part of these consolidated financial statements.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended 31 December 2005

	2005 KD	2004 KD
OPERATING ACTIVITIES		
Profit for the year attributable to equity holders of the parent	25,040,257	8,138,293
Adjustments for:		
Share of results of associates	(6,209,268)	(1,846,460)
Gain on sale of part investment in an associate	(1,210,967)	(130,588)
Gain on sale of investments available for sale	(6,221,167)	(444,730)
Impairment losses on investments available for sale	12,199	-
Charge/ (release of) for provision for doubtful debts and loans	285,568	(686,146)
Provision for employee stock option plan (ESOP)	452,909	-
Amortisation of goodwill	-	176,006
Provision for employees' end of service benefits	501,123	283,379
Dividend income	(5,194,526)	(1,635,424)
Interest income	(1,119,989)	(581,600)
Finance costs	2,576,679	1,810,176
	<u>8,912,818</u>	<u>5,082,906</u>
Change in operating assets and liabilities:		
Investments at fair value through consolidated statement of income	1,592,007	4,306,602
Loans and advances	(2,066,994)	(150,743)
Other assets	(964,868)	(208,168)
Other liabilities	1,198,593	(483,242)
	<u>8,671,556</u>	<u>8,547,355</u>
Cash from operations	8,671,556	8,547,355
Employees' end of service benefits paid	(105,835)	(30,726)
	<u>8,565,721</u>	<u>8,516,629</u>
INVESTING ACTIVITIES		
Purchase of investments available for sale	(34,467,582)	(12,913,382)
Investment in associates	(6,157,393)	(641,500)
Proceeds from sale of investment available for sale	25,209,530	6,460,484
Proceeds from sale of part investment in an associate	2,512,605	857,521
Dividend received from associates	1,648,979	205,875
Dividend received	5,194,526	1,635,424
Interest income received	1,414,221	583,736
	<u>(4,645,114)</u>	<u>(3,811,842)</u>
FINANCING ACTIVITIES		
Issue of share capital	167,500	134,000
Proceeds from sale of treasury shares	4,961,045	-
Purchase of treasury shares	(410,517)	(3,278,477)
New loans from related parties	964,576	4,750,000
Repayment of loans from related parties	-	(23,460,000)
Dividends paid	(5,350,500)	(2,010,000)
Issue of bonds	-	20,000,000
Finance costs paid	(2,461,572)	(1,755,317)
Minority Interest	110,481	4,000
	<u>(2,018,987)</u>	<u>(5,615,794)</u>
INCREASE (DECREASE) IN BANK BALANCES AND CASH	1,901,620	(911,007)
Bank balances and cash at the beginning of the year	1,221,769	2,132,776
BANK BALANCES AND CASH AT THE END OF THE YEAR	<u>3,123,389</u>	<u>1,221,769</u>

The attached notes 1 to 30 form part of these consolidated financial statements.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2005

	Share capital KD	Share premium KD	Treasury Share KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares reserve KD	Cumulative changes in Fair values KD	Foreign currency translation reserve KD	Employees share option reserve KD	Retained earnings KD	Total KD	Minority Interest KD	Total Equity KD
Balance at 31 December 2004	22,110,000	7,534,000	(3,278,477)	2,558,917	2,558,917	-	2,234,150	(318,017)	-	15,507,431	48,906,921	4,000	48,910,921
Change in equity of associates (Note 5)	-	-	-	-	-	-	1,902,379	-	-	-	1,902,379	-	1,902,379
Change in fair value of investments available for sale	-	-	-	-	-	-	6,586,770	-	-	-	6,586,770	-	6,586,770
Effect of sale of investments available for sale	-	-	-	-	-	-	(274,512)	-	-	467,148	192,636	-	192,636
Foreign currency translation adjustments (Note 5)	-	-	-	-	-	-	-	(69,602)	-	-	(69,602)	-	(69,602)
Gain on sale of treasury shares	-	-	-	-	-	1,272,051	-	-	-	-	1,272,051	-	1,272,051
Employees' share based payment (Note 16)	-	-	-	-	-	-	-	-	452,909	-	452,909	-	452,909
Income and expenses recognised directly in equity	-	-	-	-	-	1,272,051	8,214,637	(69,602)	452,909	467,148	10,337,143	-	10,337,143
Profit for the period	-	-	-	-	-	-	-	-	-	25,040,257	25,040,257	1,481	25,041,738
Total income and expenses for the period	-	-	-	-	-	1,272,051	8,214,637	(69,602)	452,909	25,507,405	35,377,400	1,481	35,378,881
Issue of share capital	125,000	42,500	-	-	-	-	-	-	-	-	167,500	-	167,500
Additional investment in subsidiaries	-	-	-	-	-	-	-	-	-	(5,143,036)	-	109,000	109,000
Transfer to reserves	-	-	-	2,571,518	2,571,518	-	-	-	-	(5,350,500)	(5,350,500)	-	(5,350,500)
Dividends paid for 2004 (Note 19)	-	-	-	-	-	-	-	-	-	-	(410,517)	-	(410,517)
Purchase of treasury shares	-	-	(410,517)	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	3,688,994	-	-	-	-	-	-	-	3,688,994	-	3,688,994
Balance at 31 December 2005	22,235,000	7,576,500	-	5,130,435	5,130,435	1,272,051	10,448,787	(387,619)	452,909	30,521,300	82,379,798	114,481	82,494,279
Balance at 31 December 2003	20,000,000	7,500,000	-	1,718,788	1,718,788	-	2,846,918	(319,646)	-	12,963,103	46,427,951	-	46,427,951
Change in equity of associates	-	-	-	-	-	-	11,201	-	-	-	11,201	-	11,201
Change in fair value of investments available for sale	-	-	-	-	-	-	(587,995)	-	-	-	(587,995)	-	(587,995)
Effect of sale of investments available for sale	-	-	-	-	-	-	(35,974)	-	-	106,293	70,319	-	70,319
Foreign currency translation adjustments	-	-	-	-	-	-	-	1,629	-	-	1,629	-	1,629
Income and expenses recognised directly in equity	-	-	-	-	-	-	(612,768)	1,629	-	106,293	(504,846)	-	(504,846)
Profit for the period	-	-	-	-	-	-	-	-	-	8,138,293	8,138,293	-	8,138,293
Total income and expenses for the period	-	-	-	-	-	-	(612,768)	1,629	-	8,244,586	7,633,447	-	7,633,447
Issue of share capital	100,000	34,000	-	-	-	-	-	-	-	-	134,000	-	134,000
Additional investment in subsidiaries	2,010,000	-	-	-	-	-	-	-	-	(2,010,000)	-	4,000	4,000
Issue of bonus shares	-	-	-	-	-	-	-	-	-	(1,680,258)	-	-	-
Transfer to reserves	-	-	-	840,129	840,129	-	-	-	-	(2,010,000)	(2,010,000)	-	(2,010,000)
Dividends paid for 2003	-	-	-	-	-	-	-	-	-	-	(3,278,477)	-	(3,278,477)
Purchase of treasury shares	-	-	(3,278,477)	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2004	22,110,000	7,534,000	(3,278,477)	2,558,917	2,558,917	-	2,234,150	(318,017)	-	15,507,431	48,906,921	4,000	48,910,921

