THE SECURITIES HOUSE K.S.C. (CLOSED)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE SECURITIES HOUSE K.S.C. (CLOSED)

We have audited the accompanying consolidated financial statements of The Securities House K.S.C. (Closed) (the "parent company") and subsidiaries (together, the "group"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity 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 management of the parent company are 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' judgement, 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 auditor considers 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 for the 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 the group's 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE SECURITIES HOUSE K.S.C. (CLOSED) (continued)

Opinion

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the group or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2008.

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

ALI A. AL-HASAWI
LICENCE NO. 30 A
RÖDL MIDDLE EAST
BURGAN - INTERNATIONAL ACCOUNTANTS

7 April 2009
Kuwait

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	*2008* *KD*	*2007* *KD*
INCOME			
From investment activities			
Realised gains on sale of investments at fair value through income statement		**734,871**	5,062,726
Realised (losses) gains on sale of available for sale investments		**(5,243,479)**	1,771,943
Dividends		**4,393,286**	5,628,597
Share of results of associates	12	**(2,853,940)**	4,187,491
Realised gain on sale of an interest in an associate	12	**840,607**	22,477
Realised gain on sale of an interest in a subsidiary company	13	**8,241**	-
Realised gain on sale of an investment property		**-**	1,500,550
Unrealised gain on investment properties	14	**18,683,779**	-
Realised loss on sale of a property under development		**-**	(327,502)
Management fee income		**906,608**	1,252,783
Investment services income	3	**1,091,915**	2,088,464
Total income from investment activities		**18,561,888**	21,187,529
From commercial activities			
Sales of goods and services		**9,058,642**	8,802,803
Cost of sales		**(6,902,284)**	(5,868,906)
Gross profit from commercial activities		**2,156,358**	2,933,897
Other income	4	**1,531,930**	1,896,763
TOTAL INCOME		**22,250,176**	26,018,189
EXPENSES			
Staff costs		**6,289,198**	5,012,536
Selling and distribution		**985,501**	578,636
General and administration		**6,530,725**	4,229,870
Impairment of goodwill	13	**-**	195,306
Impairment of property, plant and equipment	15	**580,000**	48,976
TOTAL EXPENSES		**14,385,424**	10,065,324
PROFIT BEFORE FINANCIAL INVESTMENTS' FAIR VALUE ADJUSTMENTS, MURABAHA PAYABLE COSTS, DIRECTORS' REMUNERATION AND DEDUCTIONS		**7,864,752**	15,952,865
Unrealised (losses) gains on investments at fair value through income statement	10	**(11,225,364)**	10,256,797
Impairment of available for sale investments	11	**(6,117,872)**	(4,844,216)
Murabaha payable costs		**(14,552,885)**	(13,184,221)
Directors' remuneration	16	**-**	(25,000)
Contribution to Kuwait Foundation for the Advancement of Sciences		**-**	(52,707)
National Labour Support Tax		**-**	(152,816)
Zakat	30	**-**	(3,659)
(Loss) profit from continuing operations		**(24,031,369)**	7,947,043
Profit from discontinued operations (after deductions)	5	**-**	19,599,295
(LOSS) PROFIT FOR THE YEAR		**(24,031,369)**	27,546,338
Attributable to:			
Equity holders of the parent company		**(25,612,130)**	27,320,542
Minority interest		**1,580,761**	225,796
(LOSS) PROFIT FOR THE YEAR		**(24,031,369)**	27,546,338
Basic and diluted (loss) earnings per share attributable to equity holders of the parent:			
from continuing operations	6	**(39.3) fils**	12.4 fils
from discontinued operations	5	**- fils**	30.7 fils
		(39.3) fils	43.1 fils

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	*2008* *KD*	*2007* *KD*
ASSETS			
Bank balances and cash	7	**12,267,592**	10,162,142
Short-term murabaha investments	7	**26,579,870**	2,648,788
Accounts receivable and prepayments	8	**7,042,725**	7,651,904
Inventories	9	**1,841,897**	1,637,324
Investments at fair value through income statement	10	**102,308,773**	138,027,116
Available for sale investments	11	**47,457,204**	34,330,724
Investment in associates	12	**31,549,440**	35,203,273
Investment properties	14	**69,199,072**	41,202,463
Property, plant and equipment	15	**17,460,992**	12,070,142
TOTAL ASSETS		**315,707,565**	282,933,876
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	16	**68,000,000**	45,208,800
Share premium	17	**26,118,950**	5,966,500
Statutory reserve	17	**13,012,960**	13,012,960
General reserve	17	**13,101,460**	13,101,460
Foreign currency translation adjustment		**(3,964,704)**	(295,043)
Employees' share purchase plan reserve	18	**570,880**	-
Treasury shares reserve	17	**11,689,249**	6,379,544
(Accumulated deficit) retained earnings		**(22,167,689)**	26,048,841
Treasury shares	19	**(16,367,649)**	(15,715,315)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**89,993,457**	93,707,747
Minority interest		**8,460,240**	3,801,460
TOTAL EQUITY		**98,453,697**	97,509,207
LIABILITIES			
Murabaha payable	20	**190,295,393**	169,092,879
Accounts payable and accruals	21	**25,296,951**	14,870,942
Employees' end of service benefits	22	**1,661,524**	1,460,848
Total liabilities		**217,253,868**	185,424,669
TOTAL EQUITY AND LIABILITIES		**315,707,565**	282,933,876

AYMAN ABDULLAH BOODAI
Chairman & Managing Director

IBRAHIM YUSUF ALGHANIM
Deputy Chairman

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	*2008* *KD*	*2007* *KD*
OPERATING ACTIVITIES			
(Loss) profit for the year		**(24,031,369)**	27,546,338
Adjustments for:			
Realised gains on sale of investments at fair value through income statement		**(734,871)**	(5,106,234)
Unrealised losses (gains) on investments at fair value through income statement		**11,225,364**	(10,256,797)
Realised losses (gains) on sale of available for sale investments		**5,243,479**	(1,771,943)
Impairment of available for sale investments		**6,117,872**	4,844,216
Dividends		**(4,393,286)**	(5,664,247)
Share of results of associates		**2,853,940**	(4,187,491)
Realised gain on sale of an interest in an associate		**(840,607)**	(22,477)
Realised gain on sale of an interest in a subsidiary company	13 , 5	**(8,241)**	(18,533,872)
Realised gain on sale of an investment property		**-**	(1,500,550)
Unrealised gain on investment properties		**(18,683,779)**	-
Realised loss on sale of a property under development		**-**	327,502
Impairment of property, plant and equipment		**580,000**	244,282
Depreciation		**942,563**	1,076,841
Share based payment expense		**360,643**	-
Provision for employees' end of service benefits		**465,470**	439,369
Murabaha payable costs		**14,552,885**	13,335,561
		(6,349,937)	770,498
Working capital changes:			
Accounts receivable and prepayments		**719,089**	3,133,189
Inventories		**(204,573)**	(596,000)
Accounts payable and accruals		**7,541,016**	(5,984,002)
Cash from (used in) operations		**1,705,595**	(2,676,315)
Employees' end of service benefits paid		**(264,794)**	(515,709)
Net cash from (used in) operating activities		**1,440,801**	(3,192,024)
INVESTING ACTIVITIES			
Purchase of investments at fair value through income statement		**(17,279,592)**	(61,281,114)
Proceeds from sale of investments at fair value through income statement		**18,072,557**	41,435,764
Purchase of available for sale investments		**(8,524,047)**	(22,231,807)
Proceeds from sale of available for sale investments		**8,486,101**	26,233,988
Purchase of associates		**(1,480,872)**	(4,536,665)
Dividends received from an associate		**1,382,885**	1,397,445
Proceeds from sale of associates		**1,952,367**	466,837
Purchase of subsidiary companies, net of cash acquired		**(3,141,523)**	(88,587)
Proceeds from sale of subsidiary companies, net of cash disposed	5	**1,444,965**	46,982,128
Minority interest's share in cash of a disposed of subsidiary		**-**	(147,077)
Dividends received		**4,283,376**	5,642,050
Purchase of investment properties		**(9,312,830)**	(6,985,008)
Proceeds from sale of an investment property		**-**	7,200,000
Purchase of a property under development		**-**	(366,571)
Proceeds from sale of properties under development		**-**	3,850,000
Purchase of property, plant and equipment		**(7,200,562)**	(4,176,318)
Proceeds from sale of property, plant and equipment		**140,089**	114,473
Net cash (used in) from investing activities		**(11,177,086)**	33,509,538
FINANCING ACTIVITIES			
Proceeds from rights issue and employee share purchase plan		**31,641,450**	-
Dividends paid		**(11,307,837)**	(11,132,780)
Purchase of treasury shares		**(24,711,792)**	(29,582,124)
Proceeds from sale of treasury shares		**29,369,163**	26,109,001
Minority interest's share in capital increase of a subsidiary		**6,045,250**	-
Dividends paid to minority interest		**-**	(250,000)
Net proceeds from finance arrangements		**21,202,514**	370,950
Murabaha payable costs paid		**(11,739,752)**	(10,961,847)
Net cash from (used in) financing activities		**40,498,996**	(25,446,800)
Foreign currency translation adjustment		**(4,726,179)**	(444,266)
INCREASE IN CASH AND CASH EQUIVALENTS		**26,036,532**	4,426,448
Cash and cash equivalents at 1 January		**12,810,930**	8,384,482
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	7	**38,847,462**	12,810,930

