

**THE PUBLIC WAREHOUSING COMPANY K.S.C.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE PUBLIC WAREHOUSING COMPANY K.S.C.

We have audited the accompanying consolidated financial statements of The Public Warehousing Company K.S.C. (the "Parent Company") and Subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2009, the related consolidated income statement, statements of comprehensive income and changes in equity and cash flow 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 is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
THE PUBLIC WAREHOUSING COMPANY K.S.C. (continued)****Basis of Qualified Opinion**

As further discussed in Note 29 (d) to the consolidated financial statements, during the year ended 31 December 2006, a performance guarantee amounting to KD 10.1 million was called by a counterparty in relation to non performance of obligations under a contract operated by a subsidiary of the Parent Company and encashed during the year ended 31 December 2007. The amount was not expensed in the consolidated financial statements in respect of the year ended 31 December 2006, which in our opinion, is not in accordance with International Financial Reporting Standards. We qualified our opinion in this regard on the consolidated financial statements for the years ended 31 December 2006, 2007 and 2008. During the year ended 31 December 2009, the expert department of the Ministry of Justice issued a report on this matter which stated that the verdict should be issued in favour of the subsidiary in respect of most of the issues arising from the case. Pending final court ruling on this matter, in our opinion, other current assets should be decreased by KD 10.1 million and retained earnings attributable to the equity holders of the Parent Company should be decreased by KD 6.1 million and non-controlling interests should be decreased by KD 4.0 million.

Qualified Opinion

In our opinion, except for the effect of the matter described in the Basis of Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without further qualifying our opinion, as more fully explained in Note 2 to the consolidated financial statements, the Parent Company was indicted by a federal grand jury in the United States on multiple counts of False Claims Act Violations. Furthermore, the United States Department of Justice also joined a civil qui tam lawsuit against the Parent Company under the False Claims Act. The Department of Justice is claiming substantial damages for alleged violations in both the criminal and civil proceedings. Certain Group Companies (including the Parent Company) are suspended from bidding for new contracts or renewing the existing contracts with the US Government pending the outcome of the lawsuit. The Group generates a substantial portion of its business from the US Government contracts. Prolonged suspension could have a material impact on the Group's government related business. The Group is engaged in settlement discussions with the US Department of Justice. The ultimate outcome of the matters set out above cannot presently be determined, and therefore no provision has been made in the consolidated financial statements.

Furthermore, we draw attention to the contingencies relating to investigation into the freight forwarding business and termination of lease agreements, as fully explained in Note 29 (a) and (b) respectively, to the consolidated financial statements.

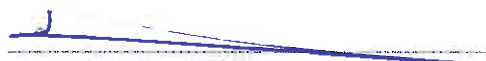
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE PUBLIC WAREHOUSING COMPANY K.S.C. (continued)

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 Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, 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 Parent Company's articles of association have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Parent Company or on its financial position.

A blue ink signature of Waleed A. Al Osaïmi, consisting of a stylized 'W' and 'A' followed by a horizontal line.

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

A blue ink signature of Nayef M. Al-Bazie, consisting of a stylized 'N' and 'M' followed by a horizontal line.

NAYEF M. AL-BAZIE
LICENCE NO. 91 A
Albazie & Co.
Member of RSM International

10 April 2010

Kuwait

The Public Warehousing Company K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

		2009 KD 000's	2008 KD 000's
ASSETS	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	4	256,818	222,106
Projects in progress	5	44,446	55,815
Investment properties	6	214,149	212,912
Intangible assets	7	13,051	15,496
Goodwill	8,9	267,097	235,228
Financial assets available for sale	10	120,052	113,720
Other non-current assets		48,762	46,528
Total non-current assets		964,375	901,805
Current assets			
Inventories	11	63,850	73,218
Trade receivables	12	340,456	321,619
Other current assets	13	101,319	91,748
Bank balances and cash	14	314,173	253,425
Total current assets		819,798	740,010
TOTAL ASSETS		1,784,173	1,641,815
EQUITY AND LIABILITIES			
Equity			
Share capital	15	104,684	104,684
Share premium	15	152,650	152,650
Statutory reserve	16	52,342	52,342
Treasury shares	17	(39,627)	(48,431)
Treasury shares reserve		44,366	43,356
Foreign currency translation reserve		(1,166)	(28,370)
Hedging reserve		(16,947)	(8,954)
Investment revaluation reserve		(584)	(618)
Retained earnings		645,246	488,819
Equity attributable to equity holders of the Parent Company		940,964	755,478
Non-controlling interests		11,972	30,921
Total equity		952,936	786,399
LIABILITIES			
Non-current liabilities			
Interest bearing loans	18	258,596	219,435
Provision for employees' end of service benefits	19	20,623	18,124
Other non-current liabilities	20	45,977	32,660
Total non-current liabilities		325,196	270,219
Current liabilities			
Trade and other payables	21	406,212	385,055
Interest bearing loans	18	94,357	165,627
Bonds		-	28,795
Dividends payable to equity holders		5,472	5,720
Total current liabilities		506,041	585,197
Total liabilities		831,237	855,416
TOTAL EQUITY AND LIABILITIES		1,784,173	1,641,815

Tarek Abdul Aziz Sultan
Chairman and Managing Director

The attached notes 1 to 36 form part of these consolidated financial statements.

The Public Warehousing Company K.S.C. and Subsidiaries

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 KD 000's	2008 KD 000's
Revenues			
Logistics and freight forwarding revenues	22	1,612,394	1,744,584
Rental revenues		30,452	25,878
Other services		62,596	65,224
Total revenues		1,705,442	1,835,686
Cost of revenues		(1,078,268)	(1,216,838)
Net revenues		627,174	618,848
Operating expenses			
General and administrative expenses	23	(156,676)	(151,343)
Salaries and employee benefits	24	(255,043)	(261,509)
Depreciation	4	(44,203)	(42,898)
Amortisation	7	(2,445)	(2,445)
Total operating expenses		(458,367)	(458,195)
Profit from operations		168,807	160,653
Other income			
Change in fair value of investment properties	6	(441)	4,259
Interest income		14,722	19,301
Miscellaneous income		1,265	213
Total other income		15,546	23,773
Finance costs		(17,995)	(26,008)
Profit for the year before taxation and Directors' remuneration		166,358	158,418
Taxation	25	(10,457)	(10,391)
Directors' remuneration		(140)	-
PROFIT FOR THE YEAR		155,761	148,027
Attributable to:			
Equity holders of the Parent Company		156,427	141,373
Non-controlling interests		(666)	6,654
		155,761	148,027
BASIC AND DILUTED EARNINGS PER SHARE	26	155.90 fils	138.34 fils

The attached notes 1 to 36 form part of these consolidated financial statements.

The Public Warehousing Company K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Profit for the year	155,761	148,027
Other comprehensive income:		
Foreign currency translation adjustments	27,508	(9,816)
Net loss on hedge of net investments (Note 18)	(7,993)	(8,318)
Net change in fair value of cash flow hedge	-	(636)
Net changes in fair value of financial assets available for sale	34	(19)
Other comprehensive income	19,549	(18,789)
Total comprehensive income for the year	175,310	129,238
Attributable to:		
Equity holders of the Parent Company	175,672	121,888
Non-controlling interests	(362)	7,350
	175,310	129,238

The attached notes 1 to 36 form part of these consolidated financial statements.

The Public Warehousing Company K.S.C. and Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Notes	2009 KD 000's	2008 KD 000's
OPERATING ACTIVITIES			
Profit for the year before taxation and Directors' remuneration		166,358	158,418
Adjustments for:			
Provision for impairment of trade receivables	12	4,799	7,723
Provision for employees' end of service benefits	19	8,460	8,488
Foreign currency exchange loss (gain)		2,706	(3,406)
Depreciation	4	44,203	42,898
Amortisation	7	2,445	2,445
Provision for share linked compensation and incentive plans	30	4,800	7,800
Change in fair value of investment properties	6	441	(4,259)
Interest income		(14,722)	(19,301)
Finance costs		17,995	26,008
Miscellaneous income		(1,265)	(213)
Operating profit before changes in working capital		236,220	226,601
Inventories		9,277	(6,910)
Trade receivables		(6,020)	20,739
Other current assets		(846)	(6,343)
Trade and other payables		15,525	3,620
Cash from operations		254,156	237,707
Taxation paid		(7,878)	(5,415)
Directors' remuneration paid		-	(165)
Payment made against share linked compensation and incentive plans	31	(4,318)	(1,383)
Employees' end of service benefits paid	19	(6,734)	(5,826)
Net cash from operating activities		235,226	224,918
INVESTING ACTIVITIES			
Net movement in financial assets available for sale		(1,992)	(17,737)
Additions to property, plant and equipment, net of disposals		(19,648)	(44,799)
Additions to projects in progress	5	(39,953)	(39,612)
Additions to investment properties	6	(584)	(3,997)
Acquisition of subsidiaries, net of cash acquired		(17,844)	(21,838)
Contingent consideration paid in respect of prior period acquisitions		(3,093)	(592)
Deferred consideration paid in respect of prior period acquisitions		(675)	-
Proceeds from disposal of a subsidiary		-	557
Acquisition of additional interest in subsidiaries		(12,444)	(5,898)
Refund of purchase consideration paid towards acquisition of subsidiaries in prior period		-	303
Interest income received		8,987	15,527
Net movement in deposits with original maturities exceeding three months		(89,476)	(41,658)
Net cash used in investing activities		(176,722)	(159,744)
FINANCING ACTIVITIES			
Receipt from minority shareholders as a result of additional share capital issued by the subsidiaries		294	3,714
Purchase of treasury shares		(6,243)	(69,834)
Proceeds from sale of treasury shares		16,057	22,260
Net movement in interest bearing loans		(45,875)	55,516
Repayment of bonds		(28,795)	-
Finance costs paid		(22,631)	(24,355)
Dividends paid to equity holders of Parent Company		(250)	(74,548)
Dividends paid to non-controlling interests		(734)	(9,966)
Net cash used in financing activities		(88,177)	(97,213)
Net foreign exchange differences		945	(3,276)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(28,728)	(35,315)
Cash and cash equivalents at 1 January		154,574	189,889
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	125,846	154,574

