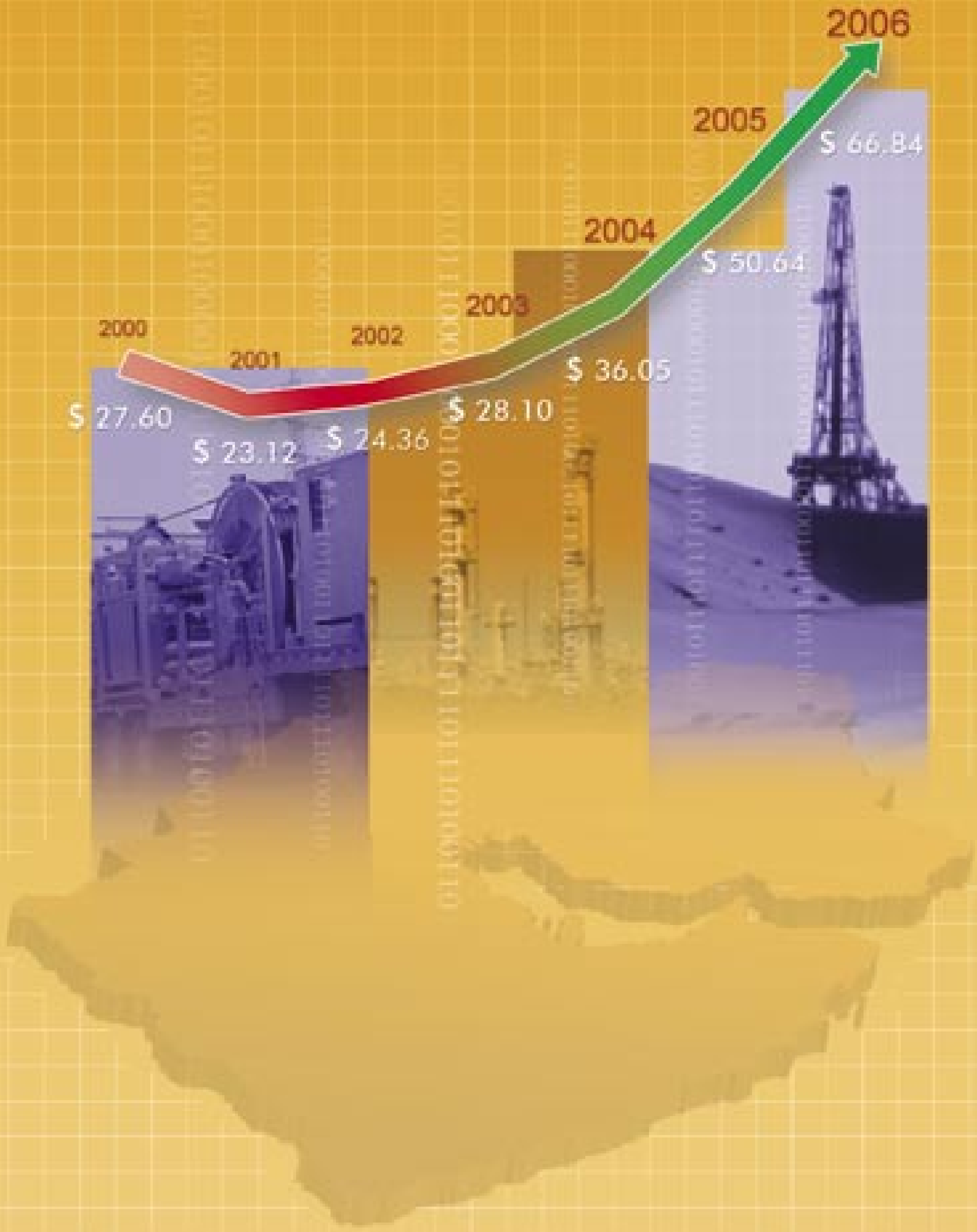
NAPESCO
نـابيسكو

الشركـــة الوطنيـــة للخدمـــات البتروليـــة (ش.م.ك) مقفلة
NATIONAL PETROLEUM SERVICES CO. (K.S.C) Closed