The attached notes 1 to 30 form part of these consolidated financial statements.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2005

1. INCORPORATION AND ACTIVITIES

These consolidated financial statements of Kipco Asset Management Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (the "Group") were authorised for issue by the Board of Directors on 15 February 2006, and are issued subject to the approval of the Ordinary General Assembly of the shareholders of the Parent Company.

The Parent Company is a Kuwaiti closed shareholding company registered and incorporated in Kuwait on 28 September 1998 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The Parent Company is registered with the Central Bank of Kuwait as an investment company and is listed on the Kuwait Stock Exchange.

The Parent Company's registered head office is at Sharq, Al Shaheed Tower, Khalid Bin Al-Waleed Street, Kuwait City, P.O. Box 28873, Safat 13149, Kuwait.

The Parent Company's main activities are to invest in real estate, industrial and agricultural and other sectors, to establish specialized companies and manage third parties funds and real estate portfolios, to act as underwriters, subscription agents and investment trustees, to finance and intermediate in international trade, to provide loans and trade in foreign exchange and precious metal markets, to provide consultancy and undertake technical and economic feasibility studies, to establish and manage funds, and to do all activities that help to develop and advance the capabilities of the financial market.

The major shareholder of the Parent Company is United Gulf Bank B.S.C. (E.C.) and the ultimate parent company is Kuwait Projects Company Holding K.S.C. which is listed on the Kuwait Stock Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the principal accounting policies adopted in the presentation of these consolidated financial statements. These policies have been consistently applied to all the years presented.

Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for a collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

The consolidated financial statements are presented in Kuwaiti Dinars.

The consolidated financial statements are prepared under the historical cost convention as modified for the revaluation at fair value of investments at fair value through consolidated statement of income and investments available for sale.

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, with the exception of the following policies which have been revised due to certain International Financial Reporting Standards (IFRS) that became mandatory for the financial years starting on or after 1 January 2005. The principal effects are discussed below:

IFRS 2 "Share based Payments"

The Group operates an Employee Stock Options Plan under which share options are granted to eligible employees. The main impact of IFRS 2 on the group is the recognition of periodic expense over the estimated vesting period and a corresponding entry to equity. There is no material impact on the consolidated statement of income for the comparative year ended 31 December 2004 or on retained earnings at 1 January 2004.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 3 "Business Combination" and IAS 36 "Impairment of Assets"

The adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing goodwill amortization and to test for goodwill impairment annually. Negative goodwill arising on acquisition which was previously recognized as income on a systematic basis over the weighted average remaining useful lives of the identifiable assets which are subject to amortization are now recognised immediately in the consolidated statement of income. There is no effect of the adoption of IFRS 3 on the consolidated statement of income for the comparative year ended 31 December 2004 or on retained earnings at 1 January 2004.

IAS 21 "The Effects of Changes in Foreign Exchange Rates"

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are now treated as assets and liabilities of the foreign operation and translated at the closing rate. In accordance with the transitional provisions of IAS 21 this change is applied prospectively.

IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement".

Classification

The Group has designated "investments held for trading" as "investments at fair value through consolidated statement of income" and "originated loans and advance" as "loans and receivables".

