

Interim condensed consolidated financial statements and review report
**National Industries Group Holding – SAK (Closed) and subsidiaries
Kuwait**

31 March 2005

Contents

	Page
Review report	1
Consolidated statement of income	2
Consolidated balance sheet	3 and 4
Consolidated statement of changes in equity	5 and 6
Consolidated statement of cash flows	7 and 8
Notes to the interim condensed consolidated financial statements	9 to 16

Review report

To the directors of
National Industries Group Holding – SAK
Kuwait

We have reviewed the accompanying consolidated balance sheet of National Industries Group Holding (A Kuwaiti Shareholding Company) and Subsidiaries as at 31 March 2005, and the related consolidated statements of income, changes in equity and cash flows for the three-month period then ended. These interim condensed consolidated financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34.

Furthermore, based on our review the interim condensed consolidated financial statements are in agreement with the books of the company. We further report that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association of the company have occurred during the three months ended 31 March 2005 that might have had a material effect on the business of the group or on its financial position.

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Anwar Al-Qatami & Co.

Abdullatif A.H. Al-Majid
(Licence No. 70-A)
of Allied Accountants

Kuwait
9 May 2005

Consolidated statement of income

	Note	Three months ended 31 March 2005 (Unaudited) KD '000	Restated Three months ended 31 March 2004 (Unaudited) KD '000
Sales		28,101	27,422
Cost of sales		(22,687)	(23,579)
Gross profit		5,414	3,843
Income from investments	3	44,791	11,547
Share of profits of associates and joint ventures		1,387	800
Change in fair value of investment properties		-	1,513
Other operating income		8	58
Distribution costs		(1,660)	(1,504)
General, administrative and other expenses		(5,069)	(2,573)
Profit from operations		44,871	13,684
Finance costs		(3,211)	(2,411)
Impairment in value of property, plant and equipment		-	(303)
Amortisation of goodwill		-	(531)
Impairment in value of goodwill		(418)	-
Net loss on disposal of subsidiaries		-	(665)
(Loss)/gain on foreign exchange		(246)	10
Reorganisation, redundancy and other costs		(285)	-
Profit for the period		40,711	9,784
Taxation		(224)	(134)
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		(386)	(150)
Provision for Directors' remuneration		(30)	(30)
Provision for National Labour Support Tax		(671)	(459)
Net profit for the period		39,400	9,011
Attributable to :			
Shareholders of the parent		36,518	8,588
Minority interest		2,882	423
		39,400	9,011
Earnings per share attributable to the shareholders of the parent	4	49 Fils	12 Fils

The notes set out on pages 9 to 16 form an integral part of these interim condensed consolidated financial statements.

Consolidated balance sheet

	Note	31 March 2005 (Unaudited) KD '000	Restated 31 Dec. 2004 (Audited) KD '000	Restated 31 March 2004 (Unaudited) KD '000
Assets				
Non-current assets				
Goodwill		23,739	25,060	25,533
Property, plant and equipment		30,884	32,448	30,369
Investment in associates		63,532	62,628	56,070
Investment in joint ventures		242	762	1,098
Investment properties		2,463	2,556	3,288
Available for sale investments	5	145,085	120,173	113,677
Deferred tax		1,164	1,411	1,960
Total non-current assets		267,109	245,038	231,995
Current assets				
Inventories		26,921	26,733	26,038
Accounts receivable and other assets		40,970	30,546	37,803
Wakala investment		2,802	2,802	-
Investments at fair value through statement of income	6	275,956	227,700	209,622
Short-term deposits		1,935	14,007	19
Bank balances and cash		9,459	4,686	14,917
Total current assets		358,043	306,474	288,399
Total assets		625,152	551,512	520,394
Equity and liabilities				
<i>Equity attributable to shareholders of the parent company</i>				
Share capital 711,182,103 issued and fully paid shares of 100 Kuwaiti Fils each (31 December 2004 : 706,182,103 and 31 March 2004 : 614,071,387)		71,118	70,618	61,407
Treasury shares		(1,075)	(1,075)	(9,572)
Staff bonus shares	7	-	500	500
Reserves	10	93,916	93,078	88,370
Cumulative changes in fair value		40,647	24,933	19,755
Retained earnings		140,779	103,758	105,440
		345,385	291,812	265,900
Minority interest		26,500	23,985	7,446
Total equity		371,885	315,797	273,346