Annual Report 2005



2006
2005
2004
$ 28.10

H.H. SHEIKH NASSER AL-AHMAD AL-AHMAD AL-SABAH

Prime Minister of the State of Kuwait

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

2006
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2004
2003

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for the year ended 31 December 2005

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Chairman's Statement

The Shareholders of National Petroleum Services Company

The board of directors is pleased to submit to the honorable shareholders the annual report on the business results for the year 2005 and the future aspirations of the company.

In 2005, NAPESCO increased its revenues from sales and the services sector by 10% to KD 4,003,609 from KD 3,616,754 in 2004, with total gross profit of KD 2,722,498, up 13% from the previous year. With regard to the items of expenses and other charges, 2005 observed increase of 32% compared to the previous year to K.D 1,985,630. The increase is attributed to the company starting to implement the planned expansion, by appointing highly experienced personnel. At the end of 2005, the number of employees increased approximately 44% to 157 employees from 109 in 2004. The priorities of the company in 2005 included the attraction of national labor through the appointment of experienced cadres as well as new graduates, which led to the increase in personnel and business promotion costs. The depreciation expenses increased as a result of the clear increase in the fixed assets. The registered fixed assets in the amount of K.D 2,949,700 in 2005 increased 66% from K.D 1,769,895 at the end of 2004. The reason of the increase are attributed to the start of the construction of new facilities for the company and the purchase of new equipment required to meet the planned expansion.

However, the company continues to show profitability. The return on investment in the company's guaranteed financial portfolios contributed to offsetting the rise in the expenses. The company made net profit of KD 736,868, which is a decrease of not more than 18% from the previous year and profitability of 20.64 Fils per share.

The year 2005 witnessed an important event in the history of the company. The general assembly, on 30.11.2005, approved an increase of the capital of the company from KD 3,600,000 to KD 7,000,000. This capital increase is allocated to the shareholders of record on the date of the meeting of the general assembly and a group of new partners led by Kuwait Investment Projects Assets Management Company (KAMCO). This strategic step is considered as a major step necessary to support the future projects of the company and will assist it to fulfill the expansion requirements of the company from the practical and investment aspects.

During the course of the year, the company carried out its plans for the Environmental Services by signing and performing numerous environmental contracts. The revenues derived from Environmental Services amounted to KD 169,344, up 316.57% from KD 40,652 in 2004. This revenue contributed to the total company gross profit KD 149,284, which amounts to 6% of the total company gross profit during 2005. The company focus on the Environmental Services sector will continue considering its promising commercial possibilities in addition to its social importance.

Domestically, the efforts of the company during 2005 were crowned with the company being awarded the cementing services (tasmeet) for the Joint Operations in Wafra. The company is being qualified to provide the services of deep drilling for the first time with Kuwait Oil Company. With regard to the expansion projects of the company, the North Kuwait Project is still the main focus of the company.

NAPESCO has prepared itself for this work to support the North Kuwait Project and is ready to provide services. The company is following up on the positive developments of the project until it is approved, by the grace of God.

At a regional level, the company made during this year an agreement in principle with a Saudi company for registration of a company in the Kingdom of Saudi Arabia. The company plans to provide its services and experience in oilfield and environmental sector. The plans for Saudi expansion were implemented after careful, accurate and encouraging feasibility studies to enter this vital and active market.

Under its ambitious plans, the company's management completed serious studies to start establishing new companies with promising specialized offerings & activities in the field of Environment and Training with the aim of listing the companies on the Stock Exchange in future. This is in addition to continued direct investment in the energy sector in Kuwait and the Gulf region due to the extreme importance of the oilfield services sector and the promising investment return expectations as a result of the steady increase in global oil prices. The expectations of continuing oil price increase will add value to the short and medium-term investments of the company in conformity with the company's focus on diversifying its investments in the energy sector.