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the parent											*Minority interest KD*	*Total equity KD*
	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*General reserve KD*	*Cumulative changes in fair value KD*	*Foreign currency translation adjustment KD*	*Employees' share purchase plan reserve KD*	*Treasury shares reserve KD*	*Retained earnings KD*	*Treasury shares KD*	*Total KD*		
Balance at 1 January 2008	45,208,800	5,966,500	13,012,960	13,101,460	-	(295,043)	-	6,379,544	26,048,841	(15,715,315)	93,707,747	3,801,460	97,509,207
Available for sale investments:													
- Changes in fair value	-	-	-	-	(5,385,093)	-		-	-	-	(5,385,093)	-	(5,385,093)
- Transfer to consolidated income statement on sale	-	-	-	-	3,088,737	-	-	-	-	-	3,088,737	-	3,088,737
- Transfer to consolidated income statement on impairment	-	-	-	-	2,296,356	-	-	-	-	-	2,296,356	-	2,296,356
Share purchase plan expense:													
- Group (Note 18)	-	-	-	-	-	-	357,000	-	-	-	357,000	3,643	360,643
- Share of movements in associates	-	-	-	-	-		213,880	-	-	-	213,880		213,880
Foreign currency translation						(3,669,661)					(3,669,661)	(1,212,071)	(4,881,732)
Total income and expense recognised directly in equity	-	-	-	-	-	(3,669,661)	570,880	-	-	-	(3,098,781)	(1,208,428)	(4,307,209)
(Loss) profit for the year	-	-	-	-	-	-	-	-	(25,612,130)	-	(25,612,130)	1,580,761	(24,031,369)
Total income and expense for the year	-	-	-	-	-	-	-	-	(25,612,130)	-	(28,710,911)	372,333	(28,338,578)
Rights issue (Note 16)	11,302,200	19,778,850	-	-	-	-	-	-	-	-	31,081,050	-	31,081,050
Employee share purchase plan (Note 16)	186,800	373,600	-	-	-	-	-	-	-	-	560,400	-	560,400
Bonus issue (Note 16)	11,302,200	-	-	-	-	-	-	-	(11,302,200)	-	-	-	-
Cash dividends (Note 16)	-	-	-	-	-	-	-	-	(11,302,200)	-	(11,302,200)	-	(11,302,200)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(24,711,792)	(24,711,792)	-	(24,711,792)
Sale of treasury shares (Note 19)	-	-	-	-		-	-	5,309,705	-	24,059,458	29,369,163	-	29,369,163
Minority interest's share in capital increase of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	6,045,250	6,045,250
Net movement in minority Interest	-	-	-	-		-	-	-	-	-	-	(1,758,803)	(1,758,803)
Balance at 31 December 2008	**68,000,000**	**26,118,950**	**13,012,960**	**13,101,460**	**-**	**(3,964,704)**	**570,880**	**11,689,249**	**(22,167,689)**	**(16,367,649)**	**89,993,457**	**8,460,240**	**98,453,697**

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2008

	Attributable to equity holders of the parent										*Minority interest KD*	*Total Equity KD*
	Share Capital KD	*Share premium KD*	*Statutory reserve KD*	*General reserve KD*	*Cumulative changes in fair value KD*	*Foreign currency translation adjustment KD*	*Treasury shares reserve KD*	*Retained earnings KD*	*Treasury shares KD*	*Total KD*		
Balance at 1 January 2007	37,674,000	5,966,500	10,199,888	10,288,388	(1,367,779)	143,602	6,624,610	23,015,077	(12,487,258)	80,057,028	2,209,326	82,266,354
Available for sale investments:												
- Transfer to consolidated income statement on sale	-	-	-	-	1,171,202	(149,654)	-	-	-	1,021,548	-	1,021,548
- Transfer to consolidated incor statement on impairment	-	-	-	-	278,100	-	-	-	-	278,100	-	278,100
- Share of movements in associates	-	-	-	-	(81,523)	-	-	-	-	(81,523)	-	(81,523)
Translation adjustment	-	-	-	-	-	(288,991)	-	-	-	(288,991)	-	(288,991)
Total income and expense recognised directly in equity	-	-	-	-	1,367,779	(438,645)	-	-	-	929,134	-	929,134
Profit for the year	-	-	-	-	-	-	-	27,320,542	-	27,320,542	225,796	27,546,338
Total income and expense for the year	-	-	-	-	1,367,779	(438,645)	-	27,320,542	-	28,249,676	225,796	28,475,472
Bonus issue (Note 16)	7,534,800	-	-	-	-	-	-	(7,534,800)	-	-	-	-
Cash dividends (Note 16)	-	-	-	-	-	-	-	(11,125,834)	-	(11,125,834)	-	(11,125,834)
Transfer for the year	-	-	2,813,072	2,813,072	-	-	-	(5,626,144)	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	(29,582,124)	(29,582,124)	-	(29,582,124)
Sale of treasury shares (Note 19)	-	-	-	-	-	-	(245,066)	-	26,354,067	26,109,001	-	26,109,001
Net movement in minority Interest	-	-	-	-	-	-	-	-	-	-	1,366,338	1,366,338
Balance at 31 December 2007	45,208,800	5,966,500	13,012,960	13,101,460	-	(295,043)	6,379,544	26,048,841	(15,715,315)	93,707,747	3,801,460	97,509,207

The attached notes 1 to 31 form part of these consolidated financial statements.

1 ACTIVITIES

The Securities House K.S.C. (Closed) (the "parent company") is a Kuwaiti Shareholding Company incorporated and registered in Kuwait on 28 March 1982 and is engaged in investment and trading in securities, investment in real estate, finance activities and in portfolio and fund management on behalf of third parties.

The parent company's Extraordinary General Assembly of the shareholders held on 30 April 2003 approved the transfer of the parent company's activities to conform with Islamic Shariah effective from 1 January 2003.

The details of subsidiaries are included in Note 13.

The parent company's principal place of business and registered address is 17th floor, Al-Dhow Tower, Khalid Ibn Al-Waleed Street, Sharq, P.O. Box 26972 Safat, 13130, Kuwait.

The consolidated financial statements of The Securities House K.S.C. (Closed) and subsidiaries (the "group") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the board of directors of the parent company on 7 April 2009. The annual general assembly of the shareholders of the parent company has the power to amend these consolidated financial statements after issuance.

2 SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements are presented in Kuwaiti Dinars (KD).

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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except as follows:

During the year, the group has adopted accounting policy to account for share based payments made to employees during the year in accordance with IFRS 2 share based payments.

During the year, the following IASB Standards and IFRIC Interpretations have been issued and adopted by the group:

- Amendments to IAS 39: Financial Instruments (Recognition and Measurement), and IFRS 7: Financial Instruments (Disclosures);
- Amendment to IAS 40: Investment property (early adoption);
- IFRIC 11: IFRS 2 - Group and Treasury Share Transactions;
- IFRIC 12: Service Concession Arrangements; and
- IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments to IAS 39: Financial Instruments (Recognition and Measurement) and IFRS 7: Financial Instruments (Disclosures)

On 13 October 2008, IASB approved and published amendments to IAS 39 and IFRS 7 to allow reclassifications of certain financial instruments held for trading to either held to maturity, loans and receivables or available for sale categories with effect from 1 July 2008. As a result, the group adopted the amendments and reclassified certain trading financial assets held for trading from the ‘fair value through profit or loss’ category to the ‘available for sale’ category with effect from 1 July 2008 as these investments are no longer held for the purpose of selling or repurchasing in the near term due to the impact of the global financial crisis on the local and regional equity markets. Detailed disclosures are provided in Notes 10 and 11.

