

Consolidated financial statements and independent auditors' report
National Industries Group Holding – SAK and Subsidiaries
Kuwait

31 December 2008

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Independent auditors' report

To the shareholders of
National Industries Group Holding – SAK
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Industries Group Holding (A Kuwaiti Shareholding Company) (“the parent company”) and subsidiaries (collectively “the group”), which comprise the consolidated balance sheet as at 31 December 2008, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The parent company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

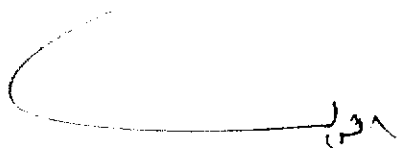
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

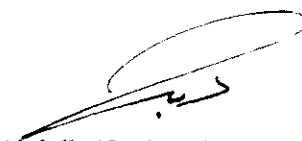
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards

Report on Other Legal and Regulatory Requirements

In our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960 and by the parent company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law or of the articles of association, as amended, have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the group or on its financial position.



Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners



Abdullatif A.H. Al-Majid
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Moores Rowland International
Allied Accountants

Kuwait
31 March 2009

Consolidated statement of income

	Note	Year ended 31 Dec. 2008 KD '000	Year ended 31 Dec. 2007 KD '000
Sales		112,821	117,458
Cost of sales		(89,782)	(90,102)
Gross profit		23,039	27,356
Income from investments	6	37,088	250,129
Share of profits of associates	15	2,451	19,737
Changes in fair value of investment properties	16	5,697	-
Interest and other operating income	7	31,509	22,122
Distribution costs		(6,612)	(7,979)
General, administrative and other expenses		(22,815)	(24,127)
Finance costs	9	(67,609)	287,238
Profit on disposal of property, plant & equipment		-	(52,220)
Impairment in value of available for sale investments	17c	(326,305)	2,215
Impairment in value of wakala investment	20	(2,485)	(2,000)
Impairment in value of goodwill		-	-
Impairment in value of associates		-	(2,608)
(Loss)/gain on foreign exchange		-	(6,084)
		(11,514)	19,790
(Loss)/profit before taxation, KFAS, NLST, Zakat and directors' remuneration		(337,556)	246,331
Taxation	10	(314)	(616)
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		-	(1,993)
National Labour Support Tax (NLST)		-	(4,746)
Zakat provision		-	(115)
Directors' remuneration		-	(200)
(Loss)/profit for the year	11	(337,870)	238,661
Attributable to :			
Shareholders of the parent		(281,963)	209,364
Minority interest		(55,907)	29,297
		(337,870)	238,661
Basic and diluted (loss)/earnings per share	12	(224)Fils	167 Fils

The notes set out on pages 9 to 48 form an integral part of these consolidated financial statements.

Consolidated balance sheet

	Note	31 Dec. 2008 KD '000	(Restated) 31 Dec. 2007 KD '000
Assets			
Non-current assets			
Goodwill	13	8,231	10,697
Property, plant and equipment	14	40,506	34,304
Investment in associates	15	303,079	286,301
Investment properties	16	22,645	-
Available for sale investments	17	634,900	846,206
Deferred tax		108	132
Total non-current assets		1,009,469	1,177,640
Current assets			
Inventories	18	22,992	23,323
Available for sale investments	17	178,114	-
Accounts receivable and other assets	19	89,635	129,232
Murabaha and wakala investments	20	29,800	33,883
Investments at fair value through statement of income	21	158,816	590,542
Short-term deposits	31	214,999	187,079
Bank balances and cash	31	29,325	17,894
Total current assets		723,681	981,953
Total assets		1,733,150	2,159,593
Equity and liabilities			
Equity attributable to shareholders of the parent company			
Share capital	22	129,510	117,736
Treasury shares	23	(31,998)	(27,156)
Reserves	25	304,142	303,723
Cumulative changes in fair value (Accumulated losses)/ retained earnings		43,968 (97,752)	215,451 323,664
Equity attributable to shareholders of the parent company		347,870	933,418
Minority interest		137,927	196,999
Total equity		485,797	1,130,417
Non-current liabilities			
Bonds issued and trust certificates	26	158,720	171,227
Long-term borrowings	27	177,837	165,190
Leasing creditors		608	375
Provisions	28	8,369	9,558
Total non-current liabilities		345,534	346,350
Current liabilities			
Accounts payable and other liabilities	29	80,545	74,569
Bonds issued	26	14,431	-
Short-term borrowings	30	767,124	571,211
Due to banks	31	39,719	37,046
Total current liabilities		901,819	682,826
Total equity and liabilities		1,733,150	2,159,593