Finally, I would like to express my sincere thanks to the members of the board of directors for their constructive contribution by giving pertinent opinions and unlimited support for serving the company and its shareholders in the past 3 years. I hope that the next board of directors to be elected during the next general assembly in the new financial year will continue to develop the company business by implementing the expansion plans followed by the company management. We hope that through the board members, the company will reach all its objectives in the near future for achieving a very profitable growth in both, oilfield services and environmental services at local and regional levels, by the grace of God.

Chairman

Habib Jawhar Hayat

2006
2005
2004
2003

Board of Directors
National Petroleum Services Co. (K.S.C) Closed

Habib Hasan Jawhar Hayat	Chairman
Mubarak Jassim Al-Jassim	Deputy Chairman & Managing Director
Dr. Ali Abdullah Al-Shamlan	Director
Adel Yousef Saleh Al-Soqobi	Director
Mazen Mohammed Mahmoud Madooh	Director
Dr. Abbas Mohammed Rafie Marafi	Director
Eisa Abdullah Al-Weggian	Director

Company Outline

Name of the Company	:	National Petroleum Services Company (K.S.C) Closed
Commercial registration No.	:	49911 dated 28 March 1993
Date established	:	3rd of January 1993
Date listed on the K S E	:	18th of October 2003
Address	:	Shuaibah Industrial Area, Block 3, Street 6, Plot 76 P.O. Box 9801 Ahmadi 61008 Kuwait Telephone: 3262222 Fax: 3261122
Website	:	www.napesco.com
Authorized capital	:	KD 7,000,000
Paid up	:	KD 3,600,000
Nominal value of the share	:	100 Fils
Legal adviser	:	Khaled Abdullah Al-Ayyoub Office Al-Souq Al-Kabir Building, Fahed Al-Salem Street, Block B, 9th Floor P.O.Box 1714 Safat 13018 Kuwait Telephone: 2466592 / 2464321 Fax: 2466591 / 2434711
Auditor	:	MOORE STEPHENS AL NISF & PARTNERS P.O.Box 25578 Safat 13116 Kuwait Telephone: 2426999 Fax: 2401666 ALDAR International Accountants and Consultants P.O.Box 25597, Safat , 13116, Kuwait Tel.: +965 2461 490 Fax: +965 2461 493 Email: aldar_intl@hotmail.com

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

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AL NISF & PARTNERS

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ALDAR International
Accountants and Consultants
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Safat 13116, Kuwait
Tel + 965 - 2461490
Fax + 965 - 2461493
Email: aldar_intl@hotmail.com

The Shareholders
National Petroleum Services Company K.S.C.
Kuwait

Independent auditor's report

We have audited the accompanying balance sheet of National Petroleum Services Company K.S.C. ("the Company") as at 31 December 2005, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended.

Respective responsibilities of management and auditors

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

Basis of opinion

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

Opinion

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

Other regulatory matters

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

Qais Al Nisf

Licence No. 38 "A"

Of Moore Stephens Al Nisf & Partners

Member firm of Moore Stephens International

Ahmed M.Al-Rasheed

Licence No. 39 "A"

Of Al-Dar International – DFK International

Kuwait: 28 February 2006

Balance sheet
as at 31 December 2005

	Note	2005 KD	2004 KD
ASSETS			
Non current assets			
Property, plant and equipment	3	2,949,700	1,769,895
Inventories	4	868,403	688,137
Accounts receivable	5	820,146	891,618
Investments held for trading	6	841,514	256,187
Prepayments and other receivables		301,439	196,835
Cash and cash equivalents		447,804	1,046,716
Total current assets		3,279,306	3,079,493
Total assets		**6,229,006**	**4,849,388**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	7	3,600,000	3,000,000
Share premium	8	60,000	60,000
Statutory reserve	9	312,356	234,881
Voluntary reserve	10	312,356	234,881
Treasury shares	12	(332,729)	-
Retained earnings		704,814	872,896
Total shareholders' equity		4,656,797	4,402,658
Non current portion of term loan	13	585,196	-
Provision for employees' indemnity		193,815	132,431
Total non-current liabilities		779,011	132,431
Current portion of term loan	13	125,000	-
Accounts payable and other credit balances	14	668,198	314,299
Total current liabilities		793,198	314,299
Total liabilities		1,572,209	446,730
Total shareholders' equity and liabilities		**6,229,006**	**4,849,388**

The accompanying notes form an integral part of these financial statements.