Amendment to IAS 40: Investment Property

In May 2008, IASB approved and published an amendment to IAS 40 which allows property that is being constructed or developed for future use as investment property to be classified as investment property with effect from 1 January 2009. Earlier application is permitted and an entity is permitted to apply the amendment to investment property under construction from any date before 1 January 2009 provided that the fair values of investment properties under construction were determined at those dates. As a result, the group early adopted the amendment and classified certain property under development as an investment property as at 31 December 2008 and carried it at fair value as of the same date. Detailed disclosures are provided in Note 14.

The application of IFRIC 11, 12 and 14 did not have material impact on the consolidated financial statements of the group.

The following IASB Standards and IFRIC Interpretations have been issued but not yet mandatory, and have not been adopted by the group:

- IAS 1: Presentation of Financial Statements (Revised) (effective 1 January 2009)
- Amendment to IAS 16: Property, plant and equipment (effective 1 January 2009)
- IAS 23: Borrowing cost (Revised) (effective 1 January 2009)
- Amendment to IAS 27: Consolidated and separate financial statements (effective 1 July 2009)
- Amendment to IAS 28: Investment in associates (effective 1 January 2009)
- Amendment to IAS 36: Impairment of assets (effective 1 January 2009)
- Amendment to IAS 38: Intangible assets (effective 1 January 2009)
- Amendment to IAS 39: Financial instruments: recognition and measurement (effective 1 January 2009)
- Amendments to IFRS 2: Share based payment - Vesting Conditions and Cancellations (effective 1 January 2009)
- IFRS 3: Business Combinations (Revised) (effective 1 July 2009)
- Amendment to IFRS 5: Non current assets held for sale and discontinued operations (effective 1 July 2009)
- IFRS 8: Operating Segments (effective 1 January 2009)
- IFRIC Interpretation 13: Customer Loyalty Program (effective 1 July 2008)
- IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective 1 October 2009)

Following are the major changes:

IAS 1 (Amended):

The revised standard introduces changes to the presentation of financial statements and does not affect the recognition, measurement or disclosure of specific transactions. The standard will not affect the financial position or results of the group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the group. Other changes to the standard are not expected to have material impact on the consolidated financial statements of the group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 27 and IFRS 3 (Revised):
Amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. IFRS 3 Business Combinations revised issued by the IASB board in January 2008 which will be effective for financial years beginning on or after 1 July 2009. The standard introduces changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported result. The new standard may require changes in the way the group discloses information about its goodwill recognised during acquisition.

IFRS 8:
IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. The new standard intends to disclose segment information in line with information provided to the top management.

Adoption of other Standards and Interpretations will not have any effect on the financial performance, position or the consolidated financial statements of the Group. Additional disclosures will be made in the consolidated financial statements when these standards and interpretations become effective.

A summary of the significant accounting policies used in preparation and presentation of the consolidated financial are set out below:

Basis of consolidation
The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries, for the year ended 31 December 2008. Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the group has control.

The financial statements of the subsidiary companies are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

All inter-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Minority interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent company's shareholders' equity. Acquisition of minority interests are accounted for using the parent company extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Revenue recognition
i) Profits or losses on sale of investments and properties are recognised when the risks and rewards are transferred to the buyer.
ii) Dividend income is recognised when the right to receive payment is established.
iii) Management fee income is recognised when services are rendered.
iv) Investment services income is recognised when services are rendered.
v) Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and bank balances and short-term murabaha investments with an original maturity of three months or less.

Short-term murabaha investments
Short-term murabaha investments represent amounts receivable from financial institutions on a deferred settlement basis for assets sold under murabaha arrangements. Short-term murabaha investments are stated at the gross amount of the receivable, net of deferred profit receivable. Profit receivable is recognised as income on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Financial assets and liabilities
The group classifies its financial assets and liabilities as "investments at fair value through income statement", "available for sale investments", "loans and receivables", or "financial liabilities".

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

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are carried at amortised cost using effective profit method, less any provision for impairment.

Investments at fair value through income statement
Investments at fair value through income statement includes financial assets that are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy.

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

Available for sale investments
Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through income statement, held to maturity investments or loans and receivables.

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

Financial liabilities
Financial liabilities are subsequently measured at amortised cost using effective profit rate method.

Fair value
The fair value of financial assets and liabilities traded in recognised financial markets is their quoted market price, based on the current bid price. For all other financial assets or liabilities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current fair value of another instrument that is substantially the same; recent arm's length market transactions, discounted cash flow analysis or earnings multiplier, etc or other valuation models.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Derecognition
A financial asset (in whole or in part) is derecognised either when: the rights to receive the cash flows from the asset have expired; the group has transferred its right to receive cash flows from the assets or has assumed an obligation to pay them in full without material delay to a third party under a ' 'pass through' arrangement; or group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Where the group has transferred its right to receive cash flows from an asset and has neither transferred not retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

Offsetting
Financial assets and liabilities are offset when the group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement;
(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
(c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

Reversal, of impairment losses is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. For equity instruments classified as available for sale investments, impairment losses are not reversed through the consolidated income statement; any increase in the fair value subsequent to the recognition of impairment loss, is recognised directly in statement of changes in equity. For debt instruments classified as available for sale financial assets, if in a subsequent year, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement; the impairment loss is reversed through the consolidated income statement.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities was retained as a general provision until the Central Bank of Kuwait issued a new circular in November 2008 approving the transfer of the excess reserve in general provision to the consolidated statement of income for the year ended 31 December 2008 with the transfer of a similar amount from the distributable profits for the same year to the general reserve.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable and prepayments
Accounts receivable are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Certain accounts receivable are classified as “loans and receivables”.

Inventories
Inventories are stated at the lower of weighted average cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Investment in associates
The group’s investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the group’s share of net assets of the associate, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the group’s share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

Business combinations and goodwill
Business combinations are accounted for using the acquisition accounting method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of an acquisition over the group’s share of the acquiree’s fair value of the net identifiable assets as at the date of the acquisition. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Any excess, at the date of acquisition, of the group’s share in the acquiree’s fair value of the net identifiable assets over the cost of the acquisition is recognised in the consolidated income statement.

Goodwill is allocated to each of the group’s cash-generating units or groups of cash generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit, to which goodwill relates. The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generation unit retained.

When subsidiaries or associates are sold, the difference between the selling price and the net assets plus cumulative translation difference and goodwill is recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties
Investment properties are initially measured at cost, being the fair value of the consideration given and including acquisition charges associated with the property. After initial recognition, all investment properties are carried at fair value that is determined based on valuation performed by independent valuers using valuation methods consistent with the nature and usage of the investment properties. Resultant unrealised gains or losses from change in the fair value are recognised in the consolidated income statement.

Property, plant and equipment
Property, plant and equipment is stated at cost, less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives as follows:
- Buildings on leasehold land 10 to 20 years
- Other assets 3 to 10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Impairment of non-financial assets
The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Share based payment transactions
The group operates an equity-settled, share-based Employee Stock Option Plan (ESOP). Under the terms of the plan, share options are granted to eligible employees. The options are exercisable in future period. The fair value of the options at the date on which they are granted is recognised as an expense over the vesting period with corresponding effect to equity. The fair value of the options is determined using Black-Scholes Option Pricing Model further details of which are given in Note 18.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Murabaha payables
Murabaha payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated at the gross amount of the payable, net of deferred profit payable. Murabaha payables are classified as "financial liabilities."

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Certain accounts payable are classified as "financial liabilities."

Employees' end of service benefits
The group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' length of service. The expected costs of these benefits are accrued over the period of employment.

The group also contributes to the government defined contribution plan for its Kuwaiti employees in accordance with the legal requirements in Kuwait.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the consolidated income statement.

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 prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity and for non-monetary assets whose change in fair value are recognised in the consolidated income statement are recognised in the consolidated income statement.

Exchange differences arising from translation of the financial statements of the foreign operations are taken to the consolidated statement of changes in equity under foreign currency translation adjustment.

Fiduciary accounts
Assets and related liabilities held in a trust or fiduciary capacity on behalf of managed portfolios and funds' owners are not treated as assets or liabilities of the group and, accordingly, are not included in the consolidated balance sheet.

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

Classification of investments
Classification of financial assets and liabilities is based on management's intention at acquisition and requires considerable judgement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- earnings multiple technique; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Impairment of investments
The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition the group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Impairment of investment in associates
After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associates at each balance sheet date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Impairment provision of receivables
An estimate of the collectible amount of receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to
the length of time past due, based on historical recovery rates.

