ANNUAL REPORT 2005

BAYAN INVESTMENT

annual report 2005

بيان للإستثمار

BAYAN INVESTMENT

CONTENTS

Tribute to A Great Leader

In mid January 2006, Kuwait and the Arab and Islamic nations were afflicted with the sad demise of Kuwait's great leader, His Highness the late Amir Sheikh Jaber Al- Ahmed Al-Jaber Al-Sabah. With his passing away, Kuwait lost a role model statesman who will always be remembered, with respect and affection, by the nationals and residents in the State of Kuwait. His Highness Sheikh Jaber was that type of leaders whose reign was a time for achievements, in which the Kuwaiti future generations will always take pride.
His highness the late Amir was the symbol of a visionary leader, whose sound foresight was notably manifested in Kuwait's progress and development. His era was a time for laying down the foundations for the institutions in the country, and for energizing the institutional life in Kuwait. Firmly believing that the "Human Resource" is the primary driver of any revival and advancement, His Highness the late Amir founded a school calling for nurturing and building the capabilities of the Kuwaiti citizen.

May the soul of His Highness Sheik Jaber rest in peace!

To the luck of Kuwait, the reigns of government devolved to His Highness Sheikh Sabah Al-Ahmed Al-Jabber Al-Sabah, who assumed the post of the Amir of the State of Kuwait, to confidently lead his country and people into a secure, safe and prosperous future.

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

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

His Highness
Sheikh Naser Al-Mohammed Al-Ahmad Al-Sabah
Prime Minister

MEMBERS OF THE BOARD

1

Faisal Ali Abdul Wahab Al Mutawa

Chairman & Managing Director

MEMBERS OF THE BOARD

2 Adel Essa Hussein Al-Yousifi
Vice Chairman

3 Tareq Bader Al-Salem Al-Abdulwahab
Board Member

4 Fawzi Dauod Al-Mutawa
Board Member

5 Manaf Mohamed Al-Hamad
Board Member

6 Ayman Bader Sultan
Board Member

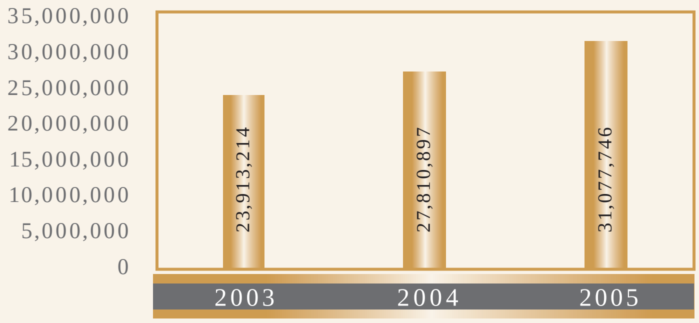
7 Khaled Faisal Al-Mutawa
Board Member

MANAGEMENT LIST

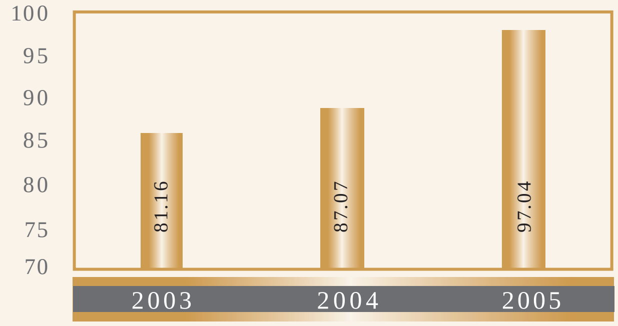
Faisal Ali Abdul Wahab Al Mutawa	Chairman & Managing Director
Omar Mohamad Jaber Hadeed	General Manager
Fahad Soliman Al Hebeshi	DGM Local Investment
Tareq Khalil Ibrahim	DGM Marketing & Business Development & Acting Manager International Investment Dept.
Ghadeer Ahmad Al Omran	Investment Operations Manager
Wajih Noujaim	Accounting Department Manager
Meshal Al-Melhem	Business Development Manager
Omar Ismaeel Samara	Assistant Manager, Corporate Finance Dept.
Ayman Ghanim Al-Bannaw	General Manager Al-Noor Holding Co.
Ali Hussain Al Sanad	Chairman & Managing Director, Arkan Holding Co.
Ahmad Al-Ameer	Vice Chairman & General Manager Bunyan Real Estate Co.

KEY FINANCIAL HIGHLIGHTS

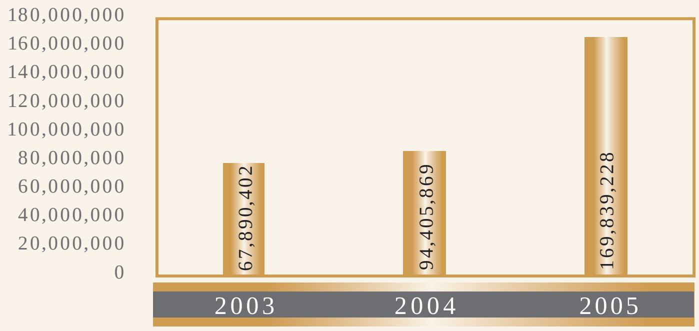
Net Profit (K.D.)



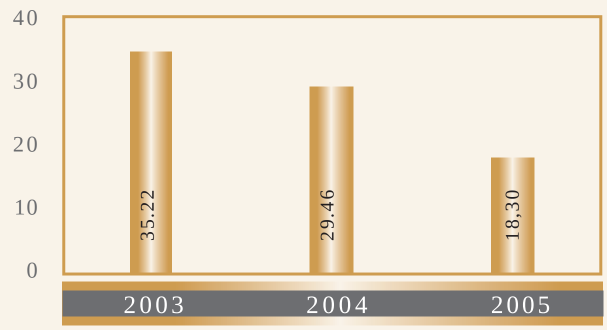
Earning Per Shar (Fils)



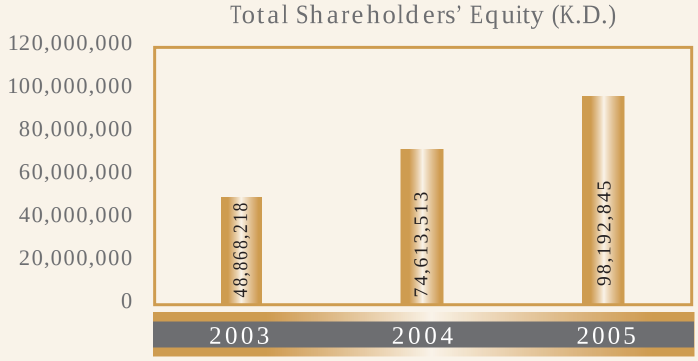
Total Assets (K.D.)



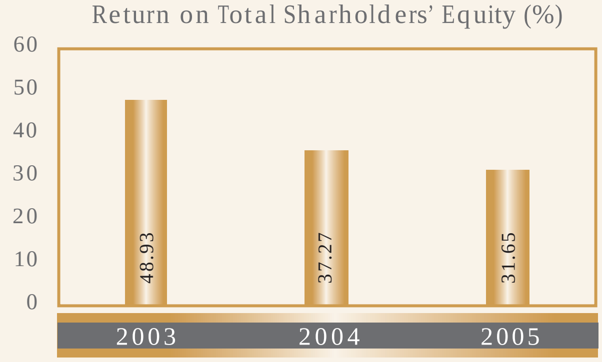
Return on Total Assets (%)



Total Shareholders' Equity (K.D.)



Return on Total Sharholders' Equity (%)



CHAIRMAN & MANAGING DIRECTOR'S MESSAGE

Dear Shareholders,

It gives me great pleasure to present to you, on behalf of the Board of Directors, the Annual Report of Bayan Investment Company for the financial year ended December 31, 2005.

The year 2005 has been a year of substantial economic growth in the GCC countries, including Kuwait. Continued high oil prices, consumer and business confidence in the strength of the regional economies, and excess liquidity in the GCC markets have fueled both private and government spending. Across the region, major public infrastructure projects and mega private sector developments have kept Gulf economies booming. Record performances in the region's stock markets during 2005, evidence the breadth and depth of investor and consumer confidence.

These favorable economic conditions gave rise to excellent business opportunities, providing for Bayan a convenient background for posting record performance and profitability, thereby enriching its track record of success over the past years.

While the current economic environment has partially contributed to Bayan's exceptional performance during the year, yet most of the profits achieved primarily originated from the Company's core business. Bayan remains firmly committed to its belief that the sustainability and growth of income from core lines of business are the critical factors for its future growth. However, Bayan always welcomes the occasional one-off gains and opportunities the economic boom offers.