Impairment of investment available for sale

In the case of available for sale equity investments reversal of previously recognized losses are no longer recognised in the consolidated statement of income but as increase in cumulative changes in fair values. There is no impact on the consolidated statement of income for the comparative year ended 31 December 2004 or on retained earnings at 1 January 2004 as there were no such reversals in the prior year.

Transition adjustment

There is no impact on the consolidated statement of income for the comparative year ended 31 December 2004 or on retained earnings at 1 January 2004 as there was no such uncycled adjustment to retained earnings. The carrying amount of "investment held for trading" reclassified as "investments at fair value through consolidated statement of income" as at 1 January 2004 were KD 11,530,846.

Derecognition of financial assets

With effect from 1 January 2005 a financial asset (in whole or in part) is derecognised 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 and when it no longer has control over the asset or a proportion of the asset.

IAS 1 "Presentation of financial statements"

The adoption of the revised International Accounting Standard 1 has resulted in amendments to the presentation of minority interest. Minority interest is now presented within equity.

The significant accounting policies adopted by the group are:

Principles of consolidation

These consolidated financial statements include the accounts of the Parent Company and its subsidiaries (the "Group"). 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.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Principles of consolidation (continued)**

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date it effectively ceases. The purchase method of accounting is used. Purchase method involves allocating the cost of business combination to fair value of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisition. Minority interest represents the portion of profit and loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet separately from equity attributable to the equity holders of the Parent Company.

Significant inter-company balances and transactions, including inter-company profits and unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The principal subsidiaries of the Group are as follows:

Name of company	Country of incorporation	Effective equity interest as at 31 December 2005	Effective equity interest as at 31 December 2004
Al-Ahlia Arabian Markets Company K.S.C. (Closed) <i>(Its principal activity is managing supermarkets)</i>	Kuwait	96%	96%
First Arabian Markets Company K.S.C. (Closed) <i>(Its principal activity is managing super markets and related activities)</i>	Kuwait	96%	-
KAMCO Real Estate Company SPC <i>(Its principal activity is Investment in real estates)</i>	Bahrain	100%	-
Advantage Management Consulting Company K.S.C. (Closed) <i>(Its principal activity is management & business consulting services)</i>	Kuwait	58%	-

Financial assets and liabilities

The Group classifies its financial assets and liabilities as "investments at fair value through consolidated statement of income", "loans and receivables" and "investments available for sale".

Investments are classified as at fair value through consolidated statement of income when there are readily available reliable fair values and the management designates them as investments at fair values through consolidated statement of income.

Debt instruments which do not meet the definition of held to maturity and which have fixed or determinable payments but are not quoted in an active market are treated as loans and receivables.

All other investments are classified as available for sale.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A regular way purchase of financial assets is recognised using the trade date accounting. Financial liabilities are not recognized unless one of the parties has performed or the contract is a derivative contract.

Financial assets and liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through consolidated statement of income, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liability at fair value through consolidated statement of income are expensed immediately, while on other financial instruments they are amortised.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments at fair value through consolidated statement of income

After initial recognition investments at fair value through consolidated statement of income are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

Investments available for sale

After initial recognition investments available for sale are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is included in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Loans and receivables

Loans and advances are categorised as "Loans and receivables" and are carried at amortised cost, less any amounts written off, and net of suspended interest and provision for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

Other financial liabilities

Other financial liabilities are stated at amortised cost.

Fair value

The fair value of investments traded in recognised financial markets is their quoted market price, based on the current bid price. For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis.

Derecognition

A financial asset (in whole or in part) is derecognised 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 or retained substantially all the risks and rewards, when it no longer has control over the asset or a proportion of the asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Investments in associates

An associate is one over which the Group has significant influence but not control over its operations, generally accompanying, directly or indirectly, a shareholding of between 20% and 50% of the equity share capital and are accounted for by the equity method.

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an 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 that have not been recognised in the associate's consolidated statement of income. The Group's share of those changes is recognised directly in the equity.

The Group's investments in associates include goodwill identified on acquisition, which is treated in accordance with the accounting policy for goodwill.

Unrealised gains on transactions with an 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 of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary or associate as at the date of the acquisition. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the balance sheet. Goodwill arising on the acquisition of an associate is included within the carrying amount of the investment. Any excess, at the date of acquisition, of the Group's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill.

Goodwill is stated at cost less impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the consolidated statement of income.

Term loans

Term loans are carried on the balance sheet at their principal amounts. Interest is charged as an expense as it accrues, with unpaid amounts included in other liabilities.

Bonds

Bonds are carried on the balance sheet at their principal amount. Interest is charged as an expense as it accrues, with unpaid amounts included in other liabilities.

Accounts payable and accruals

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Share based payment transactions

The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP). Under the terms of the plan, share options are granted to permanent employees. The options are exercisable in future period. The fair value of the options is recognised as an expense over the vesting period with corresponding effect to equity. The fair value of the options is determined using Black-Scholes option pricing model.

The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Foreign currency

Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated statement of income.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity and for non-monetary assets whose change in fair value are recognised in the consolidated statement of income are recognised in the consolidated statement of income.