3 INVESTMENT SERVICES INCOME

	2008	*2007*
	KD	*KD*
Restructuring and arranging fees	**732,804**	1,331,970
Placement fees	**225,715**	438,744
Consultancy fees	**133,396**	317,750
	1,091,915	2,088,464

4 OTHER INCOME

	2008	*2007*
	KD	*KD*
Foreign exchange (loss) gain	**(99,275)**	1,410,077
Murabaha and saving accounts income	**1,334,380**	370,795
Miscellaneous income	**296,825**	115,891
	1,531,930	1,896,763

5 DISCONTINUED OPERATIONS

During the previous year, the group sold all of its interests in the following subsidiary companies:

- Hygiene Products Industries Company W.L.L. during the first quarter;
- Palms Agro Production Company K.S.C.C., during the second quarter;
- YIACO Medical Company K.S.C.C. during the second quarter; and
- Enhanced Engineering and Multi-Technologies Company, during the last quarter.

The profit for the previous year from discontinued operations is analysed below:

	2008	*2007*
	KD	*KD*
Sales of goods and services	**-**	18,364,020
Cost of sales	**-**	(13,692,359)
Gross profit from commercial activities	**-**	4,671,661
Other income	**-**	544,957
Realised gains on investments at fair value through income statement	**-**	43,508
Dividends	**-**	35,650
Realised gain on sale of net assets	**-**	18,533,872
Staff costs	**-**	(1,446,553)
Selling and distribution	**-**	(499,229)
General and administration expenses	**-**	(1,160,493)
Depreciation	**-**	(396,741)
Profit before murabaha payable costs and deductions	**-**	20,326,632
Murabaha payable costs	**-**	(151,340)
Contribution to Kuwait Foundation for the Advancement of Sciences	**-**	(145,132)
National Labour Support tax	**-**	(420,790)
Zakat	**-**	(10,075)
Profit for the year	**-**	19,599,295
Attributable to:		
Equity holders of the parent	**-**	19,465,997
Minority interest	**-**	133,298
	-	19,599,295
Basic and diluted earnings per share attributable to equity holders of the parent from discontinued operations	**- fils**	30.7 fils

5 DISCONTINUED OPERATION (continued)

The net assets of the subsidiary companies on the date of disposal were as follows:

	31 December 2007 *KD*
Assets	
Bank balances and cash	3,134,308
Accounts receivable and prepayments	23,394,332
Inventories	12,979,612
Investments at fair value through income statement	4,045,595
Available for sale investments	5,138,379
Investment in associates	81,306
Goodwill (Note 13)	724,882
Property, plant and equipment	12,184,220
Total assets	61,682,634
Less: Liabilities	
Bank overdrafts	1,127,994
Term loans	2,443,805
Murabaha payable	4,750,951
Accounts payable and accruals	18,467,500
Employees' end of service benefits	1,637,814
Total liabilities	28,428,064
Net assets	33,254,570
Less: cash and cash equivalents	(2,006,314)
Net assets disposed of	31,248,256
Total consideration (see note below)	49,782,128
Realised gain on sale	18,533,872

Total consideration included an amount of KD 2,800,000 that was subsequently collected during the year ended 31 December 2008.

6 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT FROM CONTINUING OPERATIONS

Basic and diluted (loss) earnings per share is computed by dividing (loss) profit attributable to the equity holders of the parent by the weighted average number of shares (net of treasury shares) outstanding during the year as follows:

	2008 ***KD***	*2007* *KD*
(Loss) profit attributable to equity holders of the Parent from continuing operations	**(25,612,130)**	7,854,545
	Shares	*Shares*
Weighted average number of shares (net of treasury shares) outstanding for the year	**650,890,771**	634,199,363
Basic and diluted (loss) earnings per share attributable to the equity holders of the parent from continuing operations	**(39.3) fils**	12.4 fils

Earnings per share for the previous year have been recomputed based on adjusted number of shares following the bonus shares and impact of the rights issue on the bonus shares (Note 16).

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as shown in the consolidated cash flow statement is reconciled to the related items in the consolidated balance sheet as follows:

	2008 ***KD***	*2007* *KD*
Bank balances and cash	**12,267,592**	10,162,142
Short-term murabaha investments with original maturities up to three months	**26,579,870**	2,648,788
	38,847,462	12,810,930

Short-term murabaha investments carry effective average annual profit rate of 3.6% (2007: 5.7%).

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2008 ***KD***	*2007* *KD*
Trade accounts receivable – public sector	**732,956**	487,991
Trade accounts receivable – private sector	**2,116,580**	1,296,997
	2,849,536	1,784,988
Provision for doubtful receivables	**(38,661)**	(51,768)
	2,810,875	1,733,220
Accrued income and prepayments	**1,608,217**	1,487,655
Advance payments	**1,563,120**	763,696
Receivable from sale of investments	**201,923**	2,965,834
Other receivables	**858,590**	701,499
	7,042,725	7,651,904

9 INVENTORIES

	2008	*2007*
	KD	*KD*
Raw and packing materials	**1,790,486**	1,534,208
Work in process	**114,193**	20,642
Finished goods	**155,729**	82,474
	2,060,408	1,637,324
Provision for obsolete and slow moving inventory	**(218,511)**	-
	1,841,897	1,637,324

10 INVESTMENTS AT FAIR VALUE THROUGH INCOME STATEMENT

	2008	*2007*
	KD	*KD*
Quoted local equities:		
Carrying value before fair value adjustment	**7,428,703**	19,591,685
Fair value adjustment during the year	**(152,996)**	(779,946)
	7,275,707	18,811,739
Quoted equities in the Middle East:		
Carrying value before fair value adjustment	**-**	4,754,337
Fair value adjustment during the year	**-**	593,229
	-	5,347,566
Unquoted local equities:		
Carrying value before fair value adjustment	**39,399,164**	48,032,598
Fair value adjustment during the year	**(9,960,812)**	4,796,798
	29,438,352	52,829,396
Unquoted equities in the Middle East:		
Carrying value before fair value adjustment	**61,578,748**	50,331,851
Fair value adjustment during the year	**814,599**	5,579,042
	62,393,347	55,910,893
Unquoted foreign equities:		
Carrying value before fair value adjustment	**5,127,522**	5,059,848
Fair value adjustment during the year	**(1,926,155)**	67,674
	3,201,367	5,127,522
	102,308,773	138,027,116

Quoted local equities with a carrying value of KD 16,879,885 have been reclassified to available for sale investments as of 1 July 2008 according to the amendments to IAS 39: *Financial Instruments: Recognition and Measurement* (Note 11). The loss on the reclassified investments for the period from 1 January 2008 to 30 June 2008 amounted to KD 846,640 and is included in the consolidated income statement.

The valuation of investments in unquoted securities involves the exercise of judgment and is based on information available on recent arm's length market transactions, current fair value of another instrument that is substantially the same, the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; earnings multiple technique, or other valuation models.

Unquoted equities include entities in which the group has more than 20% equity interest over which the group does not have significant influence.

11 AVAILABLE FOR SALE INVESTMENTS

	2008	*2007*
	KD	*KD*
Quoted local equities	**2,800,000**	-
Unquoted local equities	**11,660,000**	2,040,000
Unquoted equities in the Middle East	**3,904,525**	4,508,935
Unquoted foreign equities	**29,092,679**	27,781,789
	47,457,204	34,330,724

The group has implemented the amendments to IAS 39: *Financial Instruments: Recognition and Measurement* that were approved on 13 October 2008. As a result, the group has reclassified certain quoted local equities with a carrying value of KD 16,879,885 from the 'fair value through income statement' category to the 'available for sale' category with effect from 1 July 2008 as these investments are no longer held for the purpose of selling or repurchasing it in the near term due to the impact of the global financial crisis on the local and regional equity markets (Note 10).

The group has recorded impairment losses of KD 4,433,043 in respect of the reclassified quoted local equities in the consolidated income statement due to the significant decline in the value of these investments subsequent to the reclassification date. As at 31 December 2008, the carrying value of the reclassified quoted local equities after sale and recognition of impairment amounted to KD 2,800,000.

At year end, the group performed an impairment test to its available for sale investments which resulted in the recognition of an impairment loss of KD 6,117,872 (2007: KD 4,844,216) in the consolidated income statement to account for the adverse circumstances affecting certain investments, thus reducing the value of these investments to their recoverable amount. The assessment model used was based on market observable inputs.

Included in the investments above are unquoted investments amounting to KD 44,657,204 (31 December 2007: KD 34,330,724) which are carried at cost after recognition of impairment since their fair value cannot be reliably measured. The management believes that there is no objective evidence or circumstances that indicate any further impairment in the value of these investments and that there is no need to recognise any additional impairment in its value.