Mr. Sa'ad Mohammed Al-Sa'ad
Chairman & Managing Director

The notes set out on pages 9 to 48 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

Equity attributable to shareholders of the parent company

	Share capital	Treasury shares	Reserves (Note 25)	Cumulative changes in fair value	Retained earnings/ (accumulated losses)	Sub-Total	Minority Interest	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Balance at 1 January 2008 (as previously reported)	117,736	(27,156)	303,723	215,451	359,741	968,495	196,999	1,166,494
Prior period adjustment on acquisition of associate	-	-	-	-	(65,756)	(65,756)	-	(65,756)
- reversal of changes in fair value (refer note 15a.)	-	-	-	-	29,679	29,679	-	29,679
- recognition of share of profits (refer note 15a.)	-	-	-	-	-	-	-	-
Balance at 1 January 2008 (as restated)	117,736	(27,156)	303,723	215,451	323,664	933,418	196,999	1,130,417
Net changes in fair value of available for sale investments	-	-	-	(386,329)	-	(386,329)	(83,192)	(469,521)
Share of fair value adjustment in associates	-	-	-	(45,175)	-	(45,175)	-	(45,175)
Transferred to consolidated statement of income on impairment in value of available for sale investments	-	-	-	278,374	-	278,374	47,931	326,305
Transferred to consolidated statement of income on sale of available for sale investments	-	-	-	(18,353)	-	(18,353)	(1,313)	(19,666)
Transfer of excess depreciation	-	-	(28)	-	28	-	-	-
Currency translation differences	-	-	(1,037)	-	-	(1,037)	(2,407)	(3,444)
Net (expense)/income recognised directly in equity	-	-	(1,065)	(171,483)	28	(172,520)	(38,981)	(211,501)
Loss for the year	-	-	-	-	(281,963)	(281,963)	(55,907)	(337,870)
Adjustment related to acquisition of associate – reversal of changes in fair value (refer note 15a.)	-	-	-	-	(43,903)	(43,903)	-	(43,903)
Adjustment related to acquisition of associate – recognition of share of profits (refer note 15a.)	-	-	-	-	2,145	2,145	-	2,145
Total recognised expense for the year	-	-	(1,065)	(171,483)	(323,693)	(496,241)	(94,888)	(591,129)
Issue of bonus share (refer note 32)	11,774	-	-	-	(11,774)	-	-	-
Issue of staff bonus shares by utilizing treasury shares (refer note 24)	-	1,047	-	-	-	1,047	-	1,047
Gain on issue of treasury shares to staff	-	-	1,484	-	-	1,484	-	1,484
Purchase of treasury shares	-	(5,889)	-	-	-	(5,889)	-	(5,889)
Cash dividend to shareholders of the parent company (refer note 32)	-	-	-	-	(85,949)	(85,949)	-	(85,949)
Investment made by minority shareholders of subsidiaries	-	-	-	-	-	-	52,270	52,270
Dividend paid to minority by the subsidiaries	-	-	-	-	-	-	(16,454)	(16,454)
Balance at 31 December 2008	129,510	(31,998)	304,142	43,968	(97,752)	347,870	137,927	485,797

Consolidated statement of changes in equity (Continued)