The attached notes 1 to 36 form part of these consolidated financial statements.

The Public Warehousing Company K.S.C. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009

Attributable to equity holders of the Parent Company											
	Foreign										
	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares reserve KD 000's	Hedging reserve KD 000's	Investment revaluation reserve KD 000's	Retained earnings KD 000's	Sub total KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
As at 1 January 2009	104,684	152,650	52,342	(48,431)	43,356	(28,370)	(618)	488,819	755,478	30,921	786,399
Profit for the year	-	-	-	-	-	-	-	156,427	156,427	(666)	155,761
Other comprehensive income	-	-	-	-	-	27,204	34	-	19,245	304	19,549
Total comprehensive income	-	-	-	-	-	27,204	34	156,427	175,672	(362)	175,310
Sale of treasury shares	-	-	-	15,047	1,010	-	-	-	16,057	-	16,057
Purchase of treasury shares	-	-	-	(6,243)	-	-	-	-	(6,243)	-	(6,243)
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	-	(16,833)	(16,833)
Issue of share capital by subsidiaries	-	-	-	-	-	-	-	-	-	294	294
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(2,048)	(2,048)
At 31 December 2009	104,684	152,650	52,342	(39,627)	44,366	(1,166)	(584)	645,246	940,964	11,972	952,936

The Public Warehousing Company K.S.C. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009

Attributable to equity holders of the Parent Company												
	Foreign											
	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares reserve KD 000's	Foreign currency translation reserve KD 000's	Hedging reserve KD 000's	Investment revaluation reserve KD 000's	Retained earnings KD 000's	Sub total KD 000's	Non-controlling interests KD 000's	Total Equity KD 000's
As at 1 January 2008	95,167	152,650	47,584	(1,035)	43,534	(17,858)	-	(599)	437,456	756,899	27,744	784,643
Profit for the year	-	-	-	-	-	-	-	-	141,373	141,373	6,654	148,027
Other comprehensive income	-	-	-	-	-	(10,512)	(8,954)	(19)	-	(19,485)	696	(18,789)
Total comprehensive income	-	-	-	-	-	(10,512)	(8,954)	(19)	141,373	121,888	7,350	129,238
Dividends for 2007 at 80 fils per share	-	-	-	-	-	-	-	-	(76,133)	(76,133)	-	(76,133)
Issue of bonus shares	9,517	-	-	-	-	-	-	-	(9,517)	-	-	-
Sale of treasury shares	-	-	-	22,438	(178)	-	-	-	-	22,260	-	22,260
Purchase of treasury shares	-	-	-	(69,834)	-	-	-	-	-	(69,834)	-	(69,834)
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,226)	(1,226)
Issue of share capital by subsidiaries	-	-	-	-	-	-	-	-	-	-	7,007	7,007
Acquisition of investments in subsidiaries	-	-	-	-	-	-	-	-	-	-	195	195
Effect of sale of investment in subsidiaries	-	-	-	-	-	-	-	-	398	398	(183)	215
Transfer to statutory reserve	-	-	4,758	-	-	-	-	-	(4,758)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(9,966)	(9,966)
At 31 December 2008	104,684	152,650	52,342	(48,431)	43,356	(28,370)	(8,954)	(618)	488,819	755,478	30,921	786,399

1 CORPORATE INFORMATION

The Public Warehousing Company K.S.C. (the "Parent Company") is a Kuwaiti shareholding company incorporated in 1979, and listed on Kuwait Stock Exchange and Dubai Stock Exchange. The address of the Parent Company's Head office is Sulaibia, beside Land Customs Clearing Area, P.O. Box 25418, Safat 13115, Kuwait. The Group operates under the brand name of "Agility".

The main objectives of the Parent Company are as follows:

- Construction, management and renting of all types of warehouses.
- Warehousing goods under customs' supervision inside and outside customs areas.
- Investing the surplus funds in investment portfolios.
- Participating in, acquiring or taking over companies of similar activities or those that would facilitate in achieving the Parent Company's objectives inside or outside Kuwait.
- All types of transportation, distribution, handling and customs clearance for goods.
- Customs consulting, customs automation, modernisation and decision support.

The principal activities of the subsidiaries are explained in Note 3.1.

The consolidated financial statements of the Parent Company and its subsidiaries (the "Group") for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 10 April 2010, and are issued subject to the approval of the Annual General Assembly of the shareholders of the Parent Company. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

2 SUBSISTENCE PRIME VENDOR AND OTHER CONTRACTS - US INVESTIGATION

During the year ended 31 December 2007, the Parent Company was served with an administrative subpoena and, subsequently in March 2008 with a grand jury subpoena, by the US Government in connection with an investigation into certain aspects of the Subsistence Prime Vendor ("SPV") Contract. In addition, some employees of the Group were served with civil investigative demands. The Parent Company cooperated with this investigation and produced numerous records in response to this request.

On 16 November 2009, the Parent Company was indicted by a federal grand jury in United States on multiple counts of False Claims Act violations. Furthermore, The United States Department of Justice also joined the civil qui tam lawsuit against the Parent Company under the US False Claims Act. The Department of Justice is claiming substantial damages for alleged violations in both the criminal and civil proceedings.

As a result of this indictment, certain Group companies (including the Parent Company) are suspended from bidding for new contracts or renewing the existing contracts with the US Government pending the outcome of the cases. However, the suspension does not affect continued performance of the existing contracts. Prolonged suspension could have a material impact on the Group's government related business and may result in the associated assets being impaired. The existing SPV Contract will expire in December 2010.

The Parent Company is in discussions with the US Government with a view to resolving the current legal cases with the US Department of Justice. However, there is no guarantee that the parties can reach a mutually agreeable settlement.

The Parent Company has agreed with the federal court to set a briefing schedule. The request for a briefing schedule is intended to preserve the Parent Company's rights while the Parent Company and the Department of Justice conduct discussions.

In addition, the US Department of Justice is currently conducting an informal investigation regarding two cost reimbursable US Government contracts in order to ascertain whether reimbursement requests for certain costs incurred by the Parent Company were proper.

Due to inherent uncertainty surrounding these cases, no provision is recorded by the management in the consolidated financial statements. The Parent Company (after consulting the external legal counsel) is not able to comment on the likely outcome of the cases.

31 December 2009

3.1 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and applicable requirements of Ministerial Order No. 18 of 1990.

Basis of measurement

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investment properties, financial assets available for sale and derivative financial instruments.

Functional and presentation currency

The consolidated financial statements are presented in Kuwaiti Dinars which is the Parent Company's functional currency. The figures in the consolidated financial statements are rounded to the nearest thousand (KD '000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries (the "Group") as at 31 December. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. 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 entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling 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 statement of financial position, separately from equity attributable to the equity holders of the Parent Company. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill. Disposals to non controlling interest result in gains and losses for the Group that are recorded in the consolidated income statement.