Mubarak Jassim Al-Jassim

Deputy Chairman and Managing Director

Statement of income
for the year ended 31 December 2005

	Note	2005 KD	2004 KD
Income			
Sales and service revenue		4,003,609	3,616,754
Cost of sales and service revenue		(1,511,929)	(1,270,346)
Gross profit		2,491,680	2,346,408
Other income		40,700	36,772
Unrealized gain/(loss) on investment held for trading		205,518	(5,732)
Realized (loss)/gain on investment held for trading		(15,400)	25,875
Total income		2,722,498	2,403,323
Expenses and other charges			
General and administrative expenses	*15*	1,922,102	1,449,600
Interest and finance charges		25,647	-
Contribution to Kuwait Foundation for Advancement of Services (KFAS)		6,973	8,584
National labor support tax		16,908	20,719
Directors' remuneration		14,000	21,000
Total expenses and other charges		1,985,630	1,499,903
Net profit for the year		**736,868**	**903,420**
Earnings per share (fils)	*16*	20.64	25.26

The accompanying notes form an integral part of these financial statements.

Statement of changes in shareholders' equity

for the year ended 31 December 2005

	Share capital	Share Premium	Statutory reserve	Voluntary reserve	Treasury shares	Retained earnings	Total
	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2004	2,700,000	-	139,509	139,509	-	565,220	3,544,238
Net profit for 2004	-	-	-	-	-	903,420	903,420
Issue of bonus shares	270,000	-	-	-	-	(270,000)	-
Issue of shares to employees	30,000	-	-	-	-	-	30,000
Share premium on issue	-	60,000	-	-	-	-	60,000
Dividend paid for 2003	-	-	-	-	-	(135,000)	(135,000)
Transfer to statutory reserve	-	-	95,372	-	-	(95,372)	-
Transfer to voluntary reserve	-	-	-	95,372	-	(95,372)	-
Balance at 31 December 2004	3,000,000	60,000	234,881	234,881	-	872,896	4,402,658
Net profit for 2005	-	-	-	-	-	736,868	736,868
Bonus shares issued during the year	600,000	-	-	-	-	(600,000)	-
Dividend paid for 2004	-	-	-	-	-	(150,000)	(150,000)
Transfer to statutory reserve	-	-	77,475	-	-	(77,475)	-
Transfer to voluntary reserve	-	-	-	77,475	-	(77,475)	-
Treasury shares purchased during the year	-	-	-	-	(332,729)	-	(332,729)
Balance at 31 December 2005	3,600,000	60,000	312,356	312,356	(332,729)	704,814	4,656,797

The accompanying notes form an integral part of these financial statements.