Foreign currency (continued)

Assets including goodwill and liabilities, both monetary and non-monetary, of foreign entities are translated at the exchange rates prevailing at the balance sheet date. Operating results of such entities are translated at average rates of exchange for the entities period of operations. The resulting exchange differences are accumulated in a separate section of the shareholder's equity (foreign currency translation reserve) until the disposal of the entities.

Revenue recognition

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 is also followed before revenue is recognised:

- Management and brokerage fees relating to portfolios, fund management and custody services are recognised when earned and accounted for on a quarterly basis according to the terms of the contracts with portfolio customers.
- Dividend income is recognised when the right to receive the payment is established.
- Incentive fees are recognised when the risk of realisation of such fees no longer exist.
- Interest income considered an integral part of the effective yield of a loan, is recognised using the effective yield method. The recognition of interest income is suspended when loans become impaired, such as when overdue by more than 90 days. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.
- Gains and losses on the sale of investments are recognised upon completion of the sale transaction.

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable value of loans and advances is based on the net present value of future cash flows discounted at original interest rates. The provision for impairment of loans and advances also covers losses where there is objective evidence that probable losses are present in components of the loans and advances portfolio at the balance sheet date. Assets with a short duration are not discounted.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision of 2% on all credit facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

Reversal, of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal of impairment losses are recognised in the consolidated statement of income except for available for sale equity investments which are recognized in the cumulative changes in fair values.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Contingencies**

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

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

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:

Impairment losses on loans and advances

The Group reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

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 ; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- other valuation models.

Fiduciary assets

Assets held in trust or fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in these consolidated financial statements.

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.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3. INVESTMENTS AT FAIR VALUE THROUGH CONSOLIDATED STATEMENT OF INCOME

	2005 KD	2004 KD
Quoted securities – local	3,493,136	4,642,731
Quoted securities – international	2,139,101	2,581,513
	<u>5,632,237</u>	<u>7,224,244</u>

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

4. INVESTMENTS AVAILABLE FOR SALE

	2005 KD	2004 KD
Quoted securities	7,803,865	7,134,794
Unquoted securities	23,965,641	11,749,282
Managed funds	35,731,282	26,150,348
Bonds	1,657,240	1,876,853
	<u>69,158,028</u>	<u>46,911,277</u>

At 31 December 2005, certain investments amounting to KD 9,429,075 (2004: KD 6,719,503) were carried at cost due to the non availability of quoted market prices or other reliable measures of their fair values. The management believes there is no impairment in value.

5. INVESTMENT IN ASSOCIATES

	2005 KD	2004 KD
Opening balances:	23,524,926	21,993,874
Fair value of net tangible assets acquired	6,157,394	596,088
Share of results of associates	6,209,268	1,846,460
Post-acquisition cumulative changes in fair value recognised in equity	1,902,379	11,201
Foreign currency translation adjustment	(69,602)	1,629
Dividend received	(1,648,979)	(205,875)
Disposal of investment in an associate	(1,287,338)	(718,451)
	<u>34,788,048</u>	<u>23,524,926</u>
Opening balances:	354,457	493,533
Goodwill arising on acquisition	-	45,413
Amortisation	-	(176,006)
Goodwill on disposal	(14,300)	(8,483)
	<u>340,157</u>	<u>354,457</u>
	<u>35,128,205</u>	<u>23,879,383</u>

Investments in associates include quoted investments with a carrying value of KD 22,469,736 (2004: KD 17,236,527) having a fair value of KD 40,092,250 (2004: KD 21,667,200).

	2005 KD	2004 KD
Associates' balance sheet:		
Total assets	<u>205,793,195</u>	<u>157,710,011</u>
Total liabilities	<u>76,383,630</u>	<u>88,505,100</u>
Associates' revenue and profit:		
Gross Revenue	<u>56,629,608</u>	<u>30,675,346</u>
Profit for the year	<u>15,663,237</u>	<u>5,507,565</u>

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

5. INVESTMENT IN ASSOCIATES (continued)

Details of associates are as follows:

Name of company	Effective Interest in equity			
	2005	2004	2005	2004
			KD	KD
United Industries Co. K.S.C. (Closed) (Registered in Kuwait and its principal activity is investing in manufacturing companies).	43.83%	47.88%	22,469,737	17,236,527
Gulf Egypt for Hotels and Tourism S.A.E. (Registered in Egypt and its principal activity is Hotel construction and management).	16.26%	16.26%	3,729,575	3,716,932
United Gulf Bank Securities Co. B.S.C. (Registered in Bahrain and its principal activity is Investment services).	30.00%	30.00%	144,464	139,851
United Medical Service Co. K.S.C. (Closed) (Registered in Kuwait and its principal activity is Health care).	27.45%	27.45%	2,096,080	1,877,959
Salem Al-Marzouk & Sabah Abi Hana W.L.L. (Registered in Kuwait and its principal activity is Architecture consulting services).	30.00%	30.00%	330,449	266,614
United Warehousing and Refrigerating Company K.S.C. (Closed) (Registered in Kuwait and its principal activity is management and maintenance of warehouses, and maintaining the inventories stored in the warehouses).	25.00%	25.00%	1,197,900	641,500
Manafae Investment Company K.S.C. (Closed) (Registered in Kuwait and its principal activity is Islamic Asset management, Financial services, Investment services, Real estate investment and financing & Advisory services).	24.80%	-	4,960,000	-
Al Dhiyafa Holding Company K.S.C. (Closed) (Registered in Kuwait and its principal activity is investment in and management of companies specialised in hospitality industry).	20.00%	-	200,000	-
Total			<u>35,128,205</u>	<u>23,879,383</u>

During the period, the Parent Company has sold part of the investment in United Industries Co. K.S.C. (Closed) for KD 2,512,605 giving rise to a gain of KD 1,210,967.