The results of the subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

The Public Warehousing Company K.S.C. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2009

3.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The principal subsidiaries of the Group are as follows:

Name of company	Effective equity interest as at 31 December		Country of incorporation
	2009	2008	
Global Express Transport Co. W.L.L.	100.00%	100.00%	State of Kuwait
PWC Transport Company W.L.L.	100.00%	100.00%	State of Kuwait
Agility DGS Logistics Services K.S.C.C.	100.00%	100.00%	State of Kuwait
*Gulf Catering Company for General Trading and Contracting W.L.L.	100.00%	51.00%	State of Kuwait
Metal Recycling Company K.S.C.C.	52.43%	53.29%	State of Kuwait
Global Clearing House Systems K.S.C.C.	60.60%	60.60%	State of Kuwait
Tristar Transport L.L.C. – Dubai	80.00%	80.00%	United Arab Emirates
Agility Logistics L.L.C.	100.00%	100.00%	United Arab Emirates
Agility Holdings Inc.	100.00%	100.00%	United States of America
Agility Project Logistics Inc.	100.00%	100.00%	United States of America
Agility Company L.L.C.	50.25%	50.25%	Saudi Arabia
Agility Logistics Private Limited	100.00%	100.00%	India
Agility Logistics GmbH	100.00%	100.00%	Germany
Agility Logistics Limited	100.00%	100.00%	Hong Kong
Agility Logistics International B.V	100.00%	100.00%	Netherlands
Agility International Logistics Pte Ltd.	100.00%	100.00%	Singapore
Agility Logistics Holdings Pte Ltd.	100.00%	100.00%	Singapore
Agility Logistics Corp.	100.00%	100.00%	United States of America
Agility Logistics Limited	100.00%	100.00%	United Kingdom

The principal activities of the subsidiaries as set out above are logistics and related services.

*On 23 June 2009, one of the subsidiaries of the Parent Company acquired the remaining 49% equity interest in Gulf Catering Company for General Trade and Contracting W.L.L. ("GCC"), a company registered in Kuwait, for a total consideration of KD 15,219 thousand. Following the acquisition of non-controlling interest, the Group owns 100% equity interest in GCC. As a result of this transaction, an amount of KD 1,338 thousand has been recorded in the consolidated income statement.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year except for the adoption of the following new and amended IASB Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations during the year:

- IFRS 2: (Revised) Share Based Payment
- IFRS 7: Financial Instruments: Disclosures (Amended)
- IFRS 8: Operating Segments
- IAS 1: Presentation of Financial Statements (Revised)
- IAS 16: Property, plant and equipment (Amended)
- IAS 19: Employee benefits (Amended)
- IAS 23: Borrowing cost (Revised)
- IAS 28: Investment in associates (Amended)
- IAS 31: Interest in Joint Ventures (Amended)
- IAS 32: Financial instruments: Presentation (Amended)
- IAS 36: Impairment of assets (Amended)
- IAS 38: Intangible assets (Amended)
- IAS 39: Financial instruments: recognition and measurement (Amended)
- IAS 40: Investment property (Amended)
- IFRIC Interpretation 15: Agreements for the construction of real estate
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (effective from the period beginning on or after 1 October 2008)

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The major changes related to the Group are:

IFRS 2 (Revised) Share Based Payment

IFRS 2 Share Based Payment, the amended standard, deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group adopted this amendment as of 1 January 2009.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Measurements related to items at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments. The amended standard also requires disclosing a reconciliation between the beginning and ending balance for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The fair value measurement disclosures and liquidity risk disclosures are not significantly impacted by the amendments.

IFRS 8 Operating Segments

The new standard which replaced IAS 14: Segment reporting requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in the segments being reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 32.

IAS 1 Revised Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented in a single reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income; it present all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The application of the interpretation did not have a material impact on the consolidated financial statements.

IAS 40 Investment Properties (Amended)

The improvements to IFRS project revised the scope of IAS 40 'Investment properties' such that property under construction or development for future use as an investment property is classified as investment property. Since the group follows 'fair value model', property under construction or development should be fair valued at each reporting date. If fair value cannot be reliably determined, property under construction or development will be measured at cost until such time as fair value can be determined or construction is complete. The application of this amended standard did not have a material impact on the consolidated financial statements because substantially all of the projects in progress are expected to be used as property, plant and equipment on completion.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the assets acquired, liabilities assumed and contingent liabilities. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, those adjustments that are probable and can be measured reliably are included in the cost of the combination at the acquisition date. If the future events do not occur or the estimate needs to be revised, the cost of the business combination is adjusted accordingly.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is allocated to each of the Group's cash-generating units or groups of cash generating units and is tested annually for impairment. 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 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.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of property, plant and equipment comprises their purchase price and any directly attributable costs of bringing an item of property, plant and equipment to its working condition and location. Expenditure incurred after the property, plant and equipment has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated income statement in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipment.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings and improvements	15 to 30 years
Tools, machinery and equipment	2 to 10 years
Vehicles and ships	2 to 10 years
Furniture and office equipment	3 to 5 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year the asset is derecognised. The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

Projects in progress

These are carried at cost less impairment, if any. Costs are those expenses incurred by the Group that are directly attributable to the construction of assets. Once completed, the assets are transferred to either investment properties or to property, plant and equipment, depending on the management's intended use of the asset.

Investment properties

Investment properties are initially recorded at cost being the fair value of the consideration given and including acquisition charges associated with the investment property. After initial recognition, the properties are re-measured to fair value on an individual basis with any gain or loss arising from a change in fair value being included in the consolidated income statement in the period in which it arises.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to subsequent lease.

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

The Group has classified certain assets held under long term operating leases as investment properties.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually or more frequently if events or change in circumstances indicate the carrying value may be impaired, either individually or at the cash generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Customer contracts

Customer contracts are amortised over the period of the respective expected future sales generated from the related contracts in the range of 5 to 10 years.

Customer lists

Customer lists are amortised over a period of 15 years, which is determined to be the expected period of benefit from holding these lists.

Brand

The brand is assumed to have an indefinite useful life and is subject to impairment testing on at least an annual basis.

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at reporting date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in foreign operations.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Assets (including goodwill) and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average rates of exchange for the foreign operation's period of operations. The resulting exchange differences are accumulated in a separate section of equity (foreign currency translation reserve) until the disposal of the foreign operation. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Financial assets and liabilities

The Group's financial assets includes "financial assets available for sale", "trade receivables", "cash and cash equivalents" and "derivative financial instruments" whereas the Group's financial liabilities includes "interest bearing loans", "bonds" and "trade payables".

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 carried at fair value through profit or loss, directly attributable transaction costs. Transaction costs on financial assets carried at fair value through profit or loss are expensed immediately, while on other debt instruments they are amortised.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as "loans and receivables". After initial measurement, financial assets available for sale are measured at fair value with unrealised gains or losses being recognised in other comprehensive income until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss previously recorded in other comprehensive income is recognised in the consolidated income statement.

Trade receivables

Trade receivables are stated at original invoice amount less provision for any doubtful accounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when incurred.

Cash and cash equivalents

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

Financial liabilities

Interest bearing loans

Interest bearing loans are carried on the consolidated statement of financial position at their principal amounts. Instalments due within one year are shown as current liabilities. Interest is charged as an expense as it accrues, with unpaid amounts included in 'accounts payable and accruals'.

Bonds

Bonds are carried at their principal amount in the consolidated financial statements, net of directly related cost of issuing the bonds to the extent that such cost has not been amortised.

These costs are amortised through the consolidated income statement over the life of the bonds using the effective interest rate method, interest is charged as expense as it accrues with unpaid amount included in other liabilities.

Trade payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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 or recent arm's length market transactions or discounted cash flow analysis or other valuation models.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the 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.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender 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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward rate agreements to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivative during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the consolidated income statement.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges(continued)

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while any ineffective portion is recognised immediately in the consolidated income statement. Amounts taken to other comprehensive income are transferred to consolidated income statement when the hedged transaction affects the consolidated income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to consolidated income statement.

Inventories

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

Impairment

Financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) may have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, an impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:

- for assets carried at fair value, impairment loss is the difference between carrying value and fair value,
- for assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate, and
- for assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Financial assets(continued)

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Reversal of impairment losses is recorded when there is an indication that the impairment losses recognised for the asset no longer exists or has decreased. The reversal of impairment losses are recognised in the consolidated income statement except for financial assets available for sale (other than debt instruments) which are recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than, investment property and inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's segment information reporting format determined in accordance with IFRS 8: Operating Segment.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been, subsequently reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to other comprehensive income. When treasury shares are re-issued, gains are credited to a separate account in other comprehensive income (the treasury shares reserve), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance in that account. Gains realised subsequently on the sale of treasury shares are used to offset any previously recorded losses in the treasury shares reserve. No cash dividends are paid on these shares. The issuance of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when, and only when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be incurred to settle the obligation.

Employees' end of service benefits

Kuwaiti employees

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits are charged to the consolidated income statement in the year to which they relate.

Expatriate employees in Kuwait

Expatriate employees are entitled to an end of service indemnity payable under the Kuwait Labor Law and the Group's by-laws based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard (IAS) 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the reporting date.

International

The Group has a number of defined benefit pension plans that cover a substantial number of employees. Retirement benefits are provided based on compensation as defined by local labour laws or employee contracts. The Group's policy is to fund these plans in accordance with local practice and contributions are made in accordance with independent actuarial valuations. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised gain or loss exceeds 10% of the higher of the defined benefit obligation and the fair value of the plan assets.