In this context, and consistently with this clearly focused strategy, Bayan displayed a stellar performance in the full sense of the word, posting impressive operating results in all areas of business.

During the year, Bayan achieved net profits of KD 31.1 million, net of all required provisions, contribution to Kuwait Foundation for the Advancement of Sciences, and national manpower support tax. This resulted in earnings per share of 97.04 fils, compared to previous year's net profits of KD 27.8 million and earnings per share of 87.1 fils. Total assets also increased to KD 169.8 million during the year, compared with KD 94.4 million for 2004, while total shareholders equity rose to KD 98.2 million, compared with KD 74.6 million for the previous year. Return on total assets stood at 18.3%, whereas return on total shareholders' equity reached 31.7% for 2005.

In view of these excellent results, the shareholders' annual general meeting held on 8.4.2006 ratified the Board of Directors' recommendation to distribute cash dividends of 25%, or 25 fils per share, in addition to bonus shares of 7.5%, or seven shares and half share per each 100 shares held.

During the year in review, the Company implemented a comprehensive plan for expanding the scope of its activities and for engaging in different investment opportunities, aiming at diversifying its sources of income and minimizing potential risks. Bayan put this plan in motion through focusing on major sectors in the region. In this context, Bayan established strong footprints in the real estate sector through the capital increase of Gulf Holding Company from KD 1(one) million to KD 70 million. Through this company, Bayan initiated its investments in several projects, most important of which were Bahrain Financial Harbor and Al-A'reen projects, both of which are located in Bahrain.

In the course of its quest for furthering its regional presence, Bayan also developed other practical plans for engaging in real estate investments in Jordan and Qatar. To this end, Bayan established new companies in both countries for the purpose of developing strategically located parcels of land.

Bayan also seeks to reinforce its presence in the industrial sector through its subsidiary "Arkan Holding Company". In pursuit of this strategic objective, Bayan is in the process of executing the frit production factory in Egypt, which is expected to commence its actual operation during the fourth quarter of 2006. Another active move in this regard is Bayan's diligent endeavor to establish a project for insulating bricks production in Kuwait.

The year 2005 has been a time for stronger performance and higher size of business for Bayan's Local Investment Department and International Investment Department, both of which are core business areas. The growth in the performance and activities of these two departments during the year was clearly manifested in their positive results. Clients' assets under management showed remarkable growth by 86% during 2005 compared to 2004, evidently reflecting Management's efficiency and ability to attract and retain clients' confidence. Average return on managed portfolios stood at around 70.74% as at the end of 2005. The strong performance of these portfolios during the year attracted many new clients from both Kuwait and other GCC countries. On the proprietary portfolios front, the Management achieved a return of about 50% on the trading portfolio, successfully applying results-oriented strategy.

During the year, Bayan was also active in the area of investment funds management. The Company plans to launch two investment funds during 2006, with one of them intended to be Shari'a-compliant. Ea'mmar & Estethmar Fund has demonstrated a spectacular performance during the year, outperforming all local real estate funds. Net asset value per unit rose from KD 1 (one) upon inception to KD 1.230 as at the end of December 2005. The Fund posted an overall annual performance of 28.92%, with net profit distributions to shareholders standing at 18% by the end of the year.

Bayan also engaged in some direct investments during 2005, including, but not limited to, Amwal Investment Company, Imtiyaz (Excellence) Investment Company, Gulf Energy Company – Qatar, and Gulf Capital – an investment bank in Abu Dhabi.

Through its subsidiary Bunyan Real Estate Company, Bayan purchased a property with a strategic location on the Gulf Road. The land will be used for constructing an elegant tower that will be hosting the headquarters of Bayan and its subsidiaries.

In conclusion, I would like to extend, on behalf of the Board of Directors, our sincere thanks and gratitude to His Highness the Amir of the State of Kuwait Sheikh Sabah Al- Ahmed Al- Jabber Al- Sabah, His Highness the Crown Prince Sheikh Nawaf Al- Ahmed Al- Jaber Al- Sabah, and His Highness the Prime Minister Sheikh Nasser Al-Mohammed Al- Ahmed Al -Sabah, for their guidance and support of the Kuwaiti investment sector.

Our thanks are also due to His Excellency the Minister of Finance & Chairman of Kuwait Investment Authority, and His Excellency the Governor of the Central Bank of Kuwait, for their continued support of the Company.

We would like to thank as well our shareholders and clients for their confidence in the Company, and our staff and Management whose devoted efforts were instrumental in the achievements made during the year. We ask the Almighty God to continue blessing us with the gift of security and safety, and to guide us in best serving our country and boosting its continued progress and prosperity.

Faisal Ali Abdul Wahab Al-Mutawa
Chairman & Managing Director

The impressive performance posted by Bayan Investment Company in 2005 was the rewarding result of implementing its strategy of expanding the Company's scope of activities and size of business, with prudent geographical and sectoral distribution of its assets, seeking to diversify and enhance the sources of its income within controlled levels of risks. This strong performance of Bayan was reflected through the remarkable growth of all major financial indicators, including total revenues, net profit, earning per share, total assets and return on assets, total shareholders equity and return on shareholders equity. The most significant indicator is the high level of profitability that was achieved as a result of the collaboration and integrated efforts of the Board of Directors, Executive Management, all operating departments and staff.

Here below is a brief review of Bayan's activities during 2005:

Local Investment Department

Local Investment Department is in charge of the functions of managing Bayan's proprietary portfolios, clients' portfolios and different types of investment funds. In doing so, the department capitalizes on a team of integrated skills, qualifications and expertise. Bayan takes pride in having in place such a team which is one of the best professional asset managers across the local and regional markets.

Bayan's homogeneous local investment experts operate in a one-team spirit, applying the best business practices compliant with the highest international standards, and guided by the prudent investment policy of Bayan, which focuses on a balanced equation of risk / return, ensuring risk- taking within controlled and carefully chosen levels, away from haphazard speculation of inherently high risks.

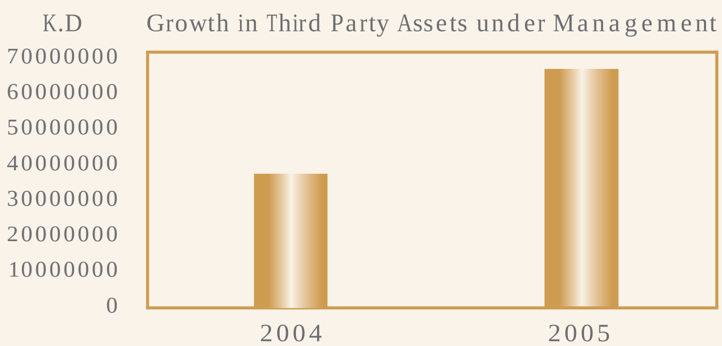
The year 2005 was a time for achievements, strong performance and remarkable growth of the business of Local Investment Department, which posted rewarding results for both the Company and its clients during the year. Instrumental in attaining this high level of performance was the unlimited clients' continued confidence in the Management of Bayan, in general, and the local investment team, in particular.

The following paragraphs present a summary of the prominent achievements of the Local Investment Department during the year:

Third Party Asset Management

The size of clients' assets under management showed a spectacular growth of 86% during 2005, compared to the end of 2004. This indicator validates the efficiency of the third party assets management team and clients' strong confidence. The substantial growth in third party managed portfolios is mainly attributed to the expansion of clients' base, as the department successfully attracted new clients from Kuwait and other GCC countries, who found in Kuwait Stock Exchange attractive investment opportunities and identified Bayan as a highly efficient assets manager.

The strong performance of this department is also demonstrated through the record level of return on third party managed portfolios, which hit 70.74% for 2005.



Proprietary Portfolio Management

Proprietary portfolio management team also posted strong performance during the year, bringing the return on proprietary portfolio up to 50% as at the end of 2005.

This team enthusiastically operates in a constant quest for leveraging risks-controlled feasible opportunities, making the proprietary portfolio business as one of the core income-generating activities. This fact has encouraged Bayan's Management to continually grow and develop the capabilities of this team, providing an operating environment conducive to upgrading its performance to the best interest of the Company and its shareholders.

Investment Funds Management

Bayan managed several funds during the past year, most important of which was Ea'mmar & Estethmar Fund. The Company also plans to launch two new investment funds of different objectives and activities. The Management is currently contemplating the possibility of designing one of the two funds to be compliant with the Islamic Shari'a principles.