6. LOANS AND ADVANCES

	2005	2004
	KD	KD
Gross amount	4,809,598	2,742,604
Less: Provision for credit losses	(96,192)	(54,852)
	<u>4,713,406</u>	<u>2,687,752</u>

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6. LOANS AND ADVANCES (continued)

Loans are secured against investments in the funds and securities held in fiduciary portfolios, on behalf of the borrowers, managed by the Group.

According to the Central Bank of Kuwait instructions, a general provision of minimum 2% on all credit facilities (net of certain categories of collateral) to which CBK instructions are applicable and not subject to specific provision, is made.

7. OTHER ASSETS

	2005 KD	2004 KD
Accrued income	296,118	1,887
Staff advances	546,058	1,039,039
Due from related parties (Note 21)	3,984,811	4,952,900
Due from portfolio clients	3,619,339	437,589
Fixed assets (net)	175,768	138,457
Others	1,807,454	3,409,024
	<u>10,429,548</u>	<u>9,978,896</u>

8. LOANS FROM RELATED PARTIES

	2005 KD	2004 KD
• Loan due in full on 30 March 2006 bearing floating interest of 2% over Central Bank of Kuwait discount rate	15,000,000	15,000,000
• Loan due in full on 31 March 2006 bearing interest of 2% over the three month LIBOR rate (US\$ loan)	3,796,000	3,831,100
• Loan due in full on 4 January 2006 bearing fixed interest of 6.50%	1,000,000	-
• Loan due in full on 21 June 2006 bearing fixed interest of 4.3938% (US\$ loan)	294,700	294,700
	<u>20,090,700</u>	<u>19,125,800</u>

All loans are unsecured.

9. BONDS

During 2004, the Parent Company issued floating rate bonds with a principal of KD 10,000,000 and fixed rate bonds with a principal of KD 10,000,000. The issue price of bonds is 100% of their principal amount. The floating rate bonds bear interest at the rate of 1.5% per annum above the three month KIBOR rate in effect on the rate fixing date. The fixed rate bonds bear fixed interest at the rate of 5.5% per annum. Interest is payable quarterly in arrears. The bonds will be redeemed at their principal amount on 21 June 2009.

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

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10. OTHER LIABILITIES

	<i>2005</i>	<i>2004</i>
	<i>KD</i>	<i>KD</i>
Accrued expenses and provisions	2,206,242	2,040,113
Due to related parties (Note 21)	884,030	181,896
Other payables	484,447	411,289
Kuwait Foundation for the Advancement of Sciences	188,035	74,594
National Labour Support Tax	447,175	164,091
Employees' end of service benefits	1,389,905	994,617
	<u>5,599,834</u>	<u>3,866,600</u>

11. SHARE CAPITAL

The extraordinary general assembly of the Parent Company held on 5 March 2005 approved an increase in authorised share capital from 221,100,000 shares to 222,350,000 shares, which was utilised by the issue of 1,250,000 shares of par value 100 fils per share at a premium of 34 fils per share totalling KD 167,500 under an employees' share purchase scheme (Note 16).

The share capital of the Parent Company consists of 222,350,000 (2004: 221,100,000) authorised, issued and fully paid up shares of 100 fils each.

12. SHARE PREMIUM

The share premium account is not available for distribution.

13. TREASURY SHARES AND TREASURY SHARES RESERVE

	<i>2005</i>	<i>2004</i>
Number of treasury shares	-	10,450,000
Percentage of capital	-	4.73%
Market value – KD	-	3,605,250

The balance of treasury shares reserve is not available for distribution.

14. STATUTORY RESERVE

In accordance with the Commercial Companies Law and the company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST and Board of Directors' remuneration has been transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up capital. The statutory reserve is not available for distribution except in certain circumstances stipulated by law.

15. VOLUNTARY RESERVE

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before Contribution to KFAS, NLST and Board of Directors' remuneration has been transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. Voluntary reserve is available for distribution.

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16. SHARE BASED PAYMENTS

The Parent Company has a stock option plan for all of its employees. Options are exercisable at a price approved by Board of Directors at the date of grant. The weighted average vesting period is three year. The options expire if they are not exercised within the period specified in the grant. If an employee leaves the Group before the options vest they are forfeited.

Share Options totalling 3,725,000 shares were granted on 19 July 2003 with a vesting period of 3 years and share options totalling 1,490,000 shares are outstanding at the year end. The group recognised expense of KD 452,909 related to equity-settled share-based payment transactions during the year.

17. PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	2005 KD	2004 KD
Staff costs:		
Salaries	1,408,279	1,281,737
Leave and end of service benefits	721,215	483,594
Bonuses	1,452,909	515,752
Other benefits	271,676	133,626
	<u>3,854,079</u>	<u>2,414,709</u>
Depreciation	<u>80,005</u>	<u>101,862</u>

18. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the year, less treasury shares, is as follows:

	2005 KD	2004 KD
Earnings:		
Profit for the year attributable to the equity holders of the Parent Company	<u>25,040,257</u>	<u>8,138,293</u>
	Shares	Shares
Weighted average number of shares, less treasury shares, outstanding during the year for basic earnings per share	219,460,603	215,146,694
Effect of dilution:		
Due to employee share option plan	<u>1,153,021</u>	<u>2,729,146</u>
Weighted average number of shares, less treasury shares, outstanding during the year adjusted for the effect of dilution	<u>220,613,624</u>	<u>217,875,840</u>
Basic earnings per share	<u>114.1 fils</u>	<u>37.8 fils</u>
Diluted earnings per share	<u>113.5 fils</u>	<u>37.4 fils</u>

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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19. PROPOSED ISSUE OF BONUS SHARES, CASH DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

The board of directors of the Parent Company have proposed cash dividends of KD 8,894,000/- for the year ended 31 December 2005, representing 40 fils per share and a bonus share of 10% of paid up share capital to the Parent Company's shareholders on records as of the date of the general assembly. This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Parent Company.

Directors' remuneration of KD 50,000 is subject to approval by the annual general assembly of the shareholders of the Parent Company.

The cash dividends of KD 5,350,500 proposed for the year ended 31 December 2004 representing 25 fils per share to the Parent Company's shareholders on record of the Parent Company as of the date of general assembly meeting excluding treasury shares and directors' remuneration of KD 37,500 were approved by the Parent Company's ordinary general assembly of the shareholders held on 22 March 2005.

20. CONTINGENCIES

At 31 December 2005, the Group had contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 2,624,090 (2004: KD 1,514,099).

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21. RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. shareholders, directors and senior management of the Group, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Group's management. Transactions with related parties are as follows:

	Parent/ultimate parent KD	Associates KD	Directors and senior management KD	Other related parties KD	Total 2005 KD	Total 2004 KD
Balance sheet						
Bank balances and cash	1,077,098	-	-	1,556,877	2,633,975	1,092,002
Investments at fair value through consolidated statement of income	2,461	-	-	2,883,437	2,885,898	4,164,369
Investments available for sale	2,391,457	633,022	-	35,204,190	38,228,669	35,354,368
Other assets	170,684	17,411	-	3,796,716	3,984,811	4,952,900
Other liabilities	4,599	101,872	-	777,559	884,030	181,896
Loans from related parties	294,700	-	-	19,796,000	20,090,700	19,125,800
Consolidated statement of income						
Management fees	915,576	27,615	33,931	5,212,109	6,189,231	2,716,733
Advisory fees	-	710,129	-	717,673	1,427,802	264,314
Dividend income	170,974	30,200	-	4,220,564	4,421,738	646,952
Interest income	195,370	8,243	-	617,778	821,391	416,704
Gain on sale of part investment in an associate	-	1,210,970	-	-	1,210,970	130,588
Gain on sale of shares of ultimate parent company	2,985,367	-	-	-	2,985,367	-
Donation	-	-	-	265,646	265,646	77,999
Finance costs	15,457	-	-	1,449,484	1,464,941	1,177,840
Provision for doubtful debts	-	-	-	219,984	219,984	476,733
Transactions						
Proceeds from sale of associate to related parties	2,498,305	-	-	-	-	-
Proceeds from sale of shares of ultimate parent company to related parties	6,388,580	-	-	-	-	-

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21. RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

	2005 KD	2004 KD
Short-term employee benefits	376,104	422,280
Termination benefits	242,419	108,829
Share based payment	34,976	27,981
	<u>653,499</u>	<u>559,090</u>

22. SEGMENTAL INFORMATION*Primary segment information*

For management purposes, the Group is organised into two major business segments. The principal activities and services under these segments are as follows:

- Proprietary investment management : Investing of Group funds in securities, lending to corporate and individual customers and managing the Group's liquidity requirements.
- Investment management and advisory services : Discretionary and non-discretionary investment portfolio management, managing of local and international investment funds and providing advisory and structured finance services and other related financial services.

31 December 2005

	<i>Proprietary investment management KD</i>	<i>Investment management and advisory services KD</i>	<i>Others KD</i>	<i>Total KD</i>
ASSETS				
Bank balances and cash	3,123,389	-	-	3,123,389
Investments at fair value through consolidated statement of income	5,632,237	-	-	5,632,237
Investments available for sale	69,158,028	-	-	69,158,028
Investments in associates	35,128,205	-	-	35,128,205
Loans and advances	4,713,406	-	-	4,713,406
Other assets	3,654,410	6,229,070	546,068	10,429,548
TOTAL ASSETS	<u>121,409,675</u>	<u>6,229,070</u>	<u>546,068</u>	<u>128,184,813</u>
LIABILITIES				
Loans from related parties	20,090,700	-	-	20,090,700
Bonds	20,000,000	-	-	20,000,000
Other liabilities	-	-	5,599,834	5,599,834
TOTAL LIABILITIES	<u>40,090,700</u>	<u>-</u>	<u>5,599,834</u>	<u>45,690,534</u>
Year ended 31 December 2005				
Segment income	23,094,135	11,446,115	229,018	34,769,268
Segment profit	<u>15,993,284</u>	<u>8,819,436</u>	<u>229,018</u>	<u>25,715,180</u>