12 INVESTMENT IN ASSOCIATES

The significant associates included in these consolidated financial statements are listed as follow**:**

	Country of	*% Equity interest*	
Name	*Incorporation*	***2008***	*2007*
Al-Aman Investment Company K.S.C.	Kuwait	**44%**	45%
Nafaes Group for General Trading and Contracting, W.L.L.	Kuwait	**50%**	50%
Kuwait Medical City K.S.C.C.	Kuwait	**50%**	50%
Weaver Point Company, L.L.C.	U.S.A	**25%**	25%
Al-Aman Health Care Company, W.L.L.	Kuwait	**- %**	38%

During the year, the parent company purchased and sold interests in Al-Aman Investment Company K.S.C, which resulted in net additional goodwill of KD 1,559 (2007:KD 265,497) and a gain of KD 936,922 (2007: KD 8,199).

The carrying value and market value of Al-Aman Investment Company K.S.C are KD 26,561,441 (2007: KD 31,010,654) and KD 35,121,259 (2007: KD 46,059,420) respectively. Other associates are not listed in any of the public stock exchanges, so fair valuation of these investments in associates is not determinable.

12 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates summarised financial information of investments in associates:

	2008 *KD*	*2007* *KD*
Share of associates' assets and liabilities:		
Current assets	**11,130,461**	11,934,542
Non-current assets	**25,174,945**	22,498,205
Current liabilities	**(12,349,164)**	(6,532,027)
Non-current liabilities	**(478,448)**	(743,264)
Net assets	**23,477,794**	27,157,456
Goodwill	**8,071,646**	8,045,817
	31,549,440	35,203,273

	2008 *KD*	*2007* *KD*
Share of associates' revenue and results:		
Revenues	**203,479**	5,874,313
Results	**(2,853,940)**	4,187,491

13 INVESTMENTS IN SUBSIDIARIES AND GOODWILL

The consolidated financial statements include the financial statements of The Securities House K.S.C. (Closed) (the parent company) and significant subsidiaries listed as follow**:**

Name	*Country of incorporation*	*% equity interest* ***2008***	*2007*
Securities House Real Estate Company K.S.C. (Closed) ("SHRE")	Kuwait	**92%**	100%
Gatehouse Bank plc	United Kingdom	**76%**	100%
Global Securities House for Economic & Financial Consultancy K.S.C.(Closed) ("GSH")	Kuwait	**100%**	100%
New Technology Bottling Company K.S.C. (Closed)	Kuwait	**100%**	100%
Kuwait Boxes Carton Manufacturing Company K.S.C. (Closed)	Kuwait	**100%**	100%
Securities House for Industrial Consultancy W.L.L.	Kuwait	**100%**	100%
Streamlink Communications W.L.L.	Kuwait	**100%**	100%
Saji Real Estate Company K.S.C. (Closed)	Kuwait	**90%**	90%
Modern Cables Manufacturing Company K.S.C. (Closed)	Kuwait	**100%**	100%
National Joint Holding Group Company K.S.C. (Closed)	Kuwait	**100%**	100%
National Industrial Products Company K.S.C. (Closed)	Kuwait	**100%**	100%
Hassa Aggregates Company K.S.C. (Closed)	Kuwait	**100%**	100%
Held through SHRE			
Al-Shaab National Real Estate Company K.S.C. (Closed)	Kuwait	**100%**	90%
Emirates and Kuwait Real Estate Company L.L.C.	United Arab Emirates	**80%**	-
Kuwait Medical Gate Company K.S.C. (Closed)	Kuwait	**100%**	-
Held through GSH			
GSH USA LLC	USA	**100%**	100%
Global Securities House UK Ltd	United Kingdom	**91%**	100%
Global Securities House France S.A.S.	France	**100%**	100%

13 INVESTMENTS IN SUBSIDIARIES AND GOODWILL (continued)

During the year, the parent company participated in the share capital increase of two of its subsidiaries, Securities House Real Estate Company K.S.C.C. and Gatehouse Bank plc.

During the year, the parent company sold an interest in Gatehouse Bank plc for a total consideration of KD 1,444,965 and a realised gain on sale amounting to KD 8,241.

Details of net movement on goodwill are as follows:

	2008	*2007*
	KD	*KD*
At 1 January	-	1,037,521
On acquisition of Palms Agro Production Company K.S.C. C.	-	30,676
On sale of Palms Agro Production Company K.S.C. C. (Note 5)	-	(224,882)
On sale of YIACO Medical Company, K.S.C. C. (Note 5)	-	(500,000)
On Saji Real Estate Company K.S.C.C.'s sale of property under development.	-	(148,009)
Impairment in goodwill related to Saji Real Estate Company K.S.C.C.	-	(195,306)
At 31 December	-	-

14 INVESTMENT PROPERTIES

These represent two pieces of land owned by two subsidiary companies and one property under development held by another subsidiary company for future use as an investment property. These properties are stated at fair value, which have been determined based on valuations performed as at 31 December 2008 by accredited independent valuers who are industry specialists in valuing these types of investment properties.

The group has early implemented the amendment to IAS 40: *Investment Property* that was issued in May 2008. As a result, the group classified certain property under development with a carrying value of KD 40,288,768 as an investment property as at 31 December 2008 and carried it at fair value as of the same date.

As at 31 December 2008, the group recognized unrealised gains on investment properties amounting to KD 18,683,779.

15 PROPERTY, PLANT AND EQUIPMENT

	Construction in process	*Buildings*	*Machinery, plant and equipment*	*Furniture, fixture and Office equipment*	*Motor vehicles*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
Cost:						
At 1 January 2008	9,009,870	527,656	3,112,846	1,366,646	470,542	14,487,560
Additions	3,836,352	670	1,897,435	1,150,429	315,676	7,200,562
Transfers	(822,921)	822,921	-	-	-	-
Disposals	-	-	(40,601)	(422,868)	(153,586)	(617,055)
Impairment in value	(580,000)	-	-		-	(580,000)
Exchange adjustment	-	-	-	(175,968)	-	(175,968)
At 31 December 2008	**11,443,301**	**1,351,247**	**4,969,680**	**1,918,239**	**632,632**	**20,315,099**
Accumulated depreciation:						
At 1 January 2008	-	207,535	1,346,305	580,836	282,742	2,417,418
Charge for the year	-	60,170	385,544	392,511	104,338	942,563
Disposals	-	-	(4,957)	(346,808)	(125,201)	(476,966)
Exchange adjustment	-	-	-	(28,908)	-	(28,908)
At 31 December 2008	-	**267,705**	**1,726,892**	**597,631**	**261,879**	**2,854,107**
Net book value						
At 31 December 2008	**11,443,301**	**1,083,542**	**3,242,788**	**1,320,608**	**370,753**	**17,460,992**

15 PROPERTY, PLANT AND EQUIPMENT (continued)

	Construction in process KD	*Buildings KD*	*Machinery, plant and equipment KD*	*Furniture, fixture and office equipment KD*	*Motor vehicles KD*	*Total KD*
Cost:						
At 1 January 2007	6,271,409	6,298,582	14,085,678	5,165,135	1,579,042	33,399,846
Additions	3,011,204	-	149,043	982,858	33,213	4,176,318
Disposals	(13,700)	-	(8,450)	(81,491)	(39,486)	(143,127)
Discontinued operations (Note 5)	(210,067)	(5,770,926)	(11,113,425)	(4,681,563)	(1,102,227)	(22,878,208)
Impairment in value	(48,976)					(48,976)
Exchange adjustment	-	-	-	(18,293)	-	(18,293)
At 31 December 2007	9,009,870	527,656	3,112,846	1,366,646	470,542	14,487,560
Accumulated depreciation:						
At 1 January 2007	-	1,502,830	6,770,292	2,910,970	725,484	11,909,576
Charge for the year	-	118,119	438,865	403,581	116,276	1,076,841
Disposals	-	-	(5,483)	(4,207)	(18,964)	(28,654)
Discontinued operation (Note 5)	-	(1,413,414)	(5,857,369)	(2,729,508)	(540,054)	(10,540,345)
At 31 December 2007	-	207,535	1,346,305	580,836	282,742	2,417,418
Net book value						
At 31 December 2007	9,009,870	320,121	1,766,541	785,810	187,800	12,070,142

Depreciation charge for the year is allocated as follows:

	2008 KD	*2007 KD*
Charged to cost of sales from commercial activities	**371,340**	549,408
Charged to general and administration expenses	**571,223**	527,433
	942,563	1,076,841

At year end, the group tested property, plant and equipment for impairment, which resulted in the recognition of an impairment of KD 580,000 (2007: 48,976) in the consolidated income statement.