Ea'mmar & Estethmar Fund

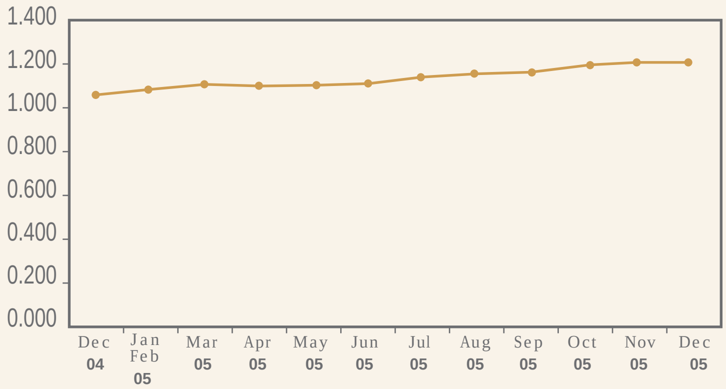
In late 2004, Bayan Investment Company, in alliance with Aerated Concrete Industries Company- one of the leading companies specialized in the local real estate market, established the distinguished local financial pool of investors "Ea'mmar & Estethmar Fund", which is a unique investment tool in the real estate and financial investment sectors.

Ea'mmar & Estethmar Fund leveraged the advantages of the unique mix of Aerated Concrete Industries' experience as a specialist in the field of real estate development, and the expertise of Bayan in the area of financial investment. This harmonious mix provided for Ea'mmar & Estethmar Fund an exceptional comparative advantage that instrumentally contributed to laying down the foundations for its record success.

The establishment of this Fund came as a result of the healthy investment and economic environment that Kuwait is enjoying, which is considered one of the main Middle East's countries that is most conducive to domestic and foreign investment in light of its stable political, economic and security situation, in addition to its favourable judicial system and its strategic geographic location in the region.

Ea'mmar & Estethmar Fund's Performance Since Inception till the end of 2005

Dec 04	Jan Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
1.000	1.101	1.143	1.157	1.153	1.181	1.134	1.166	1.198	1.219	1.246	1.230



The investments of the Fund are distributed in the real estate sector (up to 80%), while the remaining percentage is invested in the financial market. During record time, the Fund outperformed other local real estate funds. The remarkable success of the Fund is reflected through the following positive indicators:

1- The Fund succeeded in attracting new clients' investments, steadily raising its capital.

2- The Fund distributed cash dividends of 7% to shareholders for the first half of 2005, or 70 fils per unit.

3- The Fund acquired a set of top- class real estate assets.

4- The Net asset value rose from KD (1) upon inception to KD (1.230) as at December 31, 2005, posting a total annual return of 28.920%.

5- The Fund distributed cash dividends of 18% for the second half of 2005, or 180 fils per unit.

Reports & Statistics Unit

The Reports & Statistics Unit provides support services to the core investment units, such as Third Party Asset Management, Investment Funds and Local Investment Departments. The functions of this unit are concentrated in two main areas:

First: Internal Reports & Studies

The Reports & Statistics Unit produces internal studies and reports designed to meet the requirements of the Company, and which are intended for internal use only. These include the financial analysis reports for listed companies; studies for available investment opportunities; evaluation of the fair value for several listed companies; support and resistance levels for all shares listed on Kuwaiti Stock Exchange, and other events-driven studies or reports.

Second: Media Reports & Studies

The Reports & Statistics Unit succeeded in promoting Bayan's name to rank pari passu with the leading investment companies in the local and regional markets. This was diligently achieved through producing the latest studies and data and providing them to the market and all segments of the private sector, as well as to satellite channels that broadcast such reports within their specialized economic programs.

The Reports & Statistics Unit also provides coverage for GCC stock markets on a daily, weekly and monthly basis, addressing the most significant economic developments in each GCC country.

Bayan's Reports & Statistics Unit also enjoys the comparative advantage of providing a unique monthly report addressing the expected levels of support and resistance for the GCC stock markets indices. This report receives a warm welcome from market specialists.

In view of the accuracy and reliability of the reports produced by Bayan and the prudent viewpoints of its analysts, specialized local and international institutions are increasingly interested in publishing Bayan's reports through their different channels, including media and internet websites. The most salient development in this connection is the keen interest of business and economics TV channels to repeatedly host traders and analysts from our Local Investment Department, giving Bayan the opportunity to express its vision as regards markets, corporates and significant emerging events.

International Investment Department

The International Investment Department plays an important role in diversifying the company's investments and income resources through geographic and secrotal asset allocation. This geographic allocation includes USA, Asian and European financial markets. Moreover, the Department monitors international stock market performance along with these markets' corresponding impact on the company's international investments and portfolios, through submitting necessary reports and recommendations to top management.

The Department always aspires to offer a complimentary combination of investment and consultancy services and seek the best available investment opportunities that are both unique and promising. Such opportunities come in different forms such as establishing specialized international investment funds and incorporating investment companies earmarked for 'value-added' projects and ventures. Several of Bayan's international investment iniatives and activities are in partnership or in conjunction with leading international investment banks and fund managers.

One of the Department's most recent initiatives involves the creation of a capital protected GCC equity note in conjunction with 'Credit Suisse' – one of the world's leading investment banks – which is scheduled for launch during the third quarter of 2006.

For further information and updates on the Department's activities, please visit our website: www.bayaninvest.com

Marketing & Business Development Department

During record time from its establishment, the Marketing & Business Development Department achieved impressive accomplishments, which positively reflected on the performance of the other departments of the Company, thus contributing to enhancing Bayan's performance to the record level it has posted for 2005. This was diligently arranged through active marketing of the different products and services of the Company, as well as highlighting Bayan's brand that has come to rank at the forefront of the investment industry in the country. The department also successfully improved the overall impression, both in the financial sector and among the investors community, of Bayan Investment Company and the successful business model it stands for.

Below is a brief description of the main functions and responsibilities of the Marketing & Business Development Department:

The Marketing & Business Development Department performs a major support role complementing the activities of the remaining departments of the Company. This is accomplished through interactively carrying out and supervising all the functions of marketing and business development in close coordination with the respective departments. The department also seeks to be a "Profit Center" when it is fully staffed, prepared and qualified for contributing to Bayan's overall profitability. In this context, the department will be endeavoring to attract new clients and capitals for the Company's portfolios and products, as well as to innovate, launch and successfully market value – added new products and services.

The department supervises several activities in different areas. The usual duties performed by the department include the production of publications and bulletins (what is commonly called the "Direct Marketing"); preparation of all types of advertising and marketing campaigns; coordination for publishing Bayan's reports and researches in dailies and magazines; management of the trade mark of the Company and the activities associated therewith; enhancing internal communications among all departments and employees of the Company, using different means and activities designed for furthering interactive communication; actively participating in strengthening relations with Bayan's clients; building-up a data and information base that supports the decision-making process with regard to studies and proposals to introduce new products and services.

The Department's Participations, Contributions and Achievements During 2005:

1- Major and active participation in preparing for and organizing the first 'Kuwait Economic Forum', which was held by Bayan in May 2005 under the patronage and in the presence of H.H. Sheikh Sabah Al Ahmed Al Jabber Al Sabah, the Prime Minister ,at that time.

2- Participation in the preparation for and broadcasting of a featured advertisement of Bayan that was transmitted on "Fox 5" Channel in June 2005.

3- Sponsoring "My Guest & the Other Face" program produced by 6/6 Company and transmitted during the holy month of Ramadhan, both on KTV 1 and KTV satellite channel.

4- Participation in "Cityscape 2005" exhibition, which was held in Dubai during September in cooperation with our partners Gulf Investment House, and which was aimed at marketing and promoting Bahrain Financial Harbor and Al'Areen projects in the Kingdom of Bahrain, both of which Bayan invested in.

5- Sponsoring the opening of the Economic Club at the Faculty of Business Administration- Kuwait University, through extending financial support.

6- Sponsoring in November 2005 the campaign called "For Each Kuwaiti" in coordination with the Youth & Graduates Committee - Kuwait University. This campaign was aimed at increasing public awareness as to the significance of giving the Kuwaiti woman her constitutional rights, as well as allowing her to exercise this right within the framework of the political activity in the country.

7- Extending support and financial contribution to the American University of Beirut's Children Cancer Hospital.

8- Providing support and financial contribution to the victims of Katrina Hurricane, which hit some of the southern states of the USA. This was done through the contributions campaign sponsored by Kuwait Chamber of Commerce & Industry.

9- Sponsoring the reception held in Kuwait and organized by the AUB Graduates Club.