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22. SEGMENTAL INFORMATION (continued)

31 December 2004	<i>Proprietary Investment management</i> KD	<i>Investment management and advisory services</i> KD	<i>Others</i> KD	<i>Total</i> KD
ASSETS				
Bank balances and cash	1,221,769	-	-	1,221,769
Investments at fair value through consolidated statement of income	7,224,244	-	-	7,224,244
Investments available for sale	46,911,277	-	-	46,911,277
Investments in associates	23,879,383	-	-	23,879,383
Loans and advances	2,687,752	-	-	2,687,752
Other assets	6,007,623	2,548,078	1,423,195	9,978,896
TOTAL ASSETS	<u>87,932,048</u>	<u>2,548,078</u>	<u>1,423,195</u>	<u>91,903,321</u>
LIABILITIES				
Loans from related parties	19,125,800	-	-	19,125,800
Bonds	20,000,000	-	-	20,000,000
Other liabilities	-	-	3,866,600	3,866,600
TOTAL LIABILITIES	<u>39,125,800</u>	<u>-</u>	<u>3,866,600</u>	<u>42,992,400</u>
Year ended 31 December 2004				
Segment income	7,684,176	5,892,162	75,228	13,651,566
Segment profit	<u>4,731,282</u>	<u>3,627,908</u>	<u>42,100</u>	<u>8,401,290</u>

Secondary segment information

The Group allocates its assets and liabilities in different geographical regions as shown below:

31 December 2005	<i>Kuwait</i> KD	<i>Gulf and the Rest of the Middle East</i> KD	<i>International</i> KD	<i>Total</i> KD
ASSETS				
Bank balances and cash	2,018,425	1,104,964	-	3,123,389
Investments at fair value through consolidated statement of income	3,493,139	-	2,139,098	5,632,237
Investments available for sale	59,257,476	3,976,597	5,923,955	69,158,028
Investments in associates	31,254,168	3,874,037	-	35,128,205
Loans and advances	4,713,406	-	-	4,713,406
Other assets	10,369,015	56,199	4,334	10,429,548
TOTAL ASSETS	<u>111,105,629</u>	<u>9,011,797</u>	<u>8,067,387</u>	<u>128,184,813</u>
LIABILITIES				
Loans from related parties	19,796,000	294,700	-	20,090,700
Bonds	20,000,000	-	-	20,000,000
Other liabilities	5,599,834	-	-	5,599,834
TOTAL LIABILITIES	<u>45,395,834</u>	<u>294,700</u>	<u>-</u>	<u>45,690,534</u>

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22. SEGMENTAL INFORMATION (continued)

31 December 2004	<i>Kuwait KD</i>	<i>Gulf and the Rest of the Middle East KD</i>	<i>International KD</i>	<i>Total KD</i>
ASSETS				
Bank balances and cash	777,439	444,330	-	1,221,769
Investments at fair value through consolidated statement of income	4,642,731	-	2,581,513	7,224,244
Investments available for sale	43,718,707	147,240	3,045,330	46,911,277
Investments in associates	20,022,601	3,856,782	-	23,879,383
Loans and advances	2,687,752	-	-	2,687,752
Other assets	9,978,896	-	-	9,978,896
TOTAL ASSETS	81,828,126	4,448,352	5,626,843	91,903,321
LIABILITIES				
Loans from related parties	18,831,100	294,700	-	19,125,800
Bonds	20,000,000	-	-	20,000,000
Other liabilities	3,866,600	-	-	3,866,600
TOTAL LIABILITIES	42,697,700	294,700	-	42,992,400

23. CREDIT RISK CONCENTRATION OF ASSETS AND LIABILITIES

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 to credit risk consist principally of bank balances, loans and advances. The Group's bank balances are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to loans and advances is limited due to the large number of customers and their dispersion across different industries. The Group also has policies and procedures in place to limit the amount of credit exposure to any counter party. These procedures include the non-concentration of credit risk.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The distribution of assets and liabilities by industry sector was as follows:

	2005		2004	
	<i>Assets KD</i>	<i>Liabilities KD</i>	<i>Assets KD</i>	<i>Liabilities KD</i>
Trading and manufacturing	24,087,574	-	17,506,039	-
Banks and financial institutions	47,041,221	20,090,700	38,807,723	19,125,800
Construction and real estate	6,703,060	-	398,839	-
Other	50,352,958	25,599,834	35,190,720	23,866,600
	128,184,813	45,690,534	91,903,321	42,992,400

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24. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realisable.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

The maturity profile of assets and liabilities at 31 December was as follows:

31 December 2005	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over one year KD</i>	<i>Total KD</i>
ASSETS					
Bank balances and cash	3,123,389	-	-	-	3,123,389
Investments at fair value through consolidated statement of income	5,632,237	-	-	-	5,632,237
Investments available for sale	-	-	-	69,158,028	69,158,028
Investments in associates	-	-	-	35,128,205	35,128,205
Loans and advances	-	-	4,713,406	-	4,713,406
Other assets	6,525,188	-	3,107,435	796,925	10,429,548
TOTAL ASSETS	15,280,814	-	7,820,841	105,083,158	128,184,813
LIABILITIES					
31 December 2005	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over one year KD</i>	<i>Total KD</i>
Loans from related parties	19,796,000	-	294,700	-	20,090,700
Bonds	-	-	-	20,000,000	20,000,000
Other liabilities	2,725,348	636,191	250,275	1,988,020	5,599,834
TOTAL LIABILITIES	22,521,348	636,191	544,975	21,988,020	45,690,534

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24. LIQUIDITY RISK (continued)

31 December 2004	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over one year KD</i>	<i>Total KD</i>
ASSETS					
Bank balances and cash	1,221,769	-	-	-	1,221,769
Investments at fair value through consolidated statement of income	7,224,244	-	-	-	7,224,244
Investments available for sale	-	-	-	46,911,277	46,911,277
Investments in associates	-	-	-	23,879,383	23,879,383
Loans and advances	-	-	2,687,752	-	2,687,752
Other assets	2,548,078	-	798,926	6,631,892	9,978,896
TOTAL ASSETS	10,994,091	-	3,486,678	77,422,552	91,903,321
LIABILITIES					
Loans from related parties	18,831,100	294,700	-	-	19,125,800
Bonds	-	-	-	20,000,000	20,000,000
Other liabilities	1,070,744	-	-	2,795,856	3,866,600
TOTAL LIABILITIES	19,901,844	294,700	-	22,795,856	42,992,400

25. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The Group's interest rate sensitivity position based on earlier of contractual repricing arrangements and maturity at 31 December was as follows:

Kipco Asset Management Company K.S.C. (Closed) And Subsidiaries

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31 December 2005

25. INTEREST RATE RISK (continued)

31 December 2005	Up to 1 month KD	1-3 months KD	3-12 months KD	Non interest bearing items KD	Total KD	Effective interest rate %
Bank balances and cash	3,116,889	-	-	6,500	3,123,389	1-2
Investments at fair value through consolidated statement of income	-	-	-	5,632,237	5,632,237	-
Investments available for sale	-	-	1,510,000	67,648,028	69,158,028	4.25-7
Investments in associates	-	-	-	35,128,205	35,128,205	-
Loans and advances	-	-	4,713,406	-	4,713,406	6.5-7
Other assets	-	-	285,553	10,143,995	10,429,548	-
TOTAL ASSETS	3,116,889	-	6,508,959	118,558,965	128,184,813	
Loans from related parties	1,000,000	18,796,000	294,700	-	20,090,700	2.94-7.5
Bonds	-	-	20,000,000	-	20,000,000	3.5-5.5
Other liabilities	-	-	-	5,599,834	5,599,834	-
TOTAL LIABILITIES	1,000,000	18,796,000	20,294,700	5,599,834	45,690,534	
31 December 2004	Up to 1 month KD	1-3 months KD	3-12 months KD	Non interest bearing items KD	Total KD	Effective interest rate %
Bank balances and cash	1,220,769	-	-	1,000	1,221,769	1-2
Investments at fair value through consolidated statement of income	-	-	-	7,224,244	7,224,244	-
Investments available for sale	-	-	1,360,000	45,551,277	46,911,277	4.25-6
Investments in associate	-	-	-	23,879,383	23,879,383	-
Loans and advances	-	-	2,687,752	-	2,687,752	6.25
Other assets	-	-	1,019,037	8,959,859	9,978,896	-
TOTAL ASSETS	1,220,769	-	5,066,789	85,615,763	91,903,321	
Loans from related parties	18,831,100	-	294,700	-	19,125,800	2.94-6.25
Bonds	-	-	20,000,000	-	20,000,000	3.5-5.5
Other liabilities	-	-	-	3,866,600	3,866,600	-
TOTAL LIABILITIES	18,831,100	-	20,294,700	3,866,600	42,992,400	

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26. FOREIGN CURRENCY RISK

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

Currency risk is managed on the basis of limits determined by the Group's Board of Directors and a continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

The Group had the following significant net long exposures in foreign currencies at 31 December:

	<i>2005</i>	<i>2004</i>
	<i>KD</i>	<i>KD</i>
	Long/ (short)	Long/ (short)
US Dollar	3,991,903	1,742,081
Other GCC currencies	14,363,655	10,210,746
Euro	242,363	584,483
Others	3,797,150	3,482,920

27. EQUITY PRICE RISK

Equity price risk arises from changes in the fair values of equity investments. The group manages this through diversification of investments in terms of geographical distribution and industry concentration. The majority of the group's investments are quoted on the Kuwait Stock Exchange.

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28. MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

29. FIDUCIARY ASSETS

The aggregate value of the assets held in a trust or fiduciary capacity by the Group at 31 December 2005 amounted to KD 1,753,505,844 (2004: KD 1,311,368,731).

30. COMPARATIVE AMOUNTS

The corresponding figures for 2004 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit or equity.