16 SHARE CAPITAL, DIVIDENDS AND DIRECTORS' REMUNERATION

	Authorised		*Issued and fully paid*	
	2008	*2007*	***2008***	*2007*
	KD	*KD*	***KD***	*KD*
Shares of 100 fils each at 1 January	**45,208,800**	37,674,000	**45,208,800**	37,674,000
Bonus issue	**11,302,200**	7,534,800	**11,302,200**	7,534,800
Rights issue	**11,302,200**	-	**11,302,200**	-
Employee share purchase plan (Note 18)	**436,800**	-	**186,800**	-
Shares of 100 fils each at 31 December	**68,250,000**	45,208,800	**68,000,000**	45,208,800

In the annual general meeting held on 27 March 2008, the shareholders approved the following:

- ***Cash dividend***

A cash dividend of 25% of paid up share capital (2007: 30%) for the year ended 2007 to the equity holders of the parent company on the register as of 27 March 2008.

- ***Share capital:***

The increase of authorised share capital from KD 45,208,800 (452,088,000 shares of 100 fils each) to KD 68,250,000 (682,500,000 shares of 100 fils each) through:

  - ***Bonus shares:***
    The issuance of 113,022,000 bonus shares of 100 fils equivalent to 25% of paid up share capital (2007: 20%) to the equity holders of the parent company on the register as of 27 March 2008.

  - ***Rights issue:***
    The issuance of 113,022,000 shares through a rights issue of 25% of paid up share capital at 275 fils per share made up of par value of 100 fils and share premium of 175 fils (2007: Nil).

  - ***Employee share purchase plan:***
    The issuance of 4,368,000 shares through an employee share purchase plan of 0.97% of paid up share capital at 300 fils per share made up of par value of 100 fils and share premium of 200 fils. As of 31 December 2008, 1,868,000 shares have been granted (Note 18).

The board of directors of the parent company have recommended non distribution of dividends to the parent company's shareholders for the year ended 31 December 2008. This proposal is subject to the approval of the ordinary general assembly of the shareholders of the parent company.

No remuneration was proposed to Directors for the year ended 31 December 2008 (2007: KD 25,000) and is subject to approval by the ordinary general assembly of the shareholders of the parent company.

17 RESERVES

Share premium
The share premium account is not available for distribution.

Statutory reserve
In accordance with the Law of Commercial Companies and the parent company's articles of association, 10% of the profit for the year before directors' fees, contribution to Kuwait Foundation for the Advancement of Sciences, Zakat and National Labour Support Tax is required to be transferred to the statutory reserve. No transfer has been made to statutory reserve, since losses have been incurred during the year. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of paid-up share capital.

Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

General reserve
No transfer has been made to statutory reserve, since losses have been incurred during the year. There are no restrictions on the distribution of this reserve.

Treasury share reserve
Reserves equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable in the parent company.

18 EMPLOYEES' SHARE PURCHASE PLAN RESERVE

During the year, the parent company granted 1,868,000 (2007: Nil) equity-settled stock options to eligible employees under the employee share purchase plan (Note 16). The vesting of the options and shares is dependent on eligible employees remaining in service for a period of 12 months from date of grant.

The parent company recognised expense of KD 345,456 (2007: Nil) which is included under staff costs related to equity-settled share-based payment transactions during the year. All options were exercised during the year at a weighted average exercise price of 300 fils per share and there were no options outstanding as at 31 December 2008.

The weighted average fair value of options granted during the year was KD 545,456.

The following table lists the inputs to the Black-Scholes option pricing model for the stock options granted during 2008:

	2008
Dividend yield (%)	4.00%
Expected volatility (%)	22.60%
Risk – free interest rate (%)	5.75%
Expected life of option (years)	1
Share price on the date of grant (fils)	600
Weighted average exercise price of stock option granted (fils)	300
Value of stock option granted (fils)	292

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

19 TREASURY SHARES

	2008	*2007*
Number of shares held	**27,005,911**	23,237,751
Percentage of shares held	**4.0%**	5.1%
Cost (KD)	**16,367,649**	15,715,315
Market value (KD)	**10,127,217**	17,893,068

During the year, the parent company sold treasury shares for a gain of KD 5,309,705 (2007: loss of KD 245,066). The full amount of the gain (loss) has been transferred to (deducted from) "treasury share reserve" within shareholders' equity.

20 MURABAHA PAYABLE

	2008	*2007*
Short-term murabaha with maturity within 1 year	**123,663,086**	139,403,215
Long-term murabaha with maturity above 1 year	**66,632,307**	29,689,664
	190,295,393	169,092,879

Murabaha payable represents the value of assets purchased on a deferred settlement basis.

Short-term facilities carry profit rates varying from 8.25% to 9.00% (2007: 6.00% to 9.00%). Long-term facilities carry profit rates varying from 8.50% to 11.00% (2007: 6.00% to 8.99%) per annum.

Of the murabaha payable, facilities amounting to KD 1,942,829 (2007: KD 4,001,692) are secured against property, plant and equipment related to a subsidiary company amounting to KD 2,532,577 (2007: KD 7,789,201).

21 ACCOUNTS PAYABLE AND ACCRUALS

	2008 ***KD***	*2007* *KD*
Trade accounts and notes payable	**1,708,210**	875,689
Advances received from customers	**7,039,587**	3,398,143
Payable under construction of a property under development	**3,600,000**	-
Staff payables	**922,546**	1,515,425
Other payables (see below)	**2,342,906**	2,307,280
Accruals	**9,683,702**	6,774,405
	25,296,951	14,870,942

Other payables include an amount of KD 522,700 which represents a provision made in relation to a legal claim filed against the company (Note 28).

22 EMPLOYEES' END OF SERVICE BENEFITS

In accordance with Kuwait labour law, the group provides for end of service benefits for its employees.

Movements in the provision recognised in the consolidated balance sheet are as follows:

	2008 ***KD***	*2007* *KD*
Provision as at 1 January	**1,460,848**	3,264,828
Amount charged for the year	**465,470**	439,369
Employees' end of service benefits paid	**(264,794)**	(515,709)
Discontinued operations (Note 5)	**-**	(1,727,640)
Provision as at 31 December	**1,661,524**	1,460,848

23 RELATED PARTY TRANSACTIONS

These represent transactions with certain parties (major shareholders, directors and executive officers of the parent company, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties) entered into by the group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the group's management.

Related party balances and transactions consist of the following:

	Other related parties 2008 KD	*Other related parties 2007 KD*
Realised gain on sale of investments	**-**	167,556
Dividends	**723,438**	995,594
Realised gain on sale of an investment property	**-**	1,500,550
Management fee - managed funds	**500,170**	732,755
Restructuring and arranging fees	**170,468**	1,293,836
Placement fees	**90,875**	400,000

Key management compensation:

	2008 ***KD***	*2007* *KD*
Salaries and other short term benefits	**1,538,286**	2,883,878
Employees end of services benefit	**412,130**	218,147
Share based payment	**176,474**	-
	2,126,890	3,102,025

Consolidated balance sheet:	***2008***	*2007*
Accounts receivable and prepayments:	***KD***	*KD*
Accrued management fees – managed funds	**236,338**	129,405
Accrued dividends – managed funds	**289,720**	153,060

Assets amounting to KD 19,079,251 (2007: KD 10,864,016) are being managed on behalf of related parties.

24 SEGMENTAL ANALYSIS

Primary segment analysis

The group's activities are in three primary areas as follows:

Proprietary investment management : Investing of group funds in securities and real estate, financing corporate and individual customers, and managing the group's liquidity requirements.

Asset management and advisory services : Discretionary and non-discretionary investment portfolio management, managing of local and international investment funds and providing advisory and structured finance services and other related investment services.

Commercial trading activities : Selling and distribution of manufactured and imported goods and services.