Equity attributable to shareholders of the parent company

	Share capital KD '000	Treasury shares KD '000	Reserves (Note 25) KD '000	Cumulative changes in fair value KD '000	Retained earnings KD '000	Sub- Total KD '000	Minority interest KD '000	Total KD '000
Balance at 1 January 2007 (as previously reported)	107,033	(56,378)	264,315	146,409	260,404	721,783	111,057	832,840
Prior period adjustment on acquisition of associate - reversal of changes in fair value (refer note 15 a.)	-	-	-	-	(30,209)	(30,209)	-	(30,209)
- recognition of share of profits (refer note 15a.)	-	-	-	-	3,671	3,671	-	3,671
Balance at 1 January 2007 (as restated)	107,033	(56,378)	264,315	146,409	233,866	695,245	111,057	806,302
Net changes in fair value of available for sale investments	-	-	-	70,663	-	70,663	18,571	89,234
Share of fair value adjustment in associates	-	-	-	27,932	-	27,932	-	27,932
Transferred to consolidated statement of income on impairment in value of available for sale investments	-	-	-	2,000	-	2,000	-	2,000
Transferred to consolidated statement of income on sale of available for sale investments	-	-	-	(31,553)	-	(31,553)	-	(31,553)
Transfer of excess depreciation	-	-	(309)	-	309	-	-	-
Currency translation differences	-	-	(520)	-	-	(520)	-	(520)
Net (expense)/income recognised directly in equity	-	-	(829)	69,042	309	68,522	18,571	87,093
Profit for the year	-	-	-	-	209,364	209,364	29,297	238,661
Adjustment related to acquisition of associate – reversal of changes in fair value (refer note 15a.)	-	-	-	-	(35,547)	(35,547)	-	(35,547)
Adjustment related to acquisition of associate – recognition of share of profits (refer note 15a)	-	-	-	-	26,008	26,008	-	26,008
Total recognised (expense)/income for the year	-	-	(829)	69,042	200,134	268,347	47,868	316,215
Issue of bonus share (refer note 32)	10,703	-	-	-	(10,703)	-	-	-
Issue of staff bonus shares by utilizing treasury shares (refer note 24)	-	757	-	-	-	757	-	757
Gain on issue of treasury shares to staff	-	-	562	-	-	562	-	562
Cash dividend to shareholders of the parent company (refer note 32)	-	-	-	-	(71,421)	(71,421)	-	(71,421)
Purchase of treasury shares	-	(25,630)	-	-	-	(25,630)	-	(25,630)
Disposal of treasury shares	-	54,095	-	-	-	54,095	-	54,095
Transfer to reserves	-	-	28,212	-	(28,212)	-	-	-
Profit on disposal of treasury shares	-	-	11,463	-	-	11,463	-	11,463
Investment made by minority shareholders of subsidiaries	-	-	-	-	-	-	49,098	49,098
Dividend paid to minority by the subsidiaries	-	-	-	-	-	-	(11,024)	(11,024)
Balance at 31 December 2007	117,736	(27,156)	303,723	215,451	323,664	933,418	196,999	1,130,417

The notes set out on pages 9 to 48 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

	Year ended 31 Dec. 2008 KD '000	Year ended 31 Dec. 2007 KD '000
OPERATING ACTIVITIES		
(Loss)/profit before taxation, KFAS, NLST, Zakat and board of directors' remuneration	(337,556)	246,331
Adjustments:		
Depreciation of property, plant and equipment	4,849	5,023
Change in fair value of investment properties	(5,697)	-
Profit on disposal of property, plant and equipment	(9)	(2,215)
Impairment in value of goodwill	-	2,608
Impairment in value of associates and joint ventures	-	6,084
Share of profits of associates	(2,451)	(19,737)
Income from murabaha and wakala investments	(2,095)	(3,311)
Dividend income from available for sale investments	(19,067)	(9,151)
Profit on sale of available for sale investments	(32,445)	(30,372)
Unrealised loss on interest rate swaps	5,260	-
Impairment in value of available for sale investments and wakala investments	328,790	2,000
Net provisions released	(1,189)	(660)
Finance costs	67,609	52,220
Interest income	(12,069)	(10,753)
	(6,070)	238,067
Changes in operating assets and liabilities:		
Inventories	331	637
Accounts receivable and other assets	43,015	(72,689)
Investments at fair value through statement of income	3,958	(236,295)
Accounts payable and other liabilities	14,163	18,726
Cash from/(used in) operations	55,397	(51,554)
Taxation paid	(496)	(500)
KFAS contribution paid	(1,402)	(1,492)
Board of directors' remuneration paid	(180)	(180)
National labour support tax paid	(4,955)	(3,429)
Net cash from/(used in) operating activities	48,364	(57,155)

Consolidated statement of cash flows (continued)

	Note	Year ended 31 Dec. 2008 KD '000	Year ended 31 Dec. 2007 KD '000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(13,828)	(11,878)
Proceeds from sale of property, plant and equipment		2,684	3,921
Additions to investment properties		(16,948)	-
Additions to investment in associates		(51,438)	(66,730)
Dividend received from associates		9,979	6,653
Decrease in wakala investments maturing after three months		9,715	5,000
Income received from murabaha and wakala investments		2,095	3,311
Increase in short term deposits maturing after three months		(71,102)	-
Increase in blocked deposits		(500)	-
Purchase of available for sale investments		(192,435)	(424,028)
Proceeds from sale of available for sale investments		130,095	98,765
Dividend income received from available for sale investments		19,067	9,151
Interest income received		8,651	12,520
Net cash used in investing activities		(163,965)	(363,315)
FINANCING ACTIVITIES			
Net increase in long-term borrowings, bonds and trust certificates		14,571	210,850
Finance lease receipt		249	365
Net increase in short-term borrowings		195,913	168,026
Dividend paid to the shareholders of the parent		(84,291)	(70,305)
Finance costs paid		(66,157)	(50,556)
Purchase of treasury shares		(5,889)	(25,630)
Proceeds from sale of treasury shares		-	65,558
Increase in minority interest		35,816	38,074
Net cash from financing activities		90,212	336,382
Net decrease in cash and cash equivalents		(25,389)	(84,088)
Translation difference		(1,418)	(74)
Cash and cash equivalents at beginning of the year		(26,807)	(84,162)
Cash and cash equivalents at end of the year	31	171,810	255,972