10- Organizing during the holy month of Ramadhan a Ghabqa and Gerge'an festival for Bayan and its subsidiaries' employees and their families. The press and media representatives attended the event.

11- Inviting a group of the best regional and international publicity and advertising companies to presents their bids for preparing and implementing a huge media and advertising campaign, which is aimed at highlighting Bayan's corporate identity and its diversified activities. Bayan will select one of those companies and entrust it with this project during February 2006.

12- Sponsoring the "Gulf Second Conference on Cancer", which was organized by the GCC Federation for the Combat of Cancer" in November 2005.

13- Coordination and cooperation with the Information Technology Department on upgrading Bayan's website, so as to cope with the latest technological developments, providing the state-of-the art techniques in browsing the Company's website.

14- Sponsoring and participating in "GCC Excellence Conference & Exhibition", which was organized by International Pro-media Company and the Gulf Excellence Company in November 2005, where Bayan promoted its investment products and services.

15- Sponsoring and participating in the "Middle East Conference & Exhibition" which was organized by the Kuwaiti Society of Engineers in December 2005. During the exhibition, Bayan displayed its vital projects in Bahrain, Qatar and Jordan, with special focus on Bahrain Financial Harbor and Al A'reen projects in Bahrain, through a successful marketing of the subscription to Gulf Holding Company – the owner and developer of these two projects.

16- Sponsoring the special issue released by Al Iktisad Wal A'amal magazine, which included a ranking for the Top 50 Arab Investment & Financial Institutions by assets, profits and shareholders measures. The issue included an advertisement and report on Bayan, in addition to a special report on Bayan distributed with the mentioned issue.

17- Sponsoring the special issue on Kuwait (Art & Artists) published by Eastern Art Magazine, which is specialized in Eastern fine arts. The issue also included an advertisement on Bayan.

18- Sponsoring the sports program "Ramp Rebels Tour-Kuwait", organized by Knights Capital in December 2005.

19- Successfully closing the subscription to the capital increase of 'Gulf Holding Company' from KD (1) million to KD (70) million. Bayan's Marketing & Business Development Department played a main role in this task, efficiently arranging and implementing a comprehensive marketing and sales plan that effectively contributed to the success of this subscription, which is the first of a kind for Bayan.

Many of the above mentioned sponsorships and contributions came in line with Bayan's adoption of the concept of "Social Corporate Citizenship", which comprises different social, environmental and educational activities.

Corporate Finance Unit

During 2005, the Corporate Finance Unit finalized the signing of a number of important investment memoranda of understanding and agreements, and performed several studies for investment opportunities in Kuwait and the region. Given the wide range of functions and activities performed by this unit, it was staffed with appropriate professionals during the year.

On the agreements side, the unit successfully managed, coordinated and followed up the signing of a number of significant investment agreements for some projects in Jordan and Qatar. Two memoranda of understanding were signed in Jordan. One of these was with the Royal Scientific Society for the purpose of exploiting the Society's land parcel in developing a commercial real estate investment project, with a rewarding commercial return. The other memorandum of understanding was signed with Greater Amman Governorate, under the sponsorship of the Jordanian Royal Diwan. The underlying project seeks to develop one of the most prominent strategic locations at the center of the Jordanian Capital City (Al Abdali, with an area of 35 thousand square meters). In addition, arrangements were made for developing some residential projects within certain upper-class quarters and suburbs surrounding and adjacent to Western Amman.

Concurrently with these activities, all necessary actions were taken for the establishment of Petra Holding Company for the purpose of acquiring these two major projects.

In Qatar, an agreement was signed with Villa Moda Life Style for providing consulting and investment services to the mentioned company in relation to Qatar Foundation for Education, Sciences & Society Development project. This, in turn, resulted in signing an initial agreement with this Foundation by which the consortium of Bayan and Villa Moda was granted the right to establish a Qatari shareholding company for the development of a commercial complex within the campus of the Educational City of the mentioned Institution.

On the front of investment opportunities, the Corporate Finance Unit studied and analyzed several investment opportunities in different sectors of the Kuwaiti and the regional markets, and submitted the relevant recommendations to Bayan's Top Management. Some of those proposals materialized by direct investment in the underlying opportunities, such as the Desert Gate Company project, Bayan Holding Company Project and other feasible opportunities.

During the year, the unit was supported with more professionals specialized in the area of corporate finance, with view to enhancing the unit's activities.

Information Technology Department

The information Technology Department demonstrated an impressive performance during the year, successfully upgrading the information systems infrastructure of Bayan to the highest standards, and transforming the technological platform of Bayan into one of the best and most advanced models across the local investment industry.

The year 2005 has seen a remarkable growth of Bayan's activities, which required the enhancement of the information systems infrastructure, enabling it to cope with such a growth. In this context, several projects were completed within the framework of performance development and intensified technological applications, complemented with technical support. During the year, the IT Department also redesigned the website, ensuring its attraction of an increasing number of visitors. The department looks forward to implementing several projects in 2006, focusing on adding new values and improving the performance and productivity of the investment role model Bayan represents.

Bayan's Subsidiary Companies

Bunyan Real Estate Company (KSC)

Bunyan Real Estate Company (Bunyan) is a subsidiary of Bayan Investment Company, established in Kuwait in 1994. Bunyan is viewed as the 'real estate investment arm' of Bayan. Since its inception, Bunyan adopted a business model that aims at coping with the boom in the real estate sector, and at leveraging the robust real estate activity in the Gulf and Middle East region, ensuring the highest returns on investments. The Company also seeks to attain a leading position in the real estate sector, adopting modern concepts that keep pace with the latest developments in the global real estate industry, and applying those concepts in designing and marketing landmark properties.

The major achievements of Bunyan during 2005 included:

First: Gulf Holding Company:

Bunyan laid down the technical foundations ensuring a strong start for Gulf Holding Company (GHC). This was accomplished through conducting the economic feasibility studies, developing the architectural plans, drawing an integrated strategy for the future projects of the company, and satisfying all the requirements conducive to its progress, concurrently with the successful subscription campaign resulting in GHC's capital increase from KD (1) million to KD (70) million. The early fruits of the inception of Gulf Holding Company were the following projects:

1- Bahrain Financial Harbor Project

Bahrain Financial Harbor project is a residential and administrative project on five land parcels with a total area of 32,489 square meters. Located in the southern part of Bahrain Financial Harbor, the project is composed of three residential towers comprising 569 luxuriou residential apartments for the Bahraini and GCC citizens and resident expatriates. The design of the project provided for integrated facilities, restaurants and recreational areas, complemented by top- class hospitality services and modern life style.

2- Al A're en Project

The scope of this project provides for the construction of Al A'reen City Center on a site of 260, 821 square meters. The project comprises luxurious apartments of different designs (one bedroom, two bedrooms or three bedrooms), in addition to a distinguished group of elegant villas and a "Town House" for serving the residents of the center in a modern style, with a traditional touch drawn from the Bahraini heritage. The project also comprises open cafes, cinemas and top- class restaurants, rendering the project site a landmark touristic and recreational location in the Kingdom of Bahrain.

The total cost of the two projects is estimated at US$ 650 million.

Second: Jordan Projects

During the year, Bunyan Real Estate Company conducted the economic feasibility studies and developed the architectural plans for the following projects:

1- Development of four land parcels in the Jordanian Capital "Amman", the first of which is located in Al Abdali Area (a prominent location in the center of the city) on an area of 21 thousand square meters. The project comprises upper-class residential units, and high- quality commercial complexes, administrative offices and hotels.

2- Shafa Badran Area Project, which is an integrated and distinguished residential project on an area of 84,000 square meters, serving the middle class of the Jordanian society.

3- Tareq Area Project, which is to be constructed on an area of 900 thousand square meters. Located in a mountain area surrounded by forests on the main roads to Amman, the project enjoys a unique geographical location. The design of the project was drawn from nature, adding valuable features to this residential city of integrated services.

4- Commercial and residential investment project with an area of 24,000 square meters on a prominent location of an academic and university type, as the project site is surrounded by a large number of universities and educational institutions in Amman.

The total cost of the projects in Jordan is estimated at US$ 1.1 billion.

Third: Qatar Project

This project is intended to develop the commercial complex located within the campus of the Educational City of Qatar Foundation - one of the largest educational projects in the world, applying high-class architectural designs that harmonize with the distinct urban type of the project. The project will be constructed on a site of 321,000 square meters, and will comprise luxurious hotels, modern administrative offices and shopping malls in a large university city, in addition to modern and entertainment facilities. The cost of the project is estimated at US$ 700 million.