	Continuing Operations											
	Proprietary investment management		*Asset management and advisory services*		*Commercial trading activities*		*Total*		*Discontinued operations (Note 5)*		*Total operations*	
	2008 KD	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*
Segment revenues	**3,532,458**	20,937,118	**1,998,523**	3,341,247	**9,132,183**	8,833,820	**14,663,164**	33,112,185	**-**	37,522,007	**14,663,164**	70,634,192
Segment results	**(9,374,665)**	14,604,899	**2,432,444**	3,240,939	**(161,251)**	1,014,938	**(7,100,472)**	18,860,776	**-**	20,193,334	**(7,100,472)**	39,054,110
Unallocated expenses							**(1,104,833)**	(1,800,319)	**-**	-	**(1,104,833)**	(1,800,319)
Share of results of associates							**(2,853,940)**	4,187,491	**-**	-	**(2,853,940)**	4,187,491
Murabaha payable costs							**(14,552,885)**	(13,184,221)	**-**	(151,340)	**(14,552,885)**	(13,335,561)
Deductions							**-**	(209,182)	**-**	(575,997)	**-**	(785,179)
(Loss) profit for the year							**(25,612,130)**	7,854,545	**-**	19,465,997	**(25,612,130)**	27,320,542
Assets:												
Segment assets	**246,247,811**	227,506,204	**516,479**	586,587	**9,029,937**	5,812,911	**255,794,227**	233,905,702	**-**	-	**255,794,227**	233,905,702
Investment in associates	**29,192,226**	32,832,727	**2,357,214**	2,370,546	**-**	-	**31,549,440**	35,203,273	**-**	-	**31,549,440**	35,203,273
Unallocated assets	**26,621,812**	12,797,018	**-**	-	**1,742,086**	1,027,883	**28,363,898**	13,824,901	**-**	-	**28,363,898**	13,824,901
	302,061,849	273,135,949	**2,873,693**	2,957,133	**10,772,023**	6,840,794	**315,707,565**	282,933,876	**-**	-	**315,707,565**	282,933,876

24 SEGMENTAL ANALYSIS (continued)

	Continuing Operations											
	Proprietary investment management		*Asset management and advisory services*		*Commercial trading activities*		*Total*		*Discontinued operations (Note 5)*		*Total operations*	
	2008 KD	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*
Liabilities:												
Segment liabilities	**20,753,686**	12,318,980	**-**	-	**4,543,265**	2,551,962	**25,296,951**	14,870,942	**-**	-	**25,296,951**	14,870,942
Murabaha payable	**188,188,483**	168,707,600	**-**		**2,106,910**	385,279	**190,295,393**	169,092,879	**-**	-	**190,295,393**	169,092,879
Unallocated liabilities	**1,478,370**	1,322,217	**-**	-	**183,154**	138,631	**1,661,524**	1,460,848	**-**	-	**1,661,524**	1,460,848
	210,420,539	182,348,797	**-**	-	**6,833,329**	3,075,872	**217,253,868**	185,424,669	**-**	-	**217,253,868**	185,424,669
Other segmental information:												
Capital expenditure	**4,325,327**	3,328,700	**337,057**	2,175	**2,538,178**	523,103	**7,200,562**	3,853,978	**-**	322,340	**7,200,562**	4,176,318
Depreciation	**288,862**	43,660	**41,795**	2,803	**611,906**	503,941	**942,564**	550,404	**-**	526,437	**942,563**	1,076,841
Impairment losses on investments (Note 11)	**6,117,872**	4,844,216	**-**	-	**-**	-	**6,117,872**	4,844,216	**-**	-	**6,117,872**	4,844,216
Impairment losses on goodwill (Note 13)	**-**	-	**-**	-	**-**	195,306	**-**	195,306	**-**	-	**-**	195,306
Impairment losses on property, plant and equipment (Note 15)	**-**	-	**-**	-	**580,000**	48,976	**580,000**	48,976	**-**	-	**580,000**	48,976

24 SEGMENTAL ANALYSIS (continued)

Secondary segment information

The group operates in three geographical regions, Kuwait, Middle East and International. The group's segment revenues and assets in these regions are as follows:

	Continuing Operations											
	Kuwait		*Middle East*		*International*		*Total*		*Discontinued operations (Note 5)*		*Total operations*	
	2008 KD	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*	***2008 KD***	*2007 KD*
Segment revenues (losses)	**9,445,483**	28,872,918	**3,571,352**	12,428,353	**(1,207,611)**	(4,001,595)	**11,809,224**	37,299,676	**-**	37,522,007	**11,809,224**	74,821,683
Segment assets	**189,436,555**	175,695,814	**87,925,501**	66,989,813	**38,345,509**	40,248,249	**315,707,565**	282,933,876	**-**	-	**315,707,565**	282,933,876
Other segmental information:												
Capital expenditure	**6,999,053**	3,322,404	**-**	-	**201,509**	531,574	**7,200,562**	3,853,978	**-**	322,340	**7,200,562**	4,176,318

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, short-term murabaha investments, investments at fair value through income statement, available for sale investments, and certain accounts receivable. Financial liabilities consist of murabaha payable and certain accounts payable.

Fair values of all financial instruments, except for certain available for sale investments that are carried at cost as stated in Note 11, are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

Fair value of the financial assets carried at fair value through income statement and available for sale investments carried at fair value is based on the following:

	2008	*2007*
	KD	*KD*
Investments at fair value through income statement:		
Quoted market price	**5,175,707**	24,159,305
Valuation techniques –market observable inputs	**97,133,066**	113,867,811
	102,308,773	138,027,116
Available for sale investments:		
Quoted market price	**2,800,000**	-

26 RISK MANAGEMENT

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into profit rate risk, currency risk and equity price risk. The group is also subject to operational risk. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the group's strategic planning process.

26.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of financing activities. It also obtains security when appropriate.

Maximum exposure to credit risk and risk concentration
With respect to credit risk arising from the financial assets of the group, which comprise bank balances and cash, short-term murabaha investments, and certain accounts receivable, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of contractual financial instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The group's bank balances and short-term murabaha investments are held with high credit quality banks and financial institutions. In addition, receivable balances are monitored on an ongoing basis. As a result, the group's exposure to bad debts is not significant.

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

The table below shows the maximum exposure to credit risk and risk concentration for the contractual financial instruments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements or credit enhancements:

	Gross maximum exposure 2008 KD	*Gross maximum exposure 2007 KD*
Bank balances and short-term murabaha investments:		
- Local banks and financial institutions	**20,118,479**	9,128,894
- Foreign banks and financial institutions	**18,728,983**	3,682,036
	38,847,462	12,810,930
Trade receivables from local public sector:		
- Industrial sector	**732,956**	487,991
	732,956	487,991

26 RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

	Gross maximum exposure 2008 KD	*Gross maximum exposure 2007 KD*
Trade receivables from local private sector:		
- Industrial sector	**959,800**	549,617
- Real estate sector	**290,724**	411,907
- Information and telecommunication sector	**827,395**	283,705
	2,077,919	1,245,229
Total credit risk exposure	**41,658,337**	14,544,150

Collateral and other credit enhancements
The group does not have any collateral or other credit enhancements against any of the financial assets at 31 December 2008 and 31 December 2007.

Analysis of past due but not impaired
The amount of past due but not impaired financial assets at 31 December 2008 and 31 December 2007 is not significant.

Analysis of impaired financial assets
An estimate of the collectible amount of financial assets is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the balance sheet date, the provision for doubtful receivables is KD 38,661 (2007: KD 51,768). The decrease in the provision for doubtful receivables is on account of the subsidiaries disposed off during the year (Note 5). Any difference between the amounts actually collected in future period and the amounts expected will be recognised in the consolidated income statement.

26 RISK MANAGEMENT (continued)

26.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the group periodically assesses the financial viability of customers and invests in short-term murabaha or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

It is the group's policy that not more than 50% of borrowings should mature in the next 12 month period. The group is currently considers refinancing its short-term borrowings by medium to long-term financing arrangements. 65% of the group's borrowings will mature in less than one year at 31 December 2008 (2007: 82%) based on their carrying value reflected in the consolidated financial statements.

The table below summarises the maturity profile of the group financial liabilities based on contractual undiscounted repayment obligations.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future profit payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December is as follows:

31 December 2008	***Within 1 month KD***	***1 to 3 months KD***	***3 to 12 months KD***	***1 to 5 years KD***	***Total KD***
Murabaha payable	**49,290,522**	**19,319,817**	**55,052,747**	**66,632,307**	**190,295,393**
Future profit payable	**115,135**	**326,215**	**2,421,716**	**9,549,372**	**12,412,438**
Accounts payable and accruals	**2,147,658**	**3,083,664**	**6,126,682**	**6,899,360**	**18,257,364**
TOTAL FINANCIAL LIABILITIES	**51,553,315**	**22,729,696**	**63,601,145**	**83,081,039**	**220,965,195**
Commitments	**-**	**187,820**	**2,014,772**	**9,949,284**	**12,151,876**

31 December 2007	*Within 1 month KD*	*1 to 3 months KD*	*3 to 12 months KD*	*1 to 5 years KD*	*Total KD*
Murabaha payable	15,223,702	48,127,280	76,052,233	29,689,664	169,092,879
Future profit payable	2,897	87,597	2,138,055	5,186,788	7,415,337
Accounts payable and accruals	2,813,515	5,343,964	2,682,895	632,425	11,472,799
TOTAL FINANCIAL LIABILITIES	18,040,114	53,558,841	80,873,183	35,508,877	187,981,015
Commitments	537,500	11,019	1,618,348	13,256,946	15,423,813

26 RISK MANAGEMENT (continued)

26.3 MARKET RISK

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

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration as disclosed in Note 26.4, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

26.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The group is not exposed to profit rate risk on its profit bearing assets and liabilities (short-term murabaha investments and murabaha payable) as a result of reasonably possible changes in profit rates since the group is not exposed to any floating rate profit bearing assets and liabilities.