These gains and losses are amortised over the expected average remaining working lives of the employees. The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately. The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised reduced by past service cost not yet recognised and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognised immediately in the consolidated income statement to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognised in the consolidated income statement immediately.

Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognised immediately if the asset is measured at the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognised immediately.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment transactions

Certain employees of the Group receive remuneration in the form of share based payment transactions whereby employees render services in exchange for share options. Share options may be settled at the discretion of the Parent Company by paying cash equivalent to the theoretical value of the option at the date of exercise. The cost of services received from employees is recorded over the period in which service conditions are fulfilled under the intrinsic method of valuation.

Under this method, cost is determined by comparing the market value of the Parent Company's shares at each reporting date to the exercise price with any change in intrinsic value recognised in the consolidated income statement.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

A property interest that is held by the Group under an operating lease may be classified and accounted for as an investment property when the property otherwise meets the definition of an investment property, evaluated property by property, and based on management's intention. The initial cost of a property interest held under a lease and classified as an investment property is determined at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

Revenue recognition

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

Logistics revenue

Logistics revenue primarily comprises inventory management, order fulfilment and transportation services. Logistics revenue is measured at the fair value of consideration received or receivable for goods and services and is recognised upon completion of the services.

Freight forwarding and project forwarding revenues

The Group generates freight forwarding revenues by purchasing transportation capacity from independent air, ocean and overland transportation providers and reselling that capacity to customers. Revenues are recognised upon completion of services.

Rental revenue

Rental income arising on investment properties is accounted for on a straight line basis over the lease terms.

Interest income

Interest income is recognised as interest accrues using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Taxation on overseas subsidiaries

Certain of the Parent Company's subsidiaries are subject to taxes on income in various foreign jurisdictions. Taxes payable are provided on taxable profits at the current rate in accordance with the fiscal regulations in the country where the subsidiary is located.

National Labour Support Tax (NLST)

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

Zakat

The Group calculates Zakat in accordance with the requirements of law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated income statement.

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

3.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

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 on the amounts recognised in the consolidated financial statements:

Classification of financial assets

Management decides upon acquisition of an investment whether it should be classified as financial assets available for sale or financial assets carried at fair value through profit or loss.

Classification of financial assets at fair value through profit or loss depends on how management monitors the performance of those financial assets. When financial assets have readily available and reliable fair values and the changes in fair values are reported as part of the consolidated income statement in the management accounts, they are classified at fair value through profit or loss. All other financial assets are classified as financial assets available for sale.

Operating Lease Commitments – Group as Lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Fair values of assets and liabilities acquired

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

Contingencies

Contingent assets and liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of inflow or outflow respectively of resources embodying economic benefits is remote.

3.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS
(continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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:

Impairment of goodwill and intangible assets (with indefinite life)

The Group determines whether goodwill and indefinite life intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the respective asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill and intangible assets with an indefinite life at 31 December 2009 were KD 267,097 thousand and KD 4,721 thousand, respectively, (2008: KD 235,228 thousand and KD 4,721, respectively). More details are given in Notes 7, 8 and 9.

Valuation of investment properties

The Group carries its investment properties at fair value, with change in fair values being recognised in the consolidated income statement. Two methods were used to determine the fair value of the investment properties:

(a) Formula based discounted cash flow is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.

(b) Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

Valuation of unquoted financial assets

Valuation of unquoted financial assets 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; or
- other valuation models.

Pension and other post employment benefits

The cost of defined benefit pension plans and other post employment medical benefits is determined using independent actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability at 31 December 2009 is KD 20,623 thousand (2008: KD 18,124 thousand). Further details are given in Note 19.

Impairment of trade receivables

An estimate of the collectible amount of trade 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 is applied according to the length of time past due, based on historical recovery rates.

Valuation of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

3.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- IFRS 3R Business Combinations (*effective for the period beginning on or after 1 July 2009*)
- IFRS 9: Financial Instruments: Classification and Measurement (*effective from the period beginning on or after 1 January 2013*)
- IAS 24 (Revised 2009) Related Party Disclosures (*effective from the period beginning on or after 1 January 2011*)
- IAS 27R Consolidated and Separate Financial Statements (*effective from the period beginning on or after 1 July 2009*)
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (*effective from the period beginning on or after 1 July 2009*)
- IFRIC 9: Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement (*effective from the period beginning on or after 1 July 2009*)
- IFRIC 17: Distributions of Non-cash Assets to Owners (*effective from the period beginning on or after 1 July 2009*)
- IFRIC Interpretation 18: Transfers of Assets from Customers (*effective from the period beginning on or after 1 July 2009*)

Following are the major changes:

IFRS 3R Business Combinations

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 will replace IAS 32 and IAS 39 upon its effective date. The application of IFRS 9 will result in amendments to the classification and measurement of financial assets and liabilities of the consolidated financial statements of the Group. The amendments will be made in the consolidated financial statements when the standard becomes effective.

IAS 27R Consolidated and separate financial statements

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. 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. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

These amendments to the IAS 39 were issued in August 2009 and become effective for financial year beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situation. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

The Public Warehousing Company K.S.C. and Subsidiaries
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4 PROPERTY, PLANT AND EQUIPMENT

	<i>Buildings and improvements KD 000's</i>	<i>Tools, machinery and equipment KD 000's</i>	<i>Vehicles and ships KD 000's</i>	<i>Furniture and office equipment KD 000's</i>	<i>Total KD 000's</i>
Cost:					
1 January 2009	116,335	56,931	174,796	65,909	413,971
Additions	4,060	9,113	2,312	6,636	22,121
Transfer from projects in progress (Note 5)	37,828	3,700	2,802	7,339	51,669
Disposals	(1,151)	(1,043)	(2,979)	(883)	(6,056)
Arising on acquisition of subsidiaries	-	127	107	487	721
Exchange differences	6,065	1,641	1,298	3,499	12,503
31 December 2009	163,137	70,469	178,336	82,987	494,929
Accumulated depreciation:					
1 January 2009	(38,380)	(31,922)	(73,563)	(48,000)	(191,865)
Charge for the year	(7,429)	(5,243)	(18,692)	(12,839)	(44,203)
Disposals	1,127	1,024	1,357	718	4,226
Arising on acquisition of subsidiaries	-	-	(79)	(335)	(414)
Exchange differences	(2,240)	(1,504)	305	(2,416)	(5,855)
31 December 2009	(46,922)	(37,645)	(90,672)	(62,872)	(238,111)
Net book value:					
31 December 2009	116,215	32,824	87,664	20,115	256,818
31 December 2008	77,955	25,009	101,233	17,909	222,106

The Parent Company's buildings with a carrying value of KD 7,932 thousand (2008: KD 8,808 thousand) are erected on land leased from the Government of Kuwait for renewable periods ranging from five to twenty years.

5 PROJECTS IN PROGRESS

Projects in progress comprise the cost of assets acquired and under construction that are not available for use at the reporting date. These assets, once completed, will be used for providing logistics services and for generating rental and transportation revenues.

	<i>2009 KD 000's</i>	<i>2008 KD 000's</i>
At 1 January	55,815	30,588
Additions	39,953	39,612
Transfer to property, plant and equipment (Note 4)	(51,669)	(14,459)
Transfer to investment properties (Note 6)	(1,094)	-
Exchange differences	1,441	74
At 31 December	44,446	55,815

The Public Warehousing Company K.S.C. and Subsidiaries
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6 INVESTMENT PROPERTIES

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
At 1 January	212,912	204,656
Additions	584	3,997
Transfer from projects in progress (Note 5)	1,094	-
Changes in fair value	(441)	4,259
At 31 December	<u>214,149</u>	<u>212,912</u>

Investment properties are stated at fair value, which has been determined based on valuations performed by an accredited independent valuer, as at 31 December 2009 and 31 December 2008.

Lease periods range from five to twenty years and are renewable. All investment properties are located in Kuwait.

Included in investment properties is a property with a carrying value of KD 8,596 thousand (including revaluation gains of KD 665 thousand recorded in previous periods). This property is subject to ongoing litigation arising from a claim filed by and against the Parent Company with respect to certain lease contracts, which have been cancelled by the counterparty during the year ended 31 December 2006 (Note 29 (b)).