Fourth: Kuwait Projects

Bunyan Real Estate Company purchased two land parcels in Dasman and Sharq areas at prominent strategic locations of promising future potential.

The designs are being currently developed by one of the leading international firms for a 60- floor tower in Sharq. This tower will be hosting the new administrative building of Byan and its subsidiaries. The other 60-floor commercial and investment tower will be constructed in Dasman Area.

The total estimate cost of these two projects is KD 85 million.

Al Noor Holding Company

The year 2005 marked the real thrust of Al Noor Holding Company. This was accomplished through energizing the Company's core line of business, namely, identifying investment opportunities in the information technology and telecommunications sectors. During the year, the Company started a survey of the local market in search for rewarding investment opportunities. Efforts in this connection were focused on identifying opportunities through a unique look based on a deep understanding and knowledge of the information technology market, and using the best available investment tools for partnering with strategic investors in establishing new technology companies, or acquiring and merging existing companies already operating in the filed of information technology and telecommunications. The Company looks forward to reaping the fruits of those efforts in 2006 through finalizing real and rewarding investments undertaken by Al Noor Holding Company, to the benefit of the Company itself and the investors.

Arkan Holding Company

The year 2005 was the second operational year for Arkan Holding Company, and marked its real thrust towards executing the projects already approved by the Board of Directors during 2004. At the same time, the work team at Arkan Holding Company continued their quest for new investment opportunities.

Studying Investment Opportunities

Arkan Holding Company continued to implement its strategic plan aimed at identifying the best feasible and viable industrial investment opportunities in various countries of the Arab world, targeting those opportunities with potentially rewarding investment returns and minimal risks.

In this context, the Company developed the necessary mechanisms to be applied in searching for promising investment opportunities. To this end, the Company established a strong base of relationships with several Arab industrial institutions and bodies. In parallel to these initiatives, Arkan started to build its proprietary database, which is being periodically updated. This move is meant to provide information on available investment opportunities, and hence facilitate the relevant studies.

During 2005, Arkan's team of specialists considered several industrial projects, aiming at selecting the best opportunities and conducting the related feasibility studies. Based on these studies, one of those projects was selected for execution in one of the GCC countries, pending the final approval by the Board of Directors.

Arkan's Subsidiary Companies

Arkan Industry & Mining Company (Egypt):

Arkan Industry & Mining Company was established in Egypt during 2004, for the purpose of executing the Frite production project (a raw material used in ceramic industry) on a site of 20 thousand square meters in Tenth of Ramadhan City (near Cairo).

The year 2005 has seen the completion of a substantial part of the project. The completed works include: Take-over of the project site, building and furnishing of the administrative headquarters of the company, appointment of most staff members needed for the project, commencement of the construction works, and equipment purchase. The actual production of the project is scheduled to commence during the last quarter of 2006.

Arkan International Building Materials Company (Kuwait):

This Company was incorporated in late 2004 for the purpose of executing a project for insulating bricks production in the State of Kuwait. During 2005, the Company obtained the approval of the Industry Public Authority for constructing the project, and is currently waiting for an industrial land parcel to be allocated for the project in one of the industrial areas presently planned by the Authority.

BAYAN INVESTMENT
financial report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated balance sheet of Bayan Investment Company K.S.C. (Closed) "the Parent Company" and its subsidiaries (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 Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with 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 statement presentation. We believe our audit provides a reasonable basis for our opinion.

Opinion

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

Also, in our opinion, the consolidated financial statements incorporate all information that is required by the Commercial Companies Law and the Parent Company's Articles of Association. Proper books of accounts have been kept, that an inventory was duly carried out and the financial information furnished in the Directors' report is in agreement with the books of accounts. We obtained the information and explanations that we required for the purpose of our audit. To the best of our knowledge and belief, no violations of the Commercial Companies Law, Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and the articles of association have occurred during the year ended 31 December 2005, that might have a material effect on the Group's business or its consolidated financial position.

Bader A. Al-Wazzan
Licence No. 62A
Bader & Co., PricewaterhouseCoopers

Dr. Shuaib A. Shuaib
Licence No. 33A
Albazie & Co.
Member of **RSM** International

Kuwait
5 March 2006

CONSOLIDATED BALANCE SHEET

31 December 2005

(Kuwaiti Dinars)

	Note	31December 2005	31December 2004 (Restated)
ASSETS			
Cash and cash equivalents	4	5,951,591	1,396,543
Investments at fair value through income statement	5	83,204,959	56,536,013
Accounts receivable	6	104,424	861,875
Available for sale investments	7	47,378,753	33,910,157
Investment in unconsolidated subsidiaries	8	2,780,319	1,700,000
Investment properties	9	30,419,182	-
Property and equipment		-	1,281
Total assets		169,839,228	94,405,869
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	10	43,901,505	15,827,726
Accounts payable	11	7,594,227	3,873,168
Bonds	12	20,000,000	-
End of service indemnity		150,651	91,462
Total liabilities		71,646,383	19,792,356
Equity			
Share capital	13	33,206,250	30,187,500
Treasury shares	14	(2,239,828)	(2,445,733)
Statutory reserve	15	10,241,176	7,027,797
Voluntary reserve	15	9,103,648	5,890,269
Cumulative changes in fair value		13,534,940	10,439,690
Gain on sale of treasury shares		815,431	-
Retained earnings		33,531,228	23,513,990
Total equity		98,192,845	74,613,513
Total liabilities and equity		169,839,228	94,405,869

The accompanying notes from (1) to (25) are an integral part of the consolidated financial statements.

Faisal Ali Al-Mutawa
Chairman and Managing

Adel Essa Al-Yousifi
Vice Chairman

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2005

(Kuwaiti Dinars)

	Note	2005	2004 (Restated)
Revenues			
Investment income	17	36,433,029	31,795,914
Management fees		3,408,753	256,614
Consultancy income		3,500	86,142
Interest income		24,436	23,272
Foreign exchange (loss)/ gain		(43,045)	12,629
		39,826,673	32,174,571
Expenses and other charges			
General and administrative expenses	18	(2,414,074)	(1,988,428)
Finance charges		(2,909,427)	(1,214,966)
Impairment loss from investment properties	9	(2,369,383)	-
Board of Directors' remuneration		(84,000)	(84,000)
Contribution to Kuwait Foundation for the Advancement of Sciences "KFAS"		(289,204)	(310,325)
National Labour Support Tax		(682,839)	(765,955)
		(8,748,927)	(4,363,674)
Net profit for the year		31,077,746	27,810,897
Earnings per share (fils)	19	97.04	87.07

The accompanying notes from (1) to (25) are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Share capital	Treasury shares (Note 14)	Statutory reserve (Note 15)	Voluntary reserve (Note 15)	Cumulative changes in fair value	Gain on sale of treasury shares	Retained earnings	Total
Balance as at 31 December 2003 as previously reported	26,250,000	(2,445,733)	3,579,739	2,442,211	-	-	19,042,001	48,868,218
Effect of adopting revised IAS 39 (restated)	-	-	-	-	4,930,292	-	(4,930,292)	-
Balance at 31 December 2003 after restatement	26,250,000	(2,445,733)	3,579,739	2,442,211	4,930,292	-	14,111,709	48,868,218
Changes in fair value of available for sale investments	-	-	-	-	6,364,990	-	-	6,364,990
Reversal on sale of available for sale investments	-	-	-	-	(855,592)	-	-	(855,592)
Net Income recognized directly in equity	-	-	-	-	5,509,398	-	-	5,509,398
Net profit for the year	-	-	-	-	-	-	27,810,897	27,810,897
Total recognized income	-	-	-	-	5,509,398	-	27,810,897	33,320,295
Cash dividends for year 2003 (30% per share)	-	-	-	-	-	-	(7575,000)	(7,575,000)
Bonus shares for year 2003 (15% per share)	3,937,500	-	-	-	-	-	(3,937,500)	-
Transfer to reserves	-	-	3,448,058	3,448,058	-	-	(6,896,116)	-
Balance as at 31 December 2004 (Restated)	30,187,500	(2,445,733)	7,027,797	5,890,269	10,439,690	-	23,513,990	74,613,513
Balance as at 31 December 2004 as previously reported	30,187,500	(2,445,733)	7,027,797	5,890,269	-	-	33,953,680	74,613,513
Effect of adopting revised IAS 39 (restated)	-	-	-	-	10,439,690	-	(10,439,690)	-
Balance at 31 December 2004 after restatement	30,187,500	(2,445,733)	7,027,797	5,890,269	10,439,690	-	23,513,990	74,613,513
Changes in fair value of available for sale investments	-	-	-	-	5,177,894	-	-	5,177,894
Reversal on sale of available for sale investments	-	-	-	-	(2,709,302)	-	-	(2,709,302)
Impairment	-	-	-	-	626,658	-	-	626,658
Net Income recognized directly in equity	-	-	-	-	3,095,250	-	-	3,095,250
Net profit for the year	-	-	-	-	-	-	31,077,746	31,077,746
Total recognized income	-	-	-	-	3,095,250	-	31,077,746	34,172,996
Cash dividends for year 2004 (40% per share)	-	-	-	-	-	-	(11,615,000)	(11,615,000)
Bonus shares for year 2004 (10% per share)	3,018,750	-	-	-	-	-	(3,018,750)	-
Sale of treasury shares	-	205,905	-	-	-	815,431	-	1,021,336
Transfer to reserves	-	-	3,213,379	3,213,379	-	-	(6,426,758)	-
Balance as at 31 December 2005	33,206,250	(2,239,828)	10,241,176	9,103,648	13,534,940	815,431	33,531,228	98,192,845