The accompanying notes form an integral part of . Statement of cash flows

for the year ended 31 December 2005

	2005 KD	2004 KD
Cash flows from operating activities		
Net profit for the year	736,868	903,420
Adjustments for:		
Net (gain) / loss on investments held for trading	(190,118)	5,732
Gain on sale of property, plant and equipment	(2,926)	(3,280)
Depreciation	360,528	347,858
Provision for inventories	12,000	11,500
Assets written off	-	3,449
Provision for employees' end of service benefits	74,482	36,388
National labor support tax	16,908	20,719
Contribution to KFAS	6,973	8,584
Operating profit before working capital changes	1,014,715	1,334,370
Increase in inventories	(192,266)	(121,437)
Decrease in accounts receivable	71,472	1,488
(Increase) / decrease in prepayments and other receivables	(104,604)	174,521
Increase/(decrease) in accounts payable	359,321	(61,892)
Payments for employees' end of service indemnity	(13,097)	(4,738)
Payments for KFAS	(8,584)	(5,588)
Payment for National labor support tax	(20,719)	(2,806)
Net cash from operating activities	1,106,238	1,313,918
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,542,477)	(647,121)
Sale proceeds on disposal of property, plant and equipment	5,070	3,723
Purchase of investments held for trading	(1,062,295)	(187,254)
Sale proceeds on disposal of investments held for trading	667,085	96,049
Net cash used in investing activities	(1,932,617)	(734,603)
Cash flows from financing activities		
Term loan received	710,196	-
Sale of shares to employees	-	90,000
Dividend paid	(150,000)	(135,000)
Purchase of treasury shares	(332,729)	-
Net cash from / (used in) financing activities	227,467	(45,000)
Net (decrease) / increase in cash and cash equivalents	(598,912)	534,315
Cash and cash equivalents at beginning of the year	1,046,716	512,401
Cash and cash equivalents at end of the year	447,804	1,046,716

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2005

1. Legal status and principal activities

National Petroleum Services Company ("the Company") was incorporated on 1 January 1993 as, a closed Kuwaiti Shareholding Company in accordance with the provisions of Commercial Companies Law and its articles of association. The Company was listed on the Kuwait Stock Exchange on 18 October 2003.

The principal activities of the Company are carrying out cementing, coil tubing, pumping, stimulation and other miscellaneous associated services related to drilling operations.

The Company is domiciled in Kuwait and its registered office is at Plot no 3, building no 76, Shuaiba, Kuwait. The number of employees as of 31 December 2005 was 157 (31 December 2004: 109).

The financial statements were authorized for issue by the Board of Directors on 28 February 2006. The shareholders' of the Company have the power to amend these financial statements at the annual general assembly meeting.

2. Significant accounting policies

a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS's") promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB and the requirements of the Commercial Companies Law of 1960, as amended, and the Company's memorandum and articles of association.

b) Basis of preparation

These financial statements have been prepared under the historical cost basis, except for financial assets and liabilities held for trading stated at fair value.

The accounting policies set out below have been applied consistently, except that with effect from 1 January 2005, the Company adopted all the revised International Accounting Standards ("IAS"), which were revised as part of the improvements project of the International Accounting Standards Board and the newly introduced IFRS's applicable for the annual periods beginning on or after 1 January 2005.

There was no financial effect on the statement of income or opening retained earnings from the adoption of above standards.

The preparation of financial statements in conformity with IFRS's requires management to make estimates and assumptions that may affect the amounts reported in these financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

c) Property, plant and equipment

Property, plant and equipments are stated at cost less accumulated depreciation and impairment losses [see accounting policy 2(n)]. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the asset. All other expenditure is recognised in the statement of income as an expense as incurred.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful economic lives of property, plant and equipment as follows:

	Years
Buildings	20
Plant and machinery	10
Furniture and office equipment	5
Vehicles	5

d) Inventories

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

e) Receivable

Trade and other receivables are stated at their cost less impairment losses [see accounting policy 2 (n)].

f) Investments held for trading

Investments held for trading are acquired principally for the purpose of generating a profit from short-term fluctuations in prices. These are carried at fair value with any resultant gain or loss recognized in the statement of income. Transaction costs are expensed in the income statement.

The fair value of listed equity investments is based on their quoted bid price at the balance sheet date without any deduction for transaction costs. For unquoted equity investments, fair value is determined by reference to market value of a similar investment, or is based on the expected discounted cash flows or other appropriate models.

Investments held for trading are recognized / derecognized on the trade date i.e., on the date the Company commits to purchase/sell the investments.

g) Provision for employees' indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labour Law and employment 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 final obligation.

h) Interest bearing borrowings

Interest bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

i) Provisions

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

j) Revenue recognition

Revenue from the sale of goods is recognized in the statement of income when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible sale return.