Consolidated balance sheet (Continued)

	Note	31 March 2005 (Unaudited) KD '000	Restated 31 Dec. 2004 (Audited) KD '000	Restated 31 March 2004 (Unaudited) KD '000
Non-current liabilities				
Bonds payable		52,526	52,685	35,000
Long-term borrowings		45,514	45,593	19,692
Leasing creditors		1,900	2,086	485
Provisions		8,337	8,471	6,731
Total non-current liabilities		108,277	108,835	61,908
Current liabilities				
Accounts payable and other liabilities		34,404	32,117	36,658
Short-term borrowings	8	98,046	82,990	144,436
Due to banks		12,540	11,773	4,046
Total current liabilities		144,990	126,880	185,140
Total equity and liabilities		625,152	551,512	520,394

The notes set out on pages 9 to 16 form an integral part of these interim condensed consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to shareholders of the parent company							Minority interest KD '000	Total KD '000
	Share capital KD '000	Treasury shares KD '000	Staff bonus shares KD '000	Reserves (Note 10) KD '000	Cumulative changes in fair value KD '000	Retained profits KD '000	Total KD '000		
Balance at 1 January 2005 as previously reported	70,618	(1,075)	500	93,078	12,452	116,239	291,812	23,985	315,797
Adjustment arising from application of revised IAS 39 (Note 2)	-	-	-	-	12,481	(12,481)	-	-	-
Balance at 1 January 2005 as restated	70,618	(1,075)	500	93,078	24,933	103,758	291,812	23,985	315,797
Changes in fair value of available for sale investments	-	-	-	-	15,570	-	15,570	1,063	16,633
Share of fair value adjustment in associates	-	-	-	-	174	-	174	-	174
Realised on sale of available for sale investments	-	-	-	-	(30)	-	(30)	-	(30)
Transfer of excess depreciation	-	-	-	(3)	-	3	-	-	-
Currency translation differences	-	-	-	(984)	-	-	(984)	(3)	(987)
Net income/(expense) recognised directly in equity	-	-	-	(987)	15,714	3	14,730	1,060	15,790
Net profit for the period	-	-	-	-	-	36,518	36,518	2,882	39,400
Total recognised income/(expense) for the period	-	-	-	(987)	15,714	36,521	51,248	3,942	55,190
Transfer to retained earnings on adoption of IFRS : 2 (Note 2)	-	-	(500)	-	-	500	-	-	-
Cost of share-based payment (Note 2)	-	-	2,325	-	-	-	2,325	-	2,325
Issue of staff bonus shares (Note 7)	500	-	(2,325)	1,825	-	-	-	-	-
Dividend paid to minority by the subsidiary	-	-	-	-	-	-	-	(1,427)	(1,427)
	500	-	(500)	1,825	-	500	2,325	(1,427)	898
Balance at 31 March 2005	71,118	(1,075)	-	93,916	40,647	140,779	345,385	26,500	371,885

Consolidated statement of changes in equity (continued)