7 INTANGIBLE ASSETS

	<i>Customer contracts KD 000's</i>	<i>Customer lists KD 000's</i>	<i>Brand KD 000's</i>	<i>Total KD 000's</i>
Cost:				
At 1 January and 31 December 2009	9,894	7,271	4,721	21,886
Accumulated amortisation:				
At 1 January 2009	(4,712)	(1,678)	-	(6,390)
Charge for the year	(1,947)	(498)	-	(2,445)
31 December 2009	<u>(6,659)</u>	<u>(2,176)</u>	<u>-</u>	<u>(8,835)</u>
Net book value:				
31 December 2009	<u>3,235</u>	<u>5,095</u>	<u>4,721</u>	<u>13,051</u>
31 December 2008	<u>5,182</u>	<u>5,593</u>	<u>4,721</u>	<u>15,496</u>

Customer contracts, customer lists and brand represent intangible assets acquired through business combinations in previous years. The brand is assumed to have an indefinite useful life. The brand was acquired in August 2006 and is subject to impairment testing on an annual basis (Note 9).

8 GOODWILL

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Cost:		
At 1 January	240,506	209,526
Additions	18,333	31,313
Exchange differences	13,536	(333)
At 31 December	<u>272,375</u>	<u>240,506</u>
Impairment:		
At 1 January and 31 December	<u>5,278</u>	<u>5,278</u>
Net carrying value	<u>267,097</u>	<u>235,228</u>

8 GOODWILL (continued)

On 29 April 2009, the Group acquired 100% of share capital of Trafinsa, S.A.de C.V. ("Trafinsa"), a company registered in Mexico, for cash consideration of KD 2,084 thousand. Goodwill arising on acquisition amounted to KD 1,815 thousand, based on tentative estimates of fair value of net assets acquired. From the date of acquisition, Trafinsa contributed KD 144 thousand to the profits of the Group.

On 2 December 2009, the Group acquired 100% of the share capital of Itatrans RI Logistica Internacional S.A and Itatrans RI Servicos E Participacoes Ltda, companies registered in Brazil, for a cash consideration of KD 14,746 thousand. Goodwill arising on acquisition amounted to KD 14,478 thousand, based on the tentative estimates of the fair value of the net assets acquired. From the date of acquisition, both companies contributed KD 56 thousand to the profit of the Group.

The tentative estimate of fair values of the identifiable assets and liabilities acquired, are equivalent to their carrying values as on the date of acquisition.

The estimates referred to above, and the resultant goodwill, are subject to revision within twelve months of the acquisition date of the respective companies.

During the year, the management of the Parent Company finalised the purchase price allocation of subsidiaries acquired during the year ended 31 December 2008, and did not identify any additional intangible assets. Accordingly, the provisional goodwill arising in 2008 is considered as final.

9 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIFE

The Group has identified the following business activities as cash generating units:

- Global Integrated Logistics
- Defence and Government Services
- Infrastructure

The Group has also determined that the above constitute the cash-generating units for testing the impairment of goodwill and intangible asset with indefinite life.

Accordingly, the goodwill acquired through business combinations has been allocated to the cash generating units as follows:

Cash generating units	<i>Carrying amount of goodwill</i>	
	<i>2009</i>	<i>2008</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Global Integrated Logistics	225,529	195,955
Defence and Government Services	29,044	27,455
Infrastructure	12,524	11,818
Total	267,097	235,228

The recoverable amount of the cash generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management for 2010 and assuming an average annual growth rate of 8% for the four year period thereafter, which is in the range of the current short term growth rate for the logistics industry. The pre-tax discount rate applied to cash flow projections is 10% and cash flows beyond the 5 year period are extrapolated using 3% growth rate on a conservative basis.

Key assumptions used in value in use calculations

The calculation of value in use is sensitive to the following assumptions:

- Revenue;
- Earning Before Interest, Tax, Depreciation and Amortisation ("EBITDA");
- Discount rates; and
- Growth rate used to extrapolate cash flows beyond the budget period.

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9 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIFE (continued)

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Intangible asset with indefinite life

Intangible asset with indefinite life of KD 4,721 thousand (2008: KD 4,721 thousand) represents the brand which has been tested for impairment at the reporting date. In the opinion of the management, no impairment is considered necessary (Note 7).

10 FINANCIAL ASSETS AVAILABLE FOR SALE

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Unquoted equity securities	48,165	44,589
Unquoted debt securities	71,887	69,131
	<u>120,052</u>	<u>113,720</u>

Financial assets available for sale amounting to KD 14,100 thousand (2008: KD 13,635 thousand) are located in Kuwait. The balance of KD 105,952 thousand (2008: KD 100,085 thousand) are located outside Kuwait.

Financial assets available for sale are carried at cost due to the non availability of reliable measures of their fair values. The Parent Company's management has performed a detailed review of its unquoted financial assets to assess whether impairment has occurred in the value of these investments due to the impact of the global financial crisis. In the opinion of Group, based on currently available information, there is no evidence of impairment in the value of these unquoted securities.

11 INVENTORIES

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Goods for resale	43,398	47,311
Goods in transit	21,595	26,700
	<u>64,993</u>	<u>74,011</u>
Provision for obsolete and slow moving inventories	(1,143)	(793)
Total inventories at the lower of cost and net realisable value	<u>63,850</u>	<u>73,218</u>

Inventories of goods for resale and goods in transit mainly include items held in stock for delivery to logistics clients as part of logistics supply contracts.

The amount of write down of inventories recognised as an expense is KD 406 thousand (2008: KD 450 thousand) which is recognised in the cost of revenues.

12 TRADE RECEIVABLES

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Gross trade receivables	391,302	368,638
Provision for impairment of trade receivables	(50,846)	(47,019)
	<u>340,456</u>	<u>321,619</u>

Trade receivables are non-interest bearing and are generally on 30 to 60 days terms. As at 31 December 2009, trade receivables at initial value of KD 50,846 thousand (2008: KD 47,019 thousand) were impaired and fully provided for.

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12 TRADE RECEIVABLES (continued)

Movement in the provision for impairment of trade receivables were as follows:

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
At 1 January	47,019	42,357
Charge for the year (Note 23)	4,799	7,723
Amounts written off	(1,740)	(2,984)
Others (including exchange differences)	768	(77)
At 31 December	<u>50,846</u>	<u>47,019</u>

As at 31 December, the ageing analysis of trade receivables is as follows:

	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>					
		<i>< 30 days</i>	<i>30 to 60</i>	<i>60 to 90</i>	<i>90 to 120</i>	<i>> 120 days</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>days</i> <i>KD 000's</i>	<i>Days</i> <i>KD 000's</i>	<i>days</i> <i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
2009	221,531	51,821	20,137	9,311	7,954	29,702	340,456
2008	180,245	66,629	21,601	14,908	7,309	30,927	321,619

Unimpaired trade receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

Trade receivables include amounts denominated in the following major foreign currencies:

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
US Dollars	184,880	171,974
Euros	56,777	62,944
British Pounds	13,969	12,758
UAE Dirhams	9,933	13,165
	<u>265,559</u>	<u>260,841</u>

13 OTHER CURRENT ASSETS

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Advances to suppliers	27,355	22,720
Prepaid expenses and deposits	35,134	32,117
Staff receivables	1,685	2,409
Accrued income	14,422	10,545
Claims in dispute (Note 29 (d))	10,092	10,092
Other assets	12,631	13,865
	<u>101,319</u>	<u>91,748</u>

The Public Warehousing Company K.S.C. and Subsidiaries
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14 BANK BALANCES AND CASH

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Cash at banks and on hand	61,071	89,593
Short term deposits	64,775	64,981
Cash and cash equivalents	125,846	154,574
Deposits with original maturities exceeding three months	188,327	98,851
	314,173	253,425

Included in bank balances and cash are balances amounting to KD 76,439 thousand (2008: KD 90,414 thousand) held by banks in Kuwait whereas the balance of KD 237,734 thousand (2008: KD 163,011 thousand) are held by foreign banks situated outside Kuwait.

Short term deposits (with original maturities up to three months) are placed for varying periods of one day to three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. Term deposits (deposits with original maturities exceeding three months) earn interest ranging from 3.7 % to 6.3 % per annum (2008: 4.5% to 7.7% per annum).

Included in bank balances and cash are balances denominated in foreign currencies amounting to KD 231,997 thousand (2008: KD 135,709 thousand), mainly in US Dollars, United Arab Emirates Dirhams and Qatar Riyals.

15 SHARE CAPITAL AND SHARE PREMIUM

a) Share capital

Authorised, issued and paid-up capital consists of 1,046,836,709 shares (2008: 1,046,836,709 shares) of 100 fils per share (2008: 100 fils per share).

On 25 May 2008, the shareholders at the extraordinary general assembly meeting of the Parent Company approved the increase in authorised share capital to 1,284,754,150 shares (nominal value of each share is 100 fils). The legal formalities to increase the authorized share capital to 1,284,754,150 shares are still in progress.

b) Share premium

The share premium is not available for distribution.

16 STATUTORY RESERVE

In accordance with the Kuwait Commercial Companies Law and the Parent Company's Articles of Association, the Parent Company has resolved to discontinue the annual transfer of 10% of net profit for the year since the statutory reserve equals 50% of paid up share capital.