In relation to the rendering of services, revenue is recognized by reference to the stage of completion of the transaction at the balance sheet date. The method used determines services performed as a percentage of total services to be performed and applies this percentage to total revenue expected. Revenue is recognized when no significant uncertainties remain concerning the derivation of consideration or associated costs.

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

k) Foreign currencies

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

Non-monetary assets and liabilities denominated in foreign currency, which are stated at historical cost or amortized cost, are recorded at the exchange rate ruling at the date of transaction. 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.

l) Accounts payable and other credit balances

Accounts payable and other credit balances are stated at their cost.

m) Financing cost

Financing cost comprise interest payable on borrowings calculated using the effective interest method.

n) Impairment

Property, plant and equipment and accounts receivable are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is determined as follows:

Property, plant and equipment

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

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

Receivables

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

Impairment losses are recognized in the statement of income. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the statement of income.

o) Treasury shares

Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued, sold or cancelled.

No gain or loss is recognized in income statement on the purchase, sale, issue or cancellation of the treasury shares. Consideration paid or received is directly recognized in equity. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings and then to reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares.

The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

p) Segment reporting

A segment is a distinguishable component of the company that is engaged in providing products or services, business segment or providing products or services within a particular economic environment, geographical segment, where it is subject to risks and rewards that are different from other segments.

3. Property, plant and equipment

	Building	*Plant & machinery*	*Office furniture & equipment*	*Vehicles*	*Capital work in progress*	*Total*
	KD	**KD**	**KD**	**KD**	**KD**	**KD**
Cost						
Balance at 1 January 2005	432,726	2,850,825	186,964	200,020	93,495	3,764,030
Additions	6,650	589,129	84,569	24,081	838,048	1,542,477
Transfers	-	683,482		-	(683,482)	-
Sale/Write offs	-	-	(673)	(11,539)	-	(12,212)
Balance at 31 December 2005	439,376	4,123,436	270,860	212,562	248,061	5,294,295
Depreciation						
Balance at 1 January 2005	181,399	1,588,617	125,509	98,610	-	1,994,135
Depreciation charge for the year	21,711	278,790	27,577	32,450	-	360,528
Accumulated depreciation reversed	-	-	(270)	(9,798)	-	(10,068)
Balance at 31 December 2005	203,110	1,867,407	152,816	121,262	-	2,344,595
Carrying value						
At 31 December 2005	**236,266**	**2,256,029**	**118,044**	**91,300**	**248,061**	**2,949,700**
At 31 December 2004	251,327	1,262,208	61,455	101,410	93,495	1,769,895

The Company's buildings are erected on land leased from the Government of Kuwait which is expiring on 31 December 2006 and is renewable for a period of five years.

4. Inventories

	2005 KD	2004 KD
Cement	42,083	14,688
Chemicals	467,790	317,973
Spares and tools	382,030	366,976
	891,903	699,637
Provision for slow moving inventories	(23,500)	(11,500)
	868,403	**688,137**

5. Accounts receivable

	2005 KD	2004 KD
Trade receivables	720,899	780,239
Al-Khorayef Company (note 20)	65,063	65,063
Others	54,184	66,316
	840,146	911,618
Provision for doubtful debts	(20,000)	(20,000)
	820,146	**891,618**

6. Investments held for trading

	2005 KD	2004 KD
Quoted securities	631,659	202,897
Unquoted securities	209,855	53,290
	841,514	**256,187**

7. Share capital

The authorised, issued and paid up capital of the Company comprises 36,000,000 ordinary shares of 100 fils each (2004: 30,000,000 shares of 100 fils each).

In the Annual General Meeting held on 18 April 2005, the shareholders approved the board of directors' recommendation to issue bonus shares of 6,000,000 shares of 100 fils each in the ratio of 1 share for every 5 shares, for the year ended 31 December 2004 (2004: 1 share for every 10 shares held), accordingly the share capital has increased during the year.