	Equity attributable to shareholders of the parent company							Minority interest KD '000	Total KD '000
	Share capital KD '000	Treasury shares KD '000	Staff bonus shares KD '000	Reserves (Note 10) KD '000	Cumulative changes in fair value KD '000	Retained profits KD '000	Total KD '000		
Balance at 1 January 2004 as previously reported	61,407	(8,303)	500	86,956	22,229	102,628	265,417	8,245	273,662
Adjustment arising from application of revised IAS 39 (Note 2)	-	-	-	-	5,779	(5,779)	-	-	-
Balance at 1 January 2004 as restated	61,407	(8,303)	500	86,956	28,008	96,849	265,417	8,245	273,662
Changes in fair value of available for sale investments	-	-	-	-	1,099	-	1,099	49	1,148
Share of fair value adjustment in associates	-	-	-	-	66	-	66	-	66
Realised on sale of available for sale investments	-	-	-	-	(9,418)	-	(9,418)	-	(9,418)
Transfer of excess depreciation	-	-	-	(3)	-	3	-	-	-
Surplus on revaluation of freehold property	-	-	-	180	-	-	180	-	180
Currency translation differences	-	-	-	1,237	-	-	1,237	-	1,237
Net income/(expense) recognised directly in equity	-	-	-	1,414	(8,253)	3	(6,836)	49	(6,787)
Net profit for the period	-	-	-	-	-	8,588	8,588	423	9,011
Total recognised income/(expense) for the period	-	-	-	1,414	(8,253)	8,591	1,752	472	2,224
Purchase of treasury shares	-	(1,269)	-	-	-	-	(1,269)	-	(1,269)
Dividend paid to minority by the subsidiary	-	-	-	-	-	-	-	(1,271)	(1,271)
Balance at 31 March 2004	61,407	(9,572)	500	88,370	19,755	105,440	265,900	7,446	273,346

The notes set out on pages 9 to 16 form an integral part of these interim condensed consolidated financial statements.

Consolidated statement of cash flows

	Three months ended 31 March 2005 (Unaudited) KD '000	Restated Three months ended 31 March 2004 (Unaudited) KD '000
OPERATING ACTIVITIES		
Profit for the period	40,711	9,784
Adjustments for :		
Depreciation of property, plant and equipment	1,238	1,158
Impairment in value of property, plant and equipment	-	303
Amortisation of goodwill	-	531
Impairment in value of goodwill	418	-
Share of profits of associates and joint ventures	(1,387)	(800)
Change in fair value of investment properties	-	(1,513)
Dividend income from available for sale investments	(860)	(2,095)
Profit on sale of available for sale investments	(436)	(8,960)
Net loss on disposal of subsidiaries	-	665
Reorganisation, redundancy and other costs	285	-
Cost of share based payment	2,325	-
Net provisions (released)/charged	(134)	137
Finance costs	3,211	2,411
Interest income	(147)	(41)
<hr/>		
Operating profit before changes in operating assets and liabilities	45,224	1,580
Changes in operating assets and liabilities:		
Inventories	(188)	833
Accounts receivable and other assets	(8,833)	(6,726)
Investments at fair value through statement of income	(48,256)	(25,892)
Accounts payable and other liabilities	1,903	7,554
<hr/>		
Cash used in operations	(10,150)	(22,651)
Payment of reorganisation, redundancy, and other costs	(190)	-
Taxation paid	(25)	(6)
KFAS contribution paid	(424)	-
<hr/>		
Net cash used in operating activities	(10,789)	(22,657)

Consolidated statement of cash flows (continued)

	Note	Three months ended 31 March 2005 (Unaudited) KD '000	Restated Three months ended 31 March 2004 (Unaudited) KD '000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(675)	(2,256)
Investment in associated companies		(750)	(6,600)
Dividend received from associates		-	3,808
Purchase of available for sale investments		(9,422)	(14,038)
Proceeds from sale of available for sale investments		1,647	16,999
Dividend income received from available for sale investments		676	2,095
Interest income received		147	41
Net cash (used in)/from investing activities		(8,377)	49
FINANCING ACTIVITIES			
Finance lease payments		(186)	(75)
Net (decrease)/ increase in long-term borrowings		(79)	458
Net increase in short-term borrowings		15,056	25,839
Dividend paid to shareholders of the parent		(61)	(13)
Finance costs paid		(2,216)	(1,629)
Purchase of treasury shares		-	(1,269)
Dividend paid to minority by the subsidiary		(1,427)	(1,271)
Net cash from financing activities		11,087	22,040
Net decrease in cash and cash equivalents		(8,079)	(568)
Translation difference		13	33
		(8,066)	(535)
Cash and cash equivalents at beginning of the period		6,920	11,425
Cash and cash equivalents at end of the period	9	(1,146)	10,890