Distribution of the statutory reserve up to the amount equivalent to 50% of paid up share capital is limited to the amount required to enable the payment of a dividend of up to 5% of paid up share capital in years when accumulated profits are not sufficient for the payment of such dividend.

17 TREASURY SHARES

	<i>2009</i>	<i>2008</i>
Number of treasury shares	39,358,640	47,443,640
Percentage of issued shares	3.76%	4.53%
Market value in KD 000's	22,434	29,415
Cost in KD 000's	39,627	48,431

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18 INTEREST BEARING LOANS

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Loan of US\$ 525,000 thousand obtained from a club of foreign banks in May 2008 and is repayable in May 2011.	150,596	144,848
Loan of SGD 298,000 thousand obtained from a foreign bank in May 2008 and is repayable in October 2011.	57,716	51,925
Loan of US\$ 100,000 thousand obtained from a foreign bank in April 2008 and is repayable in instalments commencing from October 2009.	22,948	27,590
Loan of KD 100,000 thousand obtained from a local bank in October 2007 and is repaid during the year.	-	25,000
Loan of US\$ 234,160 thousand obtained from a local bank in October 2007 and is repayable in semi-annual instalments commencing from June 2009.	51,364	68,975
Loan of US\$ 60,000 thousand obtained from a foreign bank in 2004 and the final amount as at 31 December 2009 is repayable in July 2010.	4,303	9,738
Loan of US\$ 75,000 thousand obtained from a foreign bank in October 2008 and is repayable in September 2010.	21,513	20,689
Other loans	44,513	36,297
	352,953	385,062

The terms of the loan agreements require the Parent Company to meet certain financial covenants. At 31 December 2009, these covenants have been met. Floating interest rate loans amounting to KD 341,616 thousand (2008: KD 385,062 thousand) carry margins ranging from 0.65 % to 2.75% per annum (2008: 0.65% to 2.75% per annum) over LIBOR.

The following table shows the current and non-current portions (analysed by currency) of the Group's loan obligations:

	<i>Current portion KD 000's</i>	<i>Non-current portion KD 000's</i>	<i>Total KD 000's</i>
Kuwaiti Dinars	5,007	4,650	9,657
US Dollars	71,426	183,612	255,038
Euros	2,119	803	2,922
Singapore Dollars (SGD)	129	58,034	58,163
Others	15,676	11,497	27,173
Balance at 31 December 2009	94,357	258,596	352,953
 Balance at 31 December 2008	 165,627	 219,435	 385,062

Included in interest bearing loans are loans amounting to KD 12,846 thousand (2008: KD 11,465 thousand) which are held by subsidiaries in the Group. Trade receivables and certain other assets of the respective subsidiaries are pledged as collateral against these loans.

Included in interest bearing loans is an amount of KD 6,500 thousand (2008: KD 8,500 thousand) in a subsidiary, Global Clearing House Systems K.S.C. (Closed) on a non-recourse basis. The net worth of this subsidiary at 31 December 2009 is negative KD 36,210 thousand. The Parent Company is only liable for losses equal to the contributed share capital of the subsidiary amounting to KD 3,030 thousand at the reporting date. Certain assets of the subsidiary amounting to KD 26,355 thousand have been pledged as collateral against this loan.

18 INTEREST BEARING LOANS (continued)

Hedge of net investments in foreign operations

Included in interest bearings loans at 31 December 2009 are loans denominated in US\$ (hedging instrument) of US\$ 785,000 thousand, which has been designated as a hedge of the net investments in the overseas subsidiaries (with functional currency US dollars) and are being used to hedge the Group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of interest bearings loans are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in these subsidiaries. Foreign exchange loss arising on translation of the hedging instruments amounting KD 7,993 thousand (2008: KD 8,318 thousand) were taken to other comprehensive income (Hedging reserve).

19 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Movements in the provision recognised in the consolidated statement of financial position are as follows:		
Provision at 1 January	18,124	15,758
Provided during the year	8,460	8,488
Employees' end of service benefits paid	(6,734)	(5,826)
Exchange differences	773	(296)
Provision at 31 December	<u>20,623</u>	<u>18,124</u>

As a result of previous acquisitions, the Group assumed responsibility for defined benefit plans for the employees of subsidiaries acquired. As at 31 December the status of the plan was as follows:

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Defined benefit obligation	(93,467)	(80,687)
Fair value of plan assets	74,657	69,728
Funded status of the plan	(18,810)	(10,959)
Unrecognised net actuarial loss	9,287	1,913
Assets not available to the Group	-	(192)
Unrecognized net transition obligation	127	159
Accrued benefit cost, net	<u>(9,396)</u>	<u>(9,079)</u>

The principal actuarial assumptions used for the plan referred to above, which forms the most significant component of the liability for employees' end of service benefits, are as follows:

	<i>2009</i>	<i>2008</i>
Discount rate at 31 December	5.20 %	5.89%
Expected rate of increase of employee remuneration	2.60 %	2.70%
Average length of employee service	5 years	5 years
Expected return on plan assets	5.68 %	5.81%

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19 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated statement of financial position for the respective plans:

Net benefit expense (recognised in general and administrative expenses)

	2009 KD 000's	2008 KD 000's
Current service cost	978	946
Interest cost on benefit obligation	3,775	4,006
Expected return on plan assets	(3,100)	(3,888)
Net actuarial (gain) loss recognised in the year	(91)	722
Variation of asset ceiling	(1)	(185)
Amortization of net obligation at transition	41	38
Net benefit expense	1,602	1,639

Changes in the present value of the defined benefit obligation are as follows:

	2009 KD 000's	2008 KD 000's
Defined benefit obligation at 1 January	80,687	92,096
Interest cost	3,775	4,006
Current service cost	978	946
Participant's contributions	593	-
Benefits paid	(4,224)	(2,142)
Actuarial losses (gains) on obligation	6,934	(8,807)
Benefits paid by employer	(4)	-
Exchange differences	4,728	(5,412)
Defined benefit obligation at 31 December	93,467	80,687

Changes in the fair value of plan assets are as follows:

	2009 KD 000's	2008 KD 000's
Fair value of plan assets at 1 January	69,728	77,840
Expected return	3,100	3,888
Contributions by employer	1,744	1,817
Benefits paid	(3,671)	(1,585)
Actuarial gains (losses)	4,357	(7,380)
Exchange differences	(601)	(4,852)
Fair value of plan assets at 31 December	74,657	69,728

20 OTHER NON-CURRENT LIABILITIES

	2009 KD 000's	2008 KD 000's
Lease obligations	5,324	5,725
Amounts due to related parties (Note 31)	22,451	7,862
Other liabilities	18,202	19,073
	45,977	32,660

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21 TRADE AND OTHER PAYABLES

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Trade payables	202,077	185,885
Amounts due to related parties (Note 31)	4,469	8,748
Accrued expenses	94,747	84,697
Accrued employee related expenses	55,449	53,229
Lease obligations	2,423	3,151
Taxation on overseas subsidiaries	576	2,859
KFAS payable	4,555	2,936
NLST payable	9,207	7,524
Zakat payable	3,485	1,667
Directors' remuneration	140	-
Retentions and other liabilities	29,084	34,359
	<u>406,212</u>	<u>385,055</u>

Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

22 LOGISTICS AND FREIGHT FORWARDING REVENUES

Revenues from logistics services and freight forwarding primarily represent revenues earned from providing goods and services to governmental institutions and other enterprises for their operations in various regions. Whilst the sales value of goods provided and services rendered during the year form the basis for calculating the billable amount of logistics services relating to inventory management and order fulfilment services, no profit margin is realised on these goods in accordance with the terms of the contract to which the provision of these goods relates.

23 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Repairs and maintenance	37,168	35,978
Professional fees	24,961	31,936
Rent	28,771	26,338
Travel and marketing	12,963	16,856
Customs fees	12,468	12,462
Communication	9,568	9,643
Restructuring expenses	7,302	969
Insurance	5,879	4,856
Provision for impairment of trade receivables (Note 12)	4,799	7,723
Other expenses	12,797	4,582
	<u>156,676</u>	<u>151,343</u>

24 SALARIES AND EMPLOYEE BENEFITS

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Salaries	227,186	230,290
Employee benefits	27,857	31,219
	<u>255,043</u>	<u>261,509</u>

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25 TAXATION

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
National labour support tax (NLST)	4,095	3,702
Kuwait Foundation for the Advancement of Sciences (KFAS)	1,639	1,433
Zakat	1,639	1,570
Taxation on overseas subsidiaries	3,084	3,686
	<u>10,457</u>	<u>10,391</u>

Deferred tax arising in overseas locations is not material to the consolidated financial statements.