26.3.2 Foreign currency risk

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

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

26 RISK MANAGEMENT (continued)

26.3 MARKET RISK (continued)

26.3.2 Foreign currency risk (continued)

The effect on profit for the year before deductions (due to change in the fair value of monetary assets and liabilities) and on equity, as a result of change in currency rate, with all other variables held constant is shown below:

	Change in currency rate by 3%			
	31 December 2008		*31 December 2007*	
Currency	*Effect on profit before deductions KD*	*Effect on equity KD*	*Effect on profit before deductions KD*	*Effect on equity KD*
USD	**1,702,485**	**664,036**	1,037,212	796,810
GBP	**318,879**	**738,985**	45,280	245,143
Euro	**52,712**	**32,723**	77,175	41,495
QAR	**-**	**-**	160,427	-

26.3.3 Equity price risk

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

The effect on profit for the year before deductions (as a result of a change in the fair value of investments at fair value through income statement) and on equity (as a result of a change in the fair value of available for sale investments) due to a reasonably possible changes in active market indices, with all other variables held constant is as follows:

	Change in equity market index by 5%			
	31 December 2008		*31 December 2007*	
Market index	*Effect on profit before deductions KD*	*Effect on equity KD*	*Effect on profit before deductions KD*	*Effect on equity KD*
Kuwait	**227,119**	**196,000**	842,766	-
Qatar	**-**	**-**	205,881	-

Any change in fair values of unquoted investments valued based on price earnings ratios will have a corresponding change in equity and profit before deductions.

Investments in the category of available for sale investments category are in unlisted companies and therefore the group is not significantly exposed to equity price risk due to reasonably possible changes in active market indices.
The group's unquoted equity securities carried at cost in available for sale category where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated income statement will be impacted.

26.3.4 Prepayment risk

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.

26 RISK MANAGEMENT (continued)

26.4 CONCENTRATIONS

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

The distribution of assets by geographic region was as follows:

	2008	*2007*
	KD	*KD*
Geographic region		
- Kuwait	**189,436,555**	175,695,814
- Bahrain	**74,279,778**	56,946,113
- United States of America	**16,952,964**	23,167,763
- United Kingdom	**12,216,426**	9,499,328
- Saudi Arabia	**8,070,173**	3,817,100
- United Arab Emirates	**6,872,909**	713,200
- Europe	**2,832,027**	7,581,158
- Qatar	**1,436,641**	5,513,400
- Other	**3,610,092**	-
	315,707,565	282,933,876

The distribution of financial investments and investment properties by industry sector was as follows:

Industry sector		
- Real estate	**126,081,302**	94,212,882
- Banks and financial and investment institutions	**100,145,589**	129,434,389
- Services	**7,476,722**	8,386,196
- Oil and Gas	**2,895,656**	3,023,400
- Manufacturing	**2,811,790**	3,156,420
- Food and Agriculture	**1,652,180**	1,988,019
- Information Technology	**1,105,400**	1,369,460
- Others	**8,345,850**	7,192,810
	250,514,489	248,763,576

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for investments at fair value through income statement, available for sale investments and investment property is based on management's estimate of liquidation of those investments.

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

31 December 2008	***Up to 1 year KD***	***Over 1 year KD***	***Total KD***
Assets:			
Bank balances and cash	**12,267,592**	**-**	**12,267,592**
Short-term murabaha investments	**26,579,870**	**-**	**26,579,870**
Accounts receivable and prepayments	**7,042,725**	**-**	**7,042,725**
Inventories	**1,841,897**		**1,841,897**
Investments at fair value through income statement	**39,594,526**	**62,714,247**	**102,308,773**
Available for sale investments	**11,002,000**	**36,455,204**	**47,457,204**
Investment in associates	**-**	**31,549,440**	**31,549,440**
Investment properties	**36,000,000**	**33,199,072**	**69,199,072**
Property, plant and equipment	**-**	**17,460,992**	**17,460,992**
Total assets	**134,328,610**	**181,378,955**	**315,707,565**
Liabilities:			
Murabaha payable	**123,663,086**	**66,632,307**	**190,295,393**
Accounts payable and accruals	**18,397,591**	**6,899,360**	**25,296,951**
Employees' end of service benefits	**-**	**1,661,524**	**1,661,524**
Total liabilities	**142,060,677**	**75,193,191**	**217,253,868**

31 December 2007	*Up to 1 year KD*	*Over 1 year KD*	*Total KD*
Assets:			
Bank balances and cash	10,162,142	-	10,162,142
Short-term murabaha investments	2,648,788	-	2,648,788
Accounts receivable and prepayments	7,651,904	-	7,651,904
Inventories	1,637,324		1,637,324
Investments at fair value through income statement	24,159,305	113,867,811	138,027,116
Available for sale investments	-	34,330,724	34,330,724
Investment in associates	-	35,203,273	35,203,273
Investment properties	-	41,202,463	41,202,463
Property, plant and equipment	-	12,070,142	12,070,142
Total assets	46,259,463	236,674,413	282,933,876
Liabilities:			
Murabaha payable	139,403,215	29,689,664	169,092,879
Accounts payable and accruals	14,238,517	632,425	14,870,942
Employees' end of service benefits	-	1,460,848	1,460,848
Total liabilities	153,641,732	31,782,937	185,424,669

28 COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2008, the group's bankers have given bank guarantees amounting to KD 382,027 (2007: KD 6,142,311). At 31 December 2008, the group has an amount of KD 12,151,876 (2007: KD 15,423,813) in respect of capital commitments for purchase of investments and assets.

A claim was raised against the parent company and a subsidiary company by a former investment advisor (the "claimant"). The claim is with regard to unpaid past incentive fees on the disposal of a real estate investment in December 2006 and is based on a terminated advisory agreement. The group believes that the agreement was rightfully terminated long before the disposal of the investment and has appointed a legal advisor to defend the claim. Court proceedings are expected to begin in May 2009 and the group has been advised by its legal advisor that it is only remotely possible, but not probable, that the legal action filed by the claimant will succeed. A provision amounting to KD 522,700 was recorded to cover the likely costs that could be incurred including the legal advisor fees, and is included in other payables under "Accounts payable and accruals" (Note 21).

29 MANAGED PORTFOLIOS AND FUNDS

In its capacity as manager of portfolios and funds belonging to third parties, the parent company holds investments and bank accounts amounting to KD 124,749,519 (2007: KD 138,207,771) in its own name as a nominee for the third parties. These assets are not included in the consolidated balance sheet of the group. Income from the managed portfolios and funds amounts to KD 906,608 for the year ended 31 December 2008 (2007: KD 1,252,783).

30 ZAKAT

Zakat for shareholders is calculated according to the Shariah rules approved by the parent company's Fatwa and Shariah Supervisory Board. Zakat calculated amount as of 31 December 2008 is 5.1 fils (2007: 4.2 fils) per share.

In accordance with Law No. 46 of 2006 and as a result of the loss incurred for the year, the company has not deducted a provision of 1% of net profit subject to zakat for the year ended 31 December 2008. Zakat deducted for the year ended 31 December 2007 amounted to 0.3 fils per share.

Responsibility for payment of unsettled zakat amounting to 5.1 fils (2007: 3.9 fils) per share lies with the shareholders and not the parent company.

31 CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

The group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The group includes within net debt, profit bearing murabaha payable, financial accounts payable, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent adjusted by cumulative changes in fair value.

	2008	*2007*
	KD	*KD*
Profit bearing murabaha payable	**190,295,393**	169,092,879
Financial accounts payable	**18,257,364**	11,472,799
Less: Bank balances and cash and short term murabaha investments	**(38,847,462)**	(12,810,930)
Net debt	**169,705,295**	167,754,748
Capital - Equity attributable to the equity holders of the parent	**89,993,457**	93,707,747
Capital and net debt	**259,698,752**	261,462,495
Gearing ratio	**65.3%**	64.2%