The notes set out on pages 9 to 16 form an integral part of these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements

31 March 2005

1 Incorporation and Activities

National Industries Group Holding – SAK (‘the parent company’) was incorporated in 1961 as a Kuwaiti shareholding company in accordance with the Commercial Companies Law in the State of Kuwait and in April 2003, its status was transformed to a ‘Holding Company’. The parent company’s shares are traded on the Kuwait Stock Exchange.

The main objectives of the parent company are as follows:

- Owning stocks and shares in Kuwaiti or non-Kuwaiti shareholding companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, lending to and managing of these companies and acting as a guarantor for these companies.
- Lending money to companies in which it owns 20% or more of the capital of the borrowing company, along with acting as guarantor on behalf of these companies.
- Owning industrial equities such as patents, industrial trade marks, royalties, or any other related rights, and franchising them to other companies or using them within or outside the State of Kuwait.
- Owning real estate and moveable property to conduct its operations within the limits as stipulated by law.
- Employing excess funds available with the company by investing them in investment and real estate portfolios managed by specialised companies.

The address of the parent company’s registered office is PO Box 417, Safat 13005, State of Kuwait.

The board of directors of the parent company approved these interim condensed consolidated financial statements for issue on 9 May 2005.

2 Significant accounting policies

Basis of presentation

The interim condensed consolidated financial statements of the group are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2004 except as explained in the following paragraphs.

2 Significant accounting policies (continued)

In 2003 and 2004, International Accounting Standards Board (IASB) issued a series of new International Financial Reporting Standards (IFRS) and revised International Accounting Standards (IAS). The new IFRS and revised IAS became effective for annual periods beginning 1 January 2005. All new IFRS and revised IAS have been adopted by the group but have either no or insignificant impact except for IFRS 2 : “Share-based Payment”, IFRS 3: “Business Combination” and IAS 39 : “Financial instruments, recognition and measurement”.

The adoption of revised IAS 1 : “Presentation of financial statements” has resulted in amendments to presentation of minority interest. Minority interest is now presented within equity.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2005.

Goodwill

The group has adopted IFRS 3 “Business Combinations” and revised IAS 36 “Impairment of Assets” and consequently changed its accounting policy for goodwill.

Goodwill represents the excess of the cost of an acquisition over the fair value of the group’s share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is measured at cost less impairment losses. Goodwill is tested for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The change in accounting policy has resulted in the group ceasing annual goodwill amortisation from 1 January 2005.

Share-based Payment

The company has applied the requirements of IFRS 2 “Share-based Payments” from 1 January 2005.

Certain employees (including managing director) of the company receive remuneration in the form of share-based payment transactions, whereby the employees render services in exchange for shares (“equity settled transactions”).

Equity-settled transactions

The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the period end market value of the company’s shares with the issue price. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the shares vest.

The adoption of IFRS 2 “Share-based Payment” resulted in:

- A transfer of KD500 thousand from “staff bonus shares” account to retained earnings representing an amount equal to the nominal value of the 5,000,000 unvested shares at 1 January 2005 which was previously appropriated from retained earnings to “staff bonus shares” account.
- a decrease in the current period profit by KD2,325 thousand (31 March 2004 : Nil) due to an increase in the employee benefits expense charged to general and administrative expenses with a corresponding increase in equity.