In the ordinary and extra-ordinary general assembly held on 30 November 2005 the shareholders decided to increase the share capital of the Company from KD 3,600,000 to KD 7,000,000 by issuing additional 34,000,000 shares as follows:

17,000,000 shares by rights issue at a price of 300 fils each (including premium of 200 fils per share) for the shareholders who were holding the shares of the Company as on 30 November 2005; and 17,000,000 shares to new shareholders at a issue price of 500 fils each (including premium of 400 fils per share).

As at 31 December 2005, the Company had not issued the above shares.

8. Share premium

The share premium account is not available for distribution.

9. Statutory reserve

In accordance with the Kuwait Commercial Companies' Law and the Company's articles and memorandum of association, 10% of the profit for the year has been transferred to the statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. The reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when profit is not sufficient for the payment of such dividend.

10. Voluntary reserve

In accordance with the Company's articles and memorandum of association, 10% of the profit for the year has been transferred to the voluntary reserve. There are no restrictions on the distribution of the voluntary reserve.

11. Cash dividend

In the Annual General Meeting held on 18 April 2005, the shareholders approved the board of directors' recommendation for a cash dividend of 5 fils per share (KD 150,000) for the year ended 31 December 2004.

12. Treasury shares

During the year, the Company bought 620,000 treasury shares at a total price of KD 332,729.

	2005	**2004**
Number of own shares	620,000	-
Percentage of issued shares	1.72%	-
Market value (KD)	300,700	-

13. Term loan

The Company has obtained a term loan facility in the aggregate amount of KD 3,000,000 from The Industrial Bank of Kuwait K.S.C. at an interest rate of 3.5% per annum to finance the expansion plan. The loan is repayable in 24 equal quarterly installments of KD 125,000 each commencing 31 December 2006. The loan is secured against the total assets of the Company.
As at 31 December 2005, the Company had utilized KD 710,196 of the loan facility.

14. Accounts payable

	2005 KD	2004 KD
Trade creditors	482,717	172,284
Accrued leave payable	36,240	21,247
Accrued expenses	106,622	71,205
National labour support tax payable	16,908	20,719
KFAS contribution payable	6,973	8,584
Other payables	18,738	20,260
	668,198	**314,299**

15. General and administrative expenses

	2005 KD	2004 KD
Employee cost	1,353,196	977,866
Business promotion expenses	66,800	39,414
Depreciation	360,528	347,858
Other expenses	141,578	84,462
	1,922,102	**1,449,600**

16. Earnings per share

Earnings per share is computed by dividing net income for the year by the weighted average numbers of shares outstanding during the year.

	2005 KD	2004 KD
Net profit for the year	736,868	903,420
Weighted average number of issued and paid up shares of the Company	35,700,534	35,761,999
Earnings per share (fils)	**20.64**	**25.26**

17. Related party transactions

Related parties comprise of shareholders and entities in which a substantial interest in the voting power is owned directly or indirectly by the shareholders or over which they are able to exercise significant influence.
There were no significant related party transactions during the year ended 31 December 2005.

18. Financial instruments

The Company in the normal course of business uses various types of financial instruments. Information on financial risks and fair value of these financial instruments is set out below.

a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk on cash and cash equivalents and borrowings. The risk is minimal as all of the Company's borrowings are on a fixed rate basis, at preferential interest rate.

b) Credit risk

The Company is exposed to credit risk in respect of losses that would have to be recognized if counter parties fail to perform as contracted.

The Company's exposure to credit risk is primarily in respect of cash and cash equivalents, and receivables. As at the balance sheet date, the group's maximum exposure to credit risk is equal to the carrying amount of the above assets disclosed in the balance sheet.

c) Foreign currency risk

The Company incurs foreign currency risk on sales, purchases and certain investments that are denominated in a currency other than Kuwaiti Dinars. As at the balance sheet date the Company had the following net exposure denominated in foreign currencies:

	2005	2004
US Dollar	1,823,268	180,507
EURO	798	798
UAE Dirhams	1,349,500	-

d) Fair value of financial assets and liabilities

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The estimated fair value of financial assets and liabilities that are not carried at fair value (cash and bank balances, accounts receivable and accounts payable) at the balance sheet date are not materially different from their carrying values.