The accompanying notes from (1) to (25) are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2005

(Kuwaiti Dinars)

	Note	2005	2004 (Restated)
Cash flows from operating activities			
Net profit for the year		31,077,746	27,810,897
Adjustments:			
Investment income	17	(36,433,029)	(31,795,914)
Finance charges		2,909,427	1,214,966
Impairment loss from investment properties	9	2,369,383	-
Interest income		(24,436)	(23,272)
Depreciation		7,958	146,352
End of service indemnity		59,189	39,591
Provision for loans		-	1,400
Operating loss before changes in working capital		(33,762)	(2,605,980)
Decrease in investments at fair value through income statement		3,027,832	4,478,182
Decrease in accounts receivable		758,623	1,190,852
Increase in accounts payable		2,774,289	1,897,301
Cash generated from operating activities		6,526,982	4,960,355
Payment of finance charges		(2,025,533)	(1,214,966)
Payment of end of service indemnity		-	(8,450)
Net cash generated from operating activities		4,501,449	3,736,939
Cash flows from investing activities			
Purchase of available for sale investments		(18,649,278)	(4,500,223)
Proceeds from sale of available for sale investments		13,054,537	9,958,672
Purchase of investment properties		(32,788,565)	-
Investment in unconsolidated subsidiaries		(1,080,319)	(1,700,000)
Purchase of property and equipment		(6,677)	(111,308)
Dividend income received		1,957,646	1,356,861
Interest income received		23,264	17,218
Net cash (used in) / generated from investing activities		(37,489,392)	5,021,220
Cash flows from financing activities			
Proceeds from issuance of bonds		20,000,000	-
Proceeds from banks		105,247,814	7,816,267
Repayment of due to banks		(77,174,035)	(9,000,000)
Proceeds from sale of treasury shares		1,021,336	-
Dividends paid		(11,552,124)	(7,549,537)
Net cash generated from / (used in) financing activities		34,542,991	(8,733,270)
Net increase in cash and cash equivalents		4,555,048	24,889
Cash and cash equivalents at beginning of year		1,396,543	1,371,654
Cash and cash equivalents at end of year	4	5,951,591	1,396,543

The accompanying notes from (1) to (25) are an integral part of the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

1- Incorporation and activities

Bayan Investment Company ("the Parent Company") is a closed shareholding company incorporated by agreement No. 1491/Vol 1 dated July 21, 1997 and the latest amendment on April 6, 2005. The Parent Company commercial registration number is 70718 dated August 30, 1997 and is registered as an investment Company with the Central Bank of Kuwait.

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (together referred as the Group).

The principal activities of the Group are carrying out investment and portfolio management activities for its own account and for clients and investment property.

The Parent Company's registered office is at Souad Commercial Building, P.O. Box No.104 Al Dasma 35151,Fahad Al-Salem St., Area 12, Building No. 21, State of Kuwait.

The number of employees is 60 as of December 31, 2005 (December 31, 2004 - 43 employees).

These consolidated financial statements were approved for issue by the Board of Directors on 5 March 2006. The shareholders' General Assembly have the authority to amend these consolidated financial statements after issuance.

2- Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards, under the historical cost convention as modified by the fair value of investments at fair value through income statement and available for sale investments.

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions.

On 1 January 2005, the Group applied the changes of the International Financial Reporting Standards related to its activities. The effect of adopting changes in accounting policy is shown in Policy No. (2.4) and Note (20).

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 subsidiaries are included in these consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Financial statements of the parent company and subsidiaries are combined on a line by line basis by adding together like items of assets and liabilities, equity, income and expenses. Equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and statement of income, respectively. Inter-company balances and transactions, including inter-company profits and losses and unrealized 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. Investment in subsidiaries which are not considered material to the consolidated financial statements are not consolidated and recorded at cost less any impairment.

The consolidated financial statements include the financial statements of the Parent Company and the financial statements of the following wholly owned subsidiaries:

Company name	Legal form	Activity	Ownership
Arkan Holding Company	K.S.C.H.	Establishing and acquisition of shares for all types of companies	%100
Al Nour Holding Company	K.S.C.H.	Establishing and acquisition of shares for all types of companies	%100
Bunyan Real Estate Company	K.S.C.C.	Real estate	%100

The total assets of the subsidiaries amounted to KD 33,183,713 as of 31 December 2005 (31 December 2004: KD 1,972,305) and its net loss for the year then ended amounted to KD 2,314,594 (31 December 2004: net loss KD 68,824).

2.3 Cash and cash equivalents

Cash and cash equivalents represent cash in hand and at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2.4 Financial Assets

Classification

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

Financial assets at fair value through income statement

This category has two sub-categories: financial assets held for trading, and those designated at fair value through income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management upon initial recognition.

Available for sale financial assets

These are non-derivative financial assets that are 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 interest rates.

Recognition and de-recognition

Regular purchases and sales of financial asset are recognized on settlement date – the date on which the Group delivers or receive the assets. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of income in accordance with the policy applicable to the related instrument. Financial assets are derecognized 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.

Measurement

Financial assets are initially recognized at fair value (plus transaction costs for all financial assets not carried at fair value through income statement). Financial assets carried at fair value through income statement are initially recognized at fair value and transaction costs are expensed in the income statement.

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 income statement 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 cumulative changes in fair value recognized in equity are included in the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, and for unquoted securities, the Group establishes fair value by using appropriate valuation techniques.

Previously, the Group's policy was to account the unrealized gains and losses of "available for sale investments" to statement of income. The effect of this amendment is disclosed in Note (20).

Impairment

At the balance sheet date the Group determines if there are any indication for impairment in the available for sale investments. For the equity instruments which are classified as available for sale investments the prolonged or significant decline in fair value of the security below its cost is considered when determining whether the assets are impaired. When such evidence of impairment exists, the cumulative balance of the fair value charge for such investments measured as the difference between the acquisition cost and the current fair value, less any impairment loss of that financial asset previously recognized in profit or loss is removed from equity and recognized in the income statement. Impairment losses recognized in the consolidated income statement on available for sale equity instruments are not reversed through the statement of income.

2.5 Future sale contract

The Group enters into future sale contracts on its shares held for trading purpose. Derivatives arising from this contract are carried as assets when fair value is positive and as liabilities when fair value is negative.

The advance installment arising from future sale contract is recorded in liabilities, and any gain arising from future sale is taken to the income statement on a time proportion basis over the contract period. Deferred portion at the balance sheet date is shown under accounts payable.

2.6 Investment properties

Investment properties are recognized at cost, which includes all costs related to purchasing and constructing investment property, less accumulated depreciation and permanent impairment in value. Land is not depreciated. Depreciation is calculated by straight line method over the estimated useful lives of buildings.

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.7 Property and equipment and depreciation

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over their estimated useful lives.

Whereas the carrying amount of an asset is greater than its estimated recoverable amount is written down immediately to its recoverable amount.

2.8 Impairment of non-financial assets

Property and equipment, investment in unconsolidated subsidiaries and investment properties are reviewed as at the date of preparing the consolidated financial statements in order to determine whether there is an impairment in value when events and changes in circumstances do exist that indicate the book value of any of these assets is not recoverable. In the event of the carrying amount is in excess of the recoverable amount, the impairment loss is recognized in the consolidated statement of income. If there is an evidence that the previously recognized impairment loss no longer exists, or has been reduced, it is reversed as income during the period in which it is identified provided that the net book value of the item should not exceed its value had the loss from impairment not been initially recognized.