2 Significant accounting policies (continued)

Investments

The group has adopted the revised IAS 39 from 1 January 2005, and reclassified its investments previously categorised as trading and available for sale into the following two categories;

- i. Investments at fair value through statement of income
- ii. Available for sale investments

Investments at fair value through statement of income

Investments at fair value through statement of income are initially recognised at fair value, excluding transaction costs. These investments are either "held for trading" or "designated" as such on initial recognition.

Held for trading investments are acquired principally for the purpose of selling or repurchasing them in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Designated investments are those investments which are initially designated as investments at fair value through statement of income.

After initial recognition, investments at fair value through statement of income are re-measured at fair value and changes in fair value are recognised in the consolidated statement of income.

In accordance with the transitional provisions of the revised IAS 39, the group reclassified certain "trading investments" to "available for sale investments" which were carried at 31 December 2004 at KD21,538 thousand (31 March 2004 : KD16,453 thousand) and the remaining "trading investments" were reclassified into "investments at fair value through statement of income".

The reclassification from "trading investments" to "available for sale investments" resulted in, changes in fair value of trading investments amounting to KD12,481 thousand at 31 December 2004 and KD5,779 thousand at 31 December 2003 previously reported in the consolidated statement of income being recorded in 'cumulative changes in fair value' within equity at 1 January 2005 and 1 January 2004 respectively. Further this reclassification resulted in a decrease in the net profit for the period by KD13,053 thousand (a decrease in net profit for the previous period by KD1,616 thousand) with a corresponding change in "cumulative changes in fair value" account.

The above changes have been accounted for with retrospective effect and the comparatives have been restated accordingly.

3 Income from investments

	31 March 2005 (Unaudited) KD '000	Restated 31 March 2004 (Unaudited) KD '000
Dividend income:		
- From investment at fair value through statement of income	4,393	3,367
- From available for sale investments	860	2,095
Profit on sale of available for sale investments	436	8,960
Income from investment at fair value through statement of income	38,955	(2,916)
Interest income	147	41
	44,791	11,547

4 Earnings per share

Earnings per share is calculated by dividing the net profit for the period attributable to the shareholders of the parent by the weighted average number of shares outstanding during the period as follows:

	31 March 2005 (Unaudited)	Restated 31 March 2004 (Unaudited)
Net profit for the period attributable to the shareholders of the parent (KD '000)	36,518	8,588
Weighted average number of shares outstanding during the period (excluding treasury shares)	744,383,752	722,412,450
Earnings per share	49 Fils	12 Fils

The weighted average number of ordinary shares outstanding during the current and the previous period has been adjusted to reflect the bonus shares of 35,559,105 approved by the annual general assembly held on 4 May 2005.

Further the weighted average number of shares outstanding during the previous period has been adjusted to reflect the bonus shares issued during the year ended 31 December 2004.

5 Available for sale investments

	31 March 2005 (Unaudited) KD '000	Restated 31 Dec. 2004 (Audited) KD '000	Restated 31 March 2004 (Unaudited) KD '000
Managed funds	48,562	45,014	41,814
Equity participations	48,548	43,007	49,290
Quoted shares	47,975	32,152	22,573
	145,085	120,173	113,677

6 Investments at fair value through statement of income

	31 March 2005 (Unaudited) KD '000	Restated 31 Dec. 2004 (Audited) KD '000	Restated 31 March 2004 (Unaudited) KD '000
Held for trading :			
Quoted shares	102,050	85,653	74,002
Designated on initial recognition :			
Local funds	153,846	123,627	120,857
International managed portfolios and funds	20,060	18,420	14,763
	173,906	142,047	135,620
	275,956	227,700	209,622

7 Staff bonus shares

During the current period the parent company issued 5,000,000 shares to its senior management as bonus shares at nil value under its staff incentive scheme. The market value of these shares issued amounted to KD2,325 thousand for which an expense was charged to the current period results with a corresponding increase in equity. Subsequently the nominal value of shares issued amounting KD500 thousand was credited to capital and the excess of KD1,825 thousand was credited to the share premium account.