19. Contingent liabilities

	2005 KD	2004 KD
Letters of credit /bills for acceptance	2,564,953	48,812
Letters of guarantee	228,361	167,452
	2,793,314	216,264

20. Contingent asset

The Company was an agent of Al Khorayef Trading Company ("Al Khorayef") in Kuwait. During 1998, Al Khorayef terminated the agency agreement with the Company. The Company has filed a claim of KD 1,612,221 against Al Khorayef claiming for the dues in addition to the compensation for breach of contract.

The Court of First Instance awarded judgment in favour of the Company for a total compensation of KD 313,289 (including KD 65,063 commission receivable) on 4 November 2002 to be paid by Al Khorayef. Both the parties have filed an appeal against the decision. The Court of Appeal had given a preliminary ruling directing the Expert Committee ("the Committee") of the Ministry of Justice to study the issue. The Committee had submitted its report which was challenged by both parties. The Court appointed another committee on 29 May 2005 to investigate the dispute. The Committee has not yet submitted its report, however, pursuant to the judgment of the Court of First Instance the assets of Al Khorayef has been attached in the hands of Kuwait Oil Company.

The ultimate outcome of the above case and the amount of compensation claim, if any, that the Company may receive cannot presently be determined.

21. Proposed dividend

The Board of Directors, in the meeting held on 28 February 2006, proposed a cash dividend of 10% (10 fils per share) of paid up share capital and issue of bonus shares of 10% (1 bonus shares for every 10 shares held). The financial statements have not been adjusted to reflect the proposed dividend and issue of bonus shares as they are subject to approval of the shareholders in the annual general meeting."

22. Comparative figures

Comparative figures have been re-classified / re-grouped wherever necessary to conform to current year's classification.

23. Segmental information

The Company's internal organizational and management structure and its system of internal financial reporting are based neither on individual products nor on geography. However for the purpose of segment reporting, the Company's management have chosen business segments as the Company's primary reporting format. In presenting information on the basis of business segments, segment revenue is based on the nature of services provided by the Company. Segment assets and liabilities are based on the nature of services provided by the Company and are related to the segment revenue and expenses.

Financial information about business segments for the year ended 31 December 2005 are set out below:

	Oil field services KD	Industrial products and services KD	Total KD
Segment revenue	3,273,893	729,716	4,003,609
Segment expenses	(2,779,858)	(384,785)	(3,164,643)
Segment result	494,035	344,931	838,966
Unallocated income			230,818
Unallocated expenses			(332,916)
Net profit for the year			**736,868**
Segment assets	5,948,165	280,841	**6,229,006**
Segment liabilities	890,131	682,078	**1,572,209**

The Company operates from one location in Kuwait and all its customers are based in Kuwait. The Company's assets are based in Kuwait.

23. Segmental information (continued)

Financial information about business segments for the year ended 31 December 2004 are set out below:

	Oil field services KD	Industrial products and services KD	Total KD
Segment revenue	3,319,026	297,728	3,616,754
Segment expenses	(1,070,223)	(200,123)	(1,270,346)
Segment result	2,248,803	97,605	2,346,408
Unallocated income			56,915
Unallocated expenses			(1,499,903)
Net profit for the year			**903,420**
Segment assets	4,412,500	135,363	4,547,863
Unallocated assets			301,525
Total assets			**4,849,388**
Segment liabilities	221,291	70,971	292,262
Unallocated liabilities			154,468
Total liabilities			**446,730**

The Company operates from one location in Kuwait and all its customers are based in Kuwait. The Company's assets are based in Kuwait.