2.9 Borrowings

Borrowings are initially recognized at fair value, which represents the proceeds received, net of transaction costs incurred. Subsequently, borrowings are stated at amortized cost using the effective yield method. Any difference between proceeds and the redemption value is recognized in the income statement over the period of the borrowings.

2.10 End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the obligation.

2.11 Treasury shares

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

2.12 Revenue recognition

Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale. Dividend income is recognized when the right to receive payment is established. Interest income is recognized on a time proportion basis. Management fees is recognized on accrual basis.

2.13 Operating lease cost

Leases where all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments for leased assets under operating lease are charged to the income statement on straight-line basis over the lease contracts period.

2.14 Foreign currencies

The Group's books are kept in Kuwaiti Dinars. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated to Kuwaiti Dinar at the rates of exchange prevailing at the balance sheet date. Resulting gains or losses are taken to the statement of income. Translation difference on non-monetary assets measured at fair value are considered as part of cumulative changes in fair value in the consolidated statement of changes in equity.

2.15 Fiduciary assets

Assets, which are kept by the Group as an agency or under a fiduciary capacity, are not considered as Group' assets.

2.16 Critical accounting estimates and judgments:

Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through income statement" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through income statement" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through income statement at inception, provided their fair values can be reliably estimated. All other investments are classified as "available for sale".

Impairment of investments

The Group considers investments available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgement.

Estimation

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 relating to impairment losses for investments available for sale and investment properties.

3- Financial risk management

The Group is exposed to a variety of financial risks, including the effects of changes in debt, equity market prices and rates of return. The Group manages these risks based on policies approved by the Board of Directors.

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. Cash and cash equivalents represent the significant asset exposed to credit risk. The Group has no significant concentration of credit risk as the fixed deposits and call accounts are deposited in credit worthy financial institutions.

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuat due to changes in foreign exchange rates that may adversely affect the cash flow of the Group or the value of its monetary assets and liabilities that are denominated in foreign currency.

The following is the net foreign currency position as of the balance sheet date:

	2005	2004
U.S. Dollars – surplus	24,355,657	19,587,012
Euro – surplus	3,922,304	2,663,757
Sterling Pound – surplus	37,428	34,974

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Group's management mitigates these risks by dealing with reputed counter parties, diversifying its investments and matching the maturities of financial assets against financial liabilities. The following is an analysis of maturities of assets and liabilities:

31 December 2005

	During 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total
Assets					
Cash and cash equivalents	5,951,591	-	-	-	5,951,591
Investments at fair value through income statement	83,204,959	-	-	-	83,204,959
Accounts receivable	104,424	-	-	-	104,424
Available for sale investments	-	-	47,378,753	-	47,378,753
Investment in unconsolidated subsidiaries	-	-	-	2,780,319	2,780,319
Investment properties	-	-	-	30,419,182	30,419,182
	89,260,974	-	47,378,753	33,199,501	169,839,228
Liabilities					
Due to banks	43,901,505	-	-	-	43,901,505
Accounts payable	7,594,227	-	-	-	7,594,227
Bonds	-	-	20,000,000	-	20,000,000
End of service indemnity	-	-	-	150,651	150,651
	51,495,732	-	20,000,000	150,651	71,646,383
Net liquidity gap	37,756,242	-	27,378,753	33,048,850	98,192,845

31 December 2004

	During 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total
Assets					
Cash and cash equivalents	1,396,543	-	-	-	1,396,543
Investments at fair value through income statement	56,536,013	-	-	-	56,536,013
Accounts receivable	861,875	-	-	-	861,875
Available for sale investments	-	-	33,910,157	-	33,910,157
Investment in unconsolidated subsidiaries	-	-	-	1,700,000	1,700,000
Property and equipment	-	-	-	1,281	1,281
	58,794,431	-	33,910,157	1,701,281	94,405,869
Liabilities					
Due to banks	15,827,726	-	-	-	15,827,726
Accounts payable	2,204,227	1,668,941	-	-	3,873,168
End of service indemnity	-	-	-	91,462	91,462
	18,031,953	1,668,941	-	91,462	19,792,356
Net liquidity gap	40,762,478	(1,668,941)	33,910,157	1,609,819	74,613,513

Interest rate risk

This represents the Group's exposure to the effect of fluctuation in interest rates on its general position. The Group manages this risk by obtaining facilities in Kuwaiti Dinars that reprice with changes in discount rate. The table below summarizes the Group's exposure to interest rates risk. Included in the table are the carrying amounts of the Group's assets and liabilities, categorized by the earlier of contractual repricing or maturity dates. Effective interest rates are disclosed in the accompanying notes:

31 December 2005

	During 3 months	From 3 months to 1 year	From 3 to 5 years	Items nonsensitive to interest rate	Total
Assets					
Cash and cash equivalents	5,592,062	-	-	359,529	5,951,591
Investments at fair value through income statement	-	-	-	83,204,959	83,204,959
Accounts receivable	-	-	-	104,424	104,424
Available for sale investments	-	-	-	47,378,753	47,378,753
Investment in unconsolidated subsidiaries	-	-	-	2,780,319	2,780,319
Investment properties	-	-	-	30,419,182	30,419,182
	5,592,062	-	-	164,247,166	169,839,228
Liabilities					
Due to banks	43,901,227	-	-	-	43,901,505
Accounts payable	-	-	-	7,594,227	7,594,227
Bonds	-	-	20,000,000	-	20,000,000
End of service indemnity	-	-	-	150,651	150,651
	43,901,505	-	20,000,000	7,744,878	71,646,383
Net interest rate gap	(38,309,443)	-	(20,000,000)	156,502,288	98,192,845

31 December 2004

	During 3 months	From 3 months to 1 year	Items nonsensitive to interest rate	Total
Assets				
Cash and cash equivalents	1,396,543	-	-	1,396,543
Investments at fair value through income statement	-	-	56,536,013	56,536,013
Accounts receivable	-	-	861,875	861,875
Available for sale investments	-	-	33,910,157	33,910,157
Investment in unconsolidated subsidiaries	-	-	1,700,000	1,700,000
Property and equipment	-	-	1,281	1,281
	1,396,543	-	93,009,326	94,405,869
Liabilities				
Due to banks	15,827,726	-	-	15,827,726
Accounts payable	-	-	3,873,168	3,873,168
End of service indemnity	-	-	91,462	91,462
	15,827,726	-	3,964,630	19,792,356
Net interest rate gap	(14,431,183)	-	89,044,696	74,613,513

Fair value of financial instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and cash equivalents, investments, accounts receivable and accounts payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

4- Cash and cash equivalents

	2005	2004
Cash on hand and at banks	5,592,062	1,076,506
Cash at financial institutions	359,529	320,037
	5,951,591	1,396,543

5- Investments at fair value through income statement

	2005	2004
Quoted securities – local	80,851,216	54,053,129
Portfolios – foreign	2,148,623	1,986,854
Future portfolio	205,120	496,030
	83,204,959	56,536,013

6- Accounts receivable

	2005	2004
Due from Kuwait Clearing Company	5,229	102,520
Payment for investment in subsidiary under incorporation	-	500,000
Loans granted to others (net)	53,600	68,600
Accrued income	4,505	6,054
Due from related parties	-	158,263
Others	41,090	26,438
	104,424	861,875

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

7- Available for sale investments

	2005	2004
Quoted securities – local	20,108,600	16,920,750
Unquoted securities – local	19,836,135	12,599,302
Unquoted securities – G.C.C.	4,706,212	2,207,311
Unquoted securities – foreign	2,727,806	2,182,794
	47,378,753	33,910,157

All unquoted investments amounting to KD 27,270,153 as of 31 December 2005, are stated at cost less impairment losses, as the fair value of these investments could not be measured reliably. (KD 16,989,407 as of 31 December 2004).

During the year ended 31 December 2005, the share capital of one of the Group's wholly owned subsidiaries has been increased through subscription from new shareholders. As a result, the Parent Company's interest diluted to 11.57% of equity of the subsidiary. Based on that, this subsidiary has not been consolidated and the investment, amounting to KD 8,099,809, has been reclassified as an available for sale investment.