8 Short-term borrowings

During the period the group obtained unsecured loans denominated in Kuwaiti Dinars and U.S. Dollars totalling to KD19,438 thousand bearing interest at rates ranging from 3.9% to 5.2% per annum.

9 Cash and cash equivalents

	31 March 2005 (Unaudited) KD '000	31 March 2004 (Unaudited) KD '000
Short-term deposits	1,935	19
Bank balance and cash	9,459	14,917
Due to banks	(12,540)	(4,046)
	(1,146)	10,890

10 Reserves

	Share premium KD '000	Statutory reserve KD '000	General reserve KD '000	Revaluation reserve KD '000	Gain on Sale of treasury shares reserve KD '000	Foreign currency translation reserve KD '000	Total KD '000
Balance at 31 December 2004	26,409	41,099	23,460	375	-	1,735	93,078
Transfer of excess depreciation	-	-	-	(3)	-	-	(3)
Currency translation differences	-	-	-	(14)	-	(970)	(984)
Issue of staff bonus shares (Note 7)	1,825	-	-	-	-	-	1,825
Balances at 31 March 2005	28,234	41,099	23,460	358	-	765	93,916
Balances at 31 December 2003	26,409	37,754	23,116	285	183	(791)	86,956
Currency translation differences	-	-	-	10	-	1,227	1,237
Surplus on revaluation of freehold property	-	-	-	180	-	-	180
Transfer of excess depreciation	-	-	-	(3)	-	-	(3)
Balances at 31 March 2004	26,409	37,754	23,116	472	183	436	88,370

11 Segmental analysis

The group's primary format for reporting segment information is business segments and the group primarily operates in three business segments: investment, building materials and specialist engineering. The segment information are as follows:

	Investment		Building materials		Specialist engineering		Total	
	31 March 2005 KD '000	31 March 2004 KD '000	31 March 2005 KD '000	31 March 2004 KD '000	31 March 2005 KD '000	31 March 2004 KD '000	31 March 2005 KD '000	31 March 2004 KD '000
Revenue	46,178	13,860	7,129	6,778	20,589	19,683	73,896	40,321
Less:								
Income from investments							(44,791)	(11,547)
Share of profits of associates and joint ventures							(1,387)	(800)
Change in fair value of investment properties							-	(1,513)
Unallocated sales							383	961
Sales, per consolidated statement of income							28,101	27,422
Profit/(loss)	43,247	13,544	1,808	1,447	(1,307)	(2,758)	43,748	12,233
Less:								
Finance costs							(3,211)	(2,411)
Unallocated income/(expenses)							174	(38)
Profit for the period, per consolidated statement of income							40,711	9,784

12 Proposed dividend

The proposed cash dividend of 30Fils per share and the proposed bonus shares of 5% of paid up share capital for the year ended 31 December 2004 to the shareholders of record on the date of the general assembly, were approved at the general assembly held on 4 May 2005 and will be recorded in the interim condensed consolidated financial statement for the six month ended 30 June 2005.

13 Related party transactions

Purchases of raw materials during the current year from related companies amounted to KD1,483 thousand (31 March 2004 : KD1,858 thousand).

Transactions with related parties are undertaken with the approval of the respective board of directors.

14 Contingent liabilities

At 31 March 2005 the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD416 thousand (31 December 2004 : KD415 thousand and 31 March 2004 : KD681 thousand).

A foreign subsidiary of the group has guaranteed the leasing liability and overdraft of a joint venture totalling £1,500 thousand (KD821 thousand) [31 December 2004 : £1,700 thousand (KD965 thousand) and 31 March 2004 : £2,100 thousand (KD1,132 thousand)].

15 Capital commitments

At the balance sheet date the group had commitments for the purchase of investments and the acquisition of property, plant and equipment totalling KD11,676 thousand (31 December 2004 : KD11,010 thousand and 31 March 2004 : KD9,603 thousand).