26 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing profit for the year attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year as follows:

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Profit for the year attributable to equity holders of the Parent Company	<u>156,427</u>	<u>141,373</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of paid up shares	1,046,836,709	1,046,836,709
Weighted average number of treasury shares	(43,424,668)	(24,935,946)
Weighted average number of outstanding shares	<u>1,003,412,041</u>	<u>1,021,900,763</u>
	<i>Fils</i>	<i>Fils</i>
Basic and diluted earnings per share	<u>155.90</u>	<u>138.34</u>

27 DIVIDENDS

During the board meeting held on 10 April 2010, the Board of Directors of the Parent Company has recommended cash dividend of 40 fils per share for the year ended 31 December 2009. This proposal is subject to approval by the shareholders' annual general meeting.

On 20 May 2009, the shareholders at the annual general assembly of the Parent Company, approved the consolidated financial statements for the year ended 31 December 2008 and approved that neither cash dividend nor bonus shares should be paid for the year ended 31 December 2008.

28 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments that derive their value with reference to the underlying interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivatives held as cash flow hedges

Derivatives used to hedge the change in cash flow of its financial assets and liabilities and which qualify as effective hedging instruments are classified as derivatives held as cash flow hedges.

Forward rate agreements

Forward rate agreements are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future.

28 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivatives held for trading

Derivatives used for hedging purpose but which do not meet the qualifying criteria for hedge accounting are classified as 'Derivatives held for trading'. The Group deals in the following derivative instruments to manage the interest rate risk and foreign exchange positions:

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time in order to manage the interest rate risk on the interest bearing assets and liabilities.

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date to manage the foreign currency positions.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analysed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount KD 000's</i>	<i>Notional amounts by term to maturity</i>	
				<i>Within one year KD 000's</i>	<i>1 - 5 years KD 000's</i>
2009					
<i>Derivatives held for trading:</i>					
Interest rate swaps	-	469	16,883	16,883	-
Foreign currency swaps	-	56	80,084	80,084	-
Forward foreign exchange contracts	100	-	245,514	245,514	-
	<u>100</u>	<u>525</u>	<u>342,481</u>	<u>342,481</u>	<u>-</u>
	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount KD 000's</i>	<i>Notional amounts by term to maturity</i>	
				<i>Within one year KD 000's</i>	<i>1 - 5 years KD 000's</i>
2008					
<i>Derivatives held for trading:</i>					
Interest rate swaps	-	610	25,358	9,750	15,608
Foreign currency swaps	-	1,780	29,044	29,044	-
<i>Derivatives held as cash flow hedges:</i>					
Forward rate agreements	-	636	282,797	282,797	-
	<u>-</u>	<u>3,026</u>	<u>337,199</u>	<u>321,591</u>	<u>15,608</u>

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29 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Letters of guarantee	87,348	52,216
Operating lease commitments	44,462	24,470
Capital commitments	12,177	9,652
	<u>143,987</u>	<u>86,338</u>

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Within one year	10,259	6,364
After one year but not more than five years	24,136	13,343
More than five years	10,067	4,763
	<u>44,462</u>	<u>24,470</u>

Capital commitments mainly relate to the construction of warehouses to be used in the Group's logistics operations.

Included in letters of guarantee are bank guarantees for KD 31,372 thousand, provided by a bank on behalf of the subsidiary, Global Clearing House Systems K.S.C. (Closed), to the General Administration of Customs in the State of Kuwait. These guarantees are issued by the bank on a non-recourse basis to the Group. The net worth of the subsidiary at 31 December 2009 is negative KD 36,210 thousand. The Parent Company is only liable for losses equal to the contributed share capital of the subsidiary amounting to KD 3,030 thousand. During the year ended 31 December 2007 the Department of Customs called a guarantee of KD 10,092 thousand. As further explained below, the subsidiary did not charge this payment to the income statement.

Legal claims

(a) Freight forwarding business - investigation

In October 2007, certain subsidiaries (involved in the freight forwarding business) in the Group along with other major players in the freight forwarding industry received requests for information from the competition authorities of the EU, the United States and other jurisdictions in connection with an industry-wide investigation into the setting of surcharges and fees. These subsidiaries are fully cooperating with the respective authorities.

In July 2009, a subsidiary was named as a defendant in a class action lawsuit filed in the Eastern District of New York, along with a number of other freight forwarding companies, regarding surcharges and fees for services. In November 2009, the defendants filed motions to dismiss the claims that are currently pending before the court. The ultimate outcome of this litigation is uncertain at this time.

On 26 November 2009 the Italian competition authority (ICA) opened an investigation into the activities of some 20 freight forwarding companies. The existence of the Italian investigation is recorded in a decision by the ICA opening formal proceedings and naming Agility. Those allegations will need to be formally confirmed by the ICA in due course in a statement of objections.

In February 2010, the European Commission issued a Statement of Objections ("SO") to the Parent Company and two of its subsidiaries. The SO alleges that certain infringements of EU competition law were committed by the subsidiaries. The Commission's final decision is not expected until late 2010 or 2011.

As at 31 December 2009, due to inherent uncertainty surrounding these investigations, the Group's management (after consulting the external legal counsel) is not able to comment on the likely outcome of the investigations and in view of the difficulty in quantifying any potential liabilities in this regard, no provision is recorded in the accompanying consolidated financial statements.

29 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

Legal claims (continued)

(b) Lease agreements

On 27 November 2006, and based on the recommendation by the Ministers' Council, the Minister of Commerce & Industry issued the Resolution No. 30/2006 to terminate three contracts of those concluded between the Parent Company and the Public Authority of Industry for Mina Abdulla Zone, Kuwait.

The Parent Company protested against this order through case No. 940/2006 "Administrative". In the Hearing held on 25 December 2006, the court pronounced its ruling to repeal the aforesaid Resolution of the Minister of Commerce & Industry and its resultant impacts. The Parent Company has filed an appeal at Supreme Court and the case is now subject to review by Supreme Court.

However, the Government requested the Board of Public Authority of Industry to hold a meeting chaired by the Minister of Commerce & Industry, who issued a new resolution No. 1/2007 to terminate the same contracts being the subject of the previous Resolution.

The Parent Company again protested against the new resolution through case No. 36/2007 and assured, in its statement of defence, which is in agreement with the provisions of the law, as confirmed by the Supreme Court including the Kuwait Court of Cessation, that the new Resolution is void, because it has been made on the same subject of the previous resolution. In the opinion of external legal counsel, the court shall pronounce its judgment to revoke the new Resolution issued by the Public Authority of Industry, because it has been based on wrong objects. The Resolutions issued by the governmental authorities are merely of financial concerns that shall be resolved by the courts to establish the Parent Company's rights in such contracts.

The Parent Company is in the process of performing an assessment of the final losses arising from the aforementioned Resolutions, so that a claim can be filed with the Government of Kuwait for recovery of these amounts.

The Parent Company has not recognised any revenue on the aforementioned contracts during the year.

On 9 January 2007 the Ministry of Finance terminated the Al-Jahra Fish, Meat and Vegetables Market Project Contract with the Parent Company following the Resolution issued by the Council of Ministers No. 2/2007. The Parent Company appealed against this resolution through Case No. 200/2007 Administrative -3. The Court of First Instance cancelled the resolution No. 2/2007 issued by the Ministry of Finance.

In January 2008, the Court of Appeal ruled in favour of the Parent Company whereby Al-Jahra Fish, Meat and Vegetables Market Project Contract is to be given back to the Parent Company. The Court of Appeal also ruled out that the Parent Company be compensated for losses and expenses that arose as a result of this case. The Ministry of Finance has filed an appeal against this rule and it is not settled yet. As a result of the ruling The Parent Company has taken back the project and commenced operating it.

(c) Prime Vendor Services Contract – legal dispute

A dispute had arisen between the Parent Company and Kamal Mustaffa Al-Sultan Company (the "third party") with respect to a partnership agreement dated 30 July 2002 for the purpose of bidding for the provision of services to the U.S. Government (the Prime Vendor Services Contract). The partnership agreement provided for the preparation of all infrastructure and assets required for that purpose. The Parent Company had submitted all evidences to the Execution Department in proof of the partnership not having any funds, assets or properties and the eventual non-existence of the partnership, as a consequence of the partners not providing any capital contributions to the partnership.

On 7 January 2008, the Supreme Court of Kuwait ruled in favour of the Parent Company confirming that the partnership agreement between the Parent Company and the third party was not legally enforceable and is void.

29 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

Legal claims (continued)

(d) Guarantee encashment

A Resolution was issued by the General Administration of Customs for Kuwait ("GAC") to cash a portion, amounting to KD 10,092 thousand of the bank guarantee submitted by Global Clearing House Systems K.S.C. (Closed) (the "Company"), a subsidiary of the Parent Company, in favour of GAC against execution. This Resolution is being appealed through case No. 224/2007 "Administrative - 7".