8- Investment in unconsolidated subsidiaries

	2005	2004
Al-Roudatin Co. (K.S.C.C.)	1,000,000	1,000,000
Sawt Al-Ghad Co. (W.L.L.)	250,000	250,000
Bunyan Real Estate Co. (K.S.C.C.)	-	250,000
Al-Btraa Holding Co. (K.S.C.C)	100,000	100,000
Al-Derah Al-Oula Co (W.L.L.)	50,000	50,000
Al-Safwa International Consulting Co. (W.L.L)	50,000	50,000
Arkan International for Construction Materials Co. (K.S.C.C.)	500,000	-
Arkan Industrial and Mining Co. (E.S.C.)	650,319	-
Al Nour Skills for Consulting and Training Co. (K.S.C.C.)	100,000	-
Al Nour Method for Projects Management Co. (W.L.L.)	30,000	-
Al Nour Search for Consulting and Market Studies (W.L.L.)	50,000	-
	2,780,319	1,700,000

These wholly owned subsidiaries have not commenced its operations till 31 December 2005, and hence they were not consolidated.

9- Investment properties

During the year ended December 31, 2005, Bunyan Real Estate Company (K.S.C.C.) (subsidiary) acquired investment properties amounting to KD 32,788,565 representing land, which is held currently for an undetermined future use. The investment properties are pledged against loans granted to the Parent Company (Note 10).

The fair value of the investment properties as of December 31, 2005 amounted to KD 23,311,033 based on the average of three valuations. The company intend to get the necessary approval for increasing the building areas and to change the specification of these properties from residential investments to offices. If the management obtain the approval for 400% of the total area for offices, the fair value will be KD 34,232,300 and if they obtain the approval for 800% of the total area for offices, the fair value will be KD 47,240,667.

According to the current fair value of investment properties and the fair value after changing the specification of these properties, the management recognized an impairment loss amounting to KD 2,369,383 based on 25% of the difference between the cost and fair value of investment properties as of 31 December 2005.

10- Due to banks

	2005	2004
Short term loans	36,500,000	3,839,097
Bank facilities	7,401,505	11,988,629
	43,901,505	15,827,726
The average effective interest rate	%7.75	%7.17

The Group has pledged investment properties as collateral against loans granted by a local bank (Note 9).

11- Accounts payable

	2005	2004
Accrued expenses	466,925	587,343
Leave	95,585	25,463
Advances on future sale contracts	-	160,863
Due to related parties	4,791,780	1,668,941
Due to Kuwait Clearing Company	-	278
Kuwait Foundation for the Advancement of Sciences “KFAS”	289,204	310,325
National Labour Support Tax	682,839	765,955
Accrued bonus	300,000	270,000
Board of Directors’ remuneration	84,000	84,000
Interest payable	883,894	-
	7,594,227	3,873,168

12- Bonds

This represents five years bonds issued at par carrying a fixed rate of interest of 6.5% for the first three years, and a floating rate of 1.5% above Central Bank of Kuwait Discount Rate for the remaining two years. These will mature in February 2010 and the Parent Company will have the right to redeem all or some of the bonds on or after the end of the third year of issuance of the bonds at 100% of their principal amount. The Bonds are also subject to redemption in whole at their principal face amount (plus any accrued interest) at the option of the Parent Company on any Interest Payment Date in the event of certain change affecting taxation laws in the State of Kuwait. The value of this redemption feature is interdependent and has not been accounted for separately from the host debt instrument. Interest is payable semi-annually in arrears on August 3 and February 3 of every year.

13- Share capital

The Parent Company's Annual General Assembly held on March 12, 2005, approved the dividends proposed by the Board of Directors for the year ended 31 December 2004 comprising 10% bonus shares of capital. Accordingly the Parent Company's fully paid up capital increased to KD 33,206,250 divided into 332,062,500 shares with a nominal value of 100 fils each as of 31 December 2005

(31 December 2004: KD 30,187,500 divided into 301,875,000 shares with a nominal value of 100 fils each).

14- Treasury shares

	2005	2004
Number of shares (shares)	11,585,000	11,500,000
Percentage of issued shares	%3.49	%3.81
Market value – KD	7,298,550	4,887,500
Cost – KD	2,239,828	2,445,733

15- Reserves

Statutory reserve

In accordance with the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the net profit for the year, before Kuwait Foundation for the Advancement of Sciences contribution, National Labour Support Tax, and Board of Directors remuneration has been transferred to statutory reserve. The General Assembly may resolve to discontinue such annual transfers when this reserve reaches 50% of the paid up capital. This reserve is not available for distribution except for the payment of a dividend of up to 5% of the paid up capital in years where the cumulative retained earnings are not adequate for such distribution.

Voluntary reserve

Under the Parent Company's Articles of Association, the Board of Directors may propose percentage of net profit of the year, before Kuwait Foundation for the Advancement of Sciences contribution, National Labour Support Tax, and Board of Directors remuneration to be transferred to voluntary reserve and its subject to the approval of the General Assembly.

16- Proposed dividends

The Board of Directors has proposed a dividend of 30% of the paid up capital (25% in cash and 5% as bonus shares) for the year ended 31 December 2005.

On 12 March 2005, the General Assembly meeting approved the proposal of the Board of Directors to distribute dividends of 40% cash and 10% bonus shares to shareholders in the date of General Assembly Meeting for the year ended 31 December 2004.

17- Investment income

	2005	2004 (Restated)
Changes in fair value of investments at fair value through income statement	21,944,382	23,037,350
Gain on sale of investments at fair value through income statement	7,752,396	1,886,194
Gain on sale of available for sale investments	5,381,296	5,186,221
Dividend income	1,957,646	1,356,861
Gain on sale of future contracts	23,967	329,288
Impairment loss for available for sale investments	(626,658)	-
	36,433,029	31,795,914

18- General and administrative expenses

Staff costs included in general and administrative expenses were as follows:

	2005	2004
Salaries and wages	637,584	600,183
Bonus	300,000	270,000
Staff leave cost	48,080	38,341
End of service indemnity	62,049	43,477
Other	98,122	77,360
	1,145,835	1,029,361

19- Earnings per share

Earnings per share is computed based on net profit and the weighted average number of common shares outstanding, as follows:

	2005	2004 (Restated)
Net profit for the year	31,077,746	27,810,897
Weighted average number of outstanding shares (shares)	320,246,993	319,412,500
Earnings per share (fils)	97.04	87.07

Earning per share has been restated for the year ended 31 December 2004, as the Parent Company issued bonus shares during the current year.

20- Effect of Adoption of revised IAS "39"

On January 1, 2005, as permitted by revised IAS 39, the Parent Company has reclassified some of its investment securities from "trading investments" to "available for sale". Prior to adoption of revised IAS 39, the Parent Company recognized the unrealized gains and losses of "available for sale"investments in the consolidated statement of income. However, the revised IAS 39 requires unrealized gains and losses on "available for sale" to be recognized under "fair valuation reserve" in the consolidated statement of changes in equity.

Accordingly, the opening balance of retained earnings as of January 1, 2004 and all other comparative amounts have been restated as if the revised IAS 39 had always been in use. This has resulted in a decrease in the net profit of the Parent Company for the year ended December 31, 2004 by KD 5,509,398 and a decrease in the opening retained earnings as of January 1, 2004 by KD 4,930,292.

Also, some investment securities have also been reclassified from "available for sale" category to investment securities "at fair value through income statement", which did not have any impact on the statement of income or retained earnings.

IAS 1 (revised 2004) has affected the presentation and disclosure of consolidated balance sheet, statement of income and changes in equity. The comparative figures have been reclassified to conform to the current year presentation.

21- Geographical distribution of assets and liabilities

	Assets		Liabilities	
	2005	2004	2005	2004
Kuwait	160,256,587	88,028,911	71,646,383	19,792,356
GCC countries	4,706,212	2,207,311	-	-
United States of America	2,136,196	1,974,037	-	-
Europe	2,740,233	2,195,610	-	-
	169,839,228	94,405,869	71,646,383	19,792,356

31 December 2005

(All amounts are in Kuwaiti Dinars unless otherwise stated)

22- Related party transactions

The operation of the Group includes transactions with related parties such as shareholders, executive board of directors', manager and subsidiary companies.

The volume of these transactions is immaterial. All transactions with related parties are based on the approval of Group's management and in the same terms and condition with outside parties.

	2005	2004
Key management compensation		
Short term benefits	192,231	68,654
End of service indemnity	70,814	20,510
	263,045	89,164

23- Fiduciary assets

Fiduciary assets comprise of portfolios and funds managed by the Parent Company on behalf of the clients.

	2005	2004
Customers' portfolios	69,337,617	37,055,117
Investment funds	7,600,678	21,399,000
	76,938,295	58,454,117

24- Contingent liabilities and future commitments

	2005	2004
Uncalled capital of investments	1,773,444	1,851,460
Letters of guarantee	200,000	469,200

25- Comparative figures

Comparative figures have been reclassified to conform with the presentation in the current year.