The notes set out on pages 9 to 48 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

31 December 2008

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 along with its subsidiaries are jointly referred to as “the group”. The parent company’s shares are traded on the Kuwait Stock Exchange and Dubai Financial Market.

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 consolidated financial statements for issuance on 31 March 2009. The general assembly of the parent company’s shareholders has the power to amend these consolidated financial statements after issuance.

2 New and revised International Financial Reporting Standards (“IFRS”) and Interpretations (“IFRIC”)

- a) In the current year the group has adopted the following amendments to the standards:
- Adoption of amendments to IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures, relating to reclassification of financial assets

On 13 October 2008, the International Accounting Standards Board issued amendments to IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures. These amendments permit reclassification of financial instruments other than derivatives from “at fair value through statement of income” category to “available for sale” in rare circumstances and reclassification of a financial asset that meets the definition of loans and receivables out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

2 New and revised International Financial Reporting Standards (“IFRS”) and Interpretations (“IFRIC”) (continued)

These financial instruments are reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of income is not reversed. The group has implemented the amendments to IAS 39 with effect from 1 July 2008 (refer note 21a).

b) The International Accounting Standards Board (IASB) has issued new and revised IFRS and interpretations which are not yet effective, and therefore have not yet been adopted by the group. The new and revised IFRS and interpretations relevant to the group are:

- Amendments to IFRS 2 Share-based Payments (effective for annual periods beginning on or after 1 January 2009)

The IASB has issued an amendment to IFRS 2 regarding vesting conditions and cancellations. None of the Group's current share-based payments schemes is affected by the amendments. Management does not consider the amendments to have an impact on the Group's accounting policies.

- IFRS 3 Business Combination (Revised 2008) (effective for annual periods beginning on or after 1 July 2009)

The standard is applicable for business combinations occurring in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires use of purchase method, and will have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

- IFRS 8 Operating Segments (effective for annual periods on or after 1 January 2009)

IFRS 8 Operating Segments is a disclosure standard which may result in a redesignation of the group's reportable segments but is not expected to have any impact on the results or financial position of the group.

- IAS 1 (Revised) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)

IAS 1 Presentation of Financial Statements has been revised to require that an entity must present all non-owner changes in equity either in one statement of comprehensive income or in two separate statements (i.e. a statement of income and a statement of comprehensive income). Components of comprehensive income such as changes in revaluation surplus, gains and losses on remeasuring available for sale investments and gains and losses arising from translating the financial statements of foreign operation may not be presented in the statement of changes in equity. The application of the revised standard is not expected to result in any prior period adjustments of cash flow, net income or balance sheet line items in the initial period of application.

- IAS 23 (Revised) Borrowing costs (effective for annual periods beginning on or after 1 January 2009)

IAS 23 Borrowing Costs has been amended resulting in elimination of the previously available option to expense all borrowing costs when incurred. Under the revised standard, all borrowing costs that are directly attributable to qualifying assets are to be capitalised. The application of the revised standard is not expected to have a material impact on the financial statements in the period of initial application because it has always been group's accounting policy to capitalise borrowing costs incurred on qualifying assets.

- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective for annual periods beginning on or after 1 July 2009)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The changes in IAS 27 will affect future acquisitions or loss of control and transactions with minority interests.

2 New and revised International Financial Reporting Standards (“IFRS”) and Interpretations (“IFRIC”) (continued)

- Annual Improvements 2008

The IASB has issued Improvements for International Financial Reporting Standards in May 2008. Most of these amendments will become effective in annual period beginning on or after 1 January 2009. The group’s expects the following amendments to be relevant to the group’s accounting policies, however these amendment are not expected to have a material impact on the consolidated financial statements.

- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 1 Presentation of Financial Statements*
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors*
- *IAS 10 Events after the Reporting Period*
- *IAS 16 Property, Plant and Equipment*
- *IAS 18 Revenue*
- *IAS 19 Employee Benefits*
- *IAS 23 Borrowing Costs*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 28 Investment in Associates*
- *IAS 34 Interim Financial Reporting*
- *IAS 36 Impairment of Assets*
- *IAS 38 Intangible Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IAS 40 Investment properties*

The group does not intend to apply any of the above pronouncements early.

c) The new and revised IFRS and interpretations that are not yet effective and not relevant for the group’s operations are:

- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009)
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 January 2009)
- Amendments that are part of the annual improvements project published in May 2008 (not addressed above):
 - *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance*
 - *IAS 29 Financial Reporting in Hyperinflationary Economies*
 - *IAS 31 Interest in Joint ventures*
 - *IAS 41 Agriculture*
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)
- IFRIC 15 Agreements for construction of real estate (effective for annual periods beginning on or after 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008)
- IFRIC 17 Distribution of Non Cash Asset to owner (effective for annual periods beginning on or after 1 July 2009)

2 New and revised International Financial Reporting Standards (“IFRS”) and Interpretations (“IFRIC”) (continued)

d) The following interpretations are mandatory for reporting periods beginning on or after 1 January 2008 but they are not relevant to the group’s operations:

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)
- IFRIC 14 IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008)

3 Significant accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2007 except for adoption of amendments to IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures, relating to reclassification of financial assets and the adoption of the new accounting policy for “investment properties”. The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements are prepared under the historical cost convention modified to include the revaluation of freehold and leasehold properties, the measurement at fair of investments at fair value through statement of income, available for sale investments and investment properties.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2008, and the financial statements of its subsidiaries prepared to that date, or to a date not earlier than three months of the parent company’s year end using consistent accounting policies.

Necessary adjustments are made for the effects of significant transactions or other events that occur between the reporting date of the subsidiaries and 31 December 2008, the reporting date of the parent company. The details of the significant consolidated subsidiary companies are set out in Note 5 to the consolidated financial statements.

Subsidiaries are those enterprises controlled by the group and are fully consolidated from the date on which control is transferred to the group. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any significant intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Minority interest represents the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to the shareholders of the parent company.

3 Significant accounting policies (continued)

Business combinations

Acquisition of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, plus any costs directly attributable to the business combination. The acquirer's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date. Goodwill represents the excess of acquisition cost over the fair value of the group's share of the identifiable net assets of the acquirer at the date of the acquisition. Any excess, at the date of acquisition, of the group's share in the fair value of the identifiable net assets acquired over the acquisition cost is recognised as negative goodwill in the consolidated statement of income.

Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated balance sheet. Goodwill arising on the acquisition of an associate is included within the carrying amount of the investment. Goodwill, which represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition, 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. For the purpose of impairment testing, goodwill is allocated to cash generating units.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sales

Sales represent the value of goods and services supplied during the year excluding value added tax or other sales taxes.

Dividend income

Dividend income is recognised when the group's right to receive payment is established.

Interest income

Interest income is recognised using the effective interest method.

Fee income

Management fees relating to portfolio management services and other fee income are recognised as revenue as the services are provided.

Finance costs

Finance costs are calculated and recognised on a time proportionate basis taking into account the principal loan balance outstanding and the interest rate applicable.

Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sales are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

3 Significant accounting policies (continued)

Development costs

Expenditure on development activities which are not expected to generate future economic benefits are written off as incurred. Development costs are carried forward only if specific criteria are met. Such development costs carried forward are amortised over their estimated useful lives on a straight line basis and are subject to regular impairment review.

Taxation and Zakat

The parent company calculates the National Labour Support Tax (NLST) in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

The parent company calculates the contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) at 1% of taxable profit in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Contribution to Zakat is calculated at 1% of the profit of the parent company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Share-based Payment

Certain employees of the parent 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 parent 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.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost or valuation, less the estimated residual value of property, plant and equipment, on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	Lower of 50 years or remaining useful life
Long leasehold property	Lower of 50 years or remaining lease term
Short leasehold property	Lease term
Property on leasehold land	4 to 20 years
Plant and machinery	1 to 15 years
Motor vehicles	2 to 10 years
Furniture and equipment	4 to 10 years

Any increase arising on revaluation is credited directly to equity as "revaluation reserve" except to the extent where the increase reverses a revaluation decrease related to the same asset for which a decrease in valuation has previously been recognised as an expense, it is credited to the consolidated statement of income. Any decrease in the net carrying amount arising on revaluation is charged directly to the consolidated statement of income, or charged to the revaluation reserve to the extent that the decrease is related to an increase for the same asset which was previously recorded as a credit to the revaluation surplus.