In the opinion of the Parent Company's external legal consulting firms the violations against which a portion of the bank guarantee provided has been encashed, are non-contractual violations, and in accordance with the law, believe that a verdict shall be issued in favour of the Company to return the encashed portion of the guarantee plus interest of 7%. The Company during the year, obtained a report from the expert department of Ministry of Justice on this matter which was in favour of the Company in respect of most of the issues arising from the case. The management is of the opinion that this matter is incidental and will be resolved in the courts in the near future and, accordingly, no expense should be recorded in the consolidated financial statements.

In addition to the above, the Group is involved in various claims and legal proceedings including employee compensation and contractor disputes. The in-house legal counsel of the Group believes that such claims are baseless and will not have a material adverse effect on the accompanying consolidated financial statements.

30 SHARE LINKED COMPENSATION AND INCENTIVE PLANS

Certain employees are eligible to participate in the share linked compensation and incentive plan. The exercise price of the units in the plan is equal to the market price of the shares on the date of grant. The units vest if the employee remains in service for periods up to a maximum seven years. At the exercise date, employees will receive the equivalent theoretical value of the units in cash at the Parent Company's discretion. For each grant, the underlying number of units and the associated exercise price are subsequently adjusted to immunise the value of such units from changes in the capital structure that result from share dividends, cash dividends, or other changes. The fair value of these units cannot be established reliably. Accordingly, the intrinsic valuation method has been used. The expense recognised relating to the share linked compensation and incentive plan for employee services received during the year ended 31 December 2009 is KD 3,000 thousand (2008: KD 6,000 thousand). The estimated liability in relation to units outstanding at the end of the year is KD 11,237 thousand (2008: KD 12,642 thousand).

The Group launched long term incentive plans starting from 2006 onwards for certain senior management employees under which the eligible employees are granted units, the value of which is determined by the performance of the Group, and in particular the Group's net income over a rolling three year performance cycle commencing from the year 2006 and ending in the year 2011. The vesting of the benefits under the incentive plans are based on certain conditions including but not limited to the achievement of performance targets, continuation of employment, etc. On vesting the employee will receive the payouts in cash or in form of phantom shares of the Parent Company's stock as laid out under the incentive plan. The expense recognised relating to the long term incentive plan for employee services received during the year ended 31 December 2009 is KD 1,800 thousand (2008: KD 1,800 thousand). The estimated liability in relation to units outstanding at the end of the year is KD 6,016 thousand (2008: KD 5,400 thousand).

31 RELATED PARTY TRANSACTIONS

As per the International Accounting Standard (IAS) 24: Related Party Disclosures, related parties represent shareholders, directors and key management personnel of the Group, and companies which they control or over which they exert significant influence. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions and balances with related parties are as follows:

<i>2009</i>	<i>Major shareholders KD 000's</i>	<i>Other related parties KD 000's</i>	<i>Total KD 000's</i>
Consolidated income statement			
Purchases (net of discounts)	-	46,742	46,742
Consolidated statement of financial position			
Amounts due to related parties	80	26,840	26,920
<i>2008</i>	<i>Major shareholders KD 000's</i>	<i>Other related parties KD 000's</i>	<i>Total KD 000's</i>
Consolidated income statement			
Purchases (net of discounts)	-	44,501	44,501
Consolidated statement of financial position			
Amounts due to related parties	560	16,050	16,610

Amounts due to related parties are disclosed in Notes 20 and 21. These balances have arisen as a result of transactions made in the ordinary course of the business.

Compensation of key management personnel

The remuneration of directors (executives) and other members of key management during the year were as follows:

	<i>2009 KD 000's</i>	<i>2008 KD 000's</i>
Short-term benefits	6,906	6,517
Share-based payments	2,400	3,900
	<u>9,306</u>	<u>10,417</u>

Short term benefits include discretionary bonus amounting to KD 4,307 thousand (2008: KD 4,298 thousand) awarded to key management personnel.

Board of Directors' remuneration of KD 140 thousand (2008: nil) is subject to approval by the ordinary general assembly of the equity holders' of the Parent Company.

The terms of the share linked compensation and incentive plans are disclosed in Note 30. During the year KD 4,318 thousand (2008: KD 1,383 thousand) has been paid under this scheme.

Related party transactions are subject to approval of the shareholders during the forthcoming general assembly.

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32 OPERATING SEGMENT INFORMATION

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

For management reporting purposes, the Group is organised into business units based on their products and services produced and has two reportable operating segments as follows:

- **Logistics and Related Services;**

The Logistics and Related Services segment provides a comprehensive logistics offering to its clients, including freight forwarding, transportation, contract logistics, project logistics and fairs and events logistics.

- **Infrastructure**

The Infrastructure segment provides other services which include but not limited to trade facilitation, real-estate and private equity projects.

Year ended 31 December 2009	<i>Logistics and related services KD 000's</i>	<i>Infrastructure KD 000's</i>	<i>Adjustments and eliminations KD 000's</i>	<i>Consolidated KD 000's</i>
Revenue				
External customers*	1,640,328	64,673	-	1,705,001
Inter-segment	111,471	7,456	(118,927)	-
Total revenue	<u>1,751,799</u>	<u>72,129</u>	<u>(118,927)</u>	<u>1,705,001</u>
Result				
Segment profit	<u>165,989</u>	<u>7,994</u>	<u>(5,617)</u>	<u>168,366</u>
Other income				1,265
Interest income				14,722
Finance costs				(17,995)
Profit before taxation and directors' remuneration				<u>166,358</u>
Taxation and directors' remuneration				<u>(10,597)</u>
Profit for the year				<u>155,761</u>
Operating assets	<u>1,404,189</u>	<u>560,758</u>	<u>(180,774)</u>	<u>1,784,173</u>
Operating liabilities	<u>1,194,789</u>	<u>411,131</u>	<u>(774,683)</u>	<u>831,237</u>
Other disclosures				
Capital expenditure	50,257	4,249	5,680	60,186
Depreciation	38,862	3,431	1,910	44,203
Amortisation	2,445	-	-	2,445
Change in fair value of investment properties	-	(441)	-	(441)

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32 OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2008	<i>Logistics and related services KD 000's</i>	<i>Infrastructure KD 000's</i>	<i>Adjustments and eliminations KD 000's</i>	<i>Consolidated KD 000's</i>
Revenue				
External customers*	1,767,296	72,649	-	1,839,945
Inter-segment	114,496	7,010	(121,506)	-
Total revenue	<u>1,881,792</u>	<u>79,659</u>	<u>(121,506)</u>	<u>1,839,945</u>
Result				
Segment profit	<u>169,099</u>	<u>9,679</u>	<u>(13,866)</u>	164,912
Other income				213
Interest income				19,301
Finance costs				(26,008)
Profit before taxation and directors' remuneration				158,418
Taxation and directors' remuneration				(10,391)
Profit for the year				<u>148,027</u>
Operating assets	<u>1,232,424</u>	<u>506,657</u>	<u>(97,266)</u>	<u>1,641,815</u>
Operating liabilities	<u>1,044,116</u>	<u>387,705</u>	<u>(576,405)</u>	<u>855,416</u>
Other disclosures				
Capital expenditure	72,274	12,784	3,350	88,408
Depreciation	38,309	3,929	660	42,898
Amortisation	2,445	-	-	2,445
Change in fair value of investment properties	-	4,259	-	4,259

* Includes change in fair value of investment properties.

Capital expenditure consists of additions to property, plant and equipment, projects in progress and investment properties.

Included in logistics and related services is an amount of KD 1,036,335 thousand (2008: KD 1,193,224 thousand) and KD 715,464 thousand (2008: KD 688,568 thousand) generated by the Group from providing logistics services to commercial and government institutions respectively.

Geographic information

The following tables present information regarding the Group's geographical segments:

Revenue from external customers	<i>2009 KD 000's</i>	<i>2008 KD 000's</i>
Kuwait	708,243	724,432
Asia (Including middle east)	366,346	384,814
Europe	373,804	475,346
America	225,891	225,606
Africa	30,717	29,747
	<u>1,705,001</u>	<u>1,839,945</u>

The revenue information above is based on the location of the customers.

32 OPERATING SEGMENT INFORMATION (continued)

Geographic information (continued)

	2009 KD 000's	2008 KD 000's
Non-current assets		
Kuwait	385,968	397,398
Asia (Including middle east)	312,750	288,152
Europe	58,317	27,521
America	62,866	53,272
Africa	24,422	21,742
	<u>844,323</u>	<u>788,085</u>

Non-current assets for this purpose consist of property, plant and equipment, projects in progress, investment properties, intangible assets, goodwill and other non-current assets.

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

The Group has exposure to risks from its use of financial instruments and these risks are 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. The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group's financial assets comprise trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also holds financial assets available for sale, and enters into derivative transactions.

The Board of Directors of the Parent Company reviews and agrees policies for managing risks.. The Group's senior management provides assurance to the Group's Board of Directors of the Parent Company that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The major risks to which the Group is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value are outlined below.

Risk mitigation

As part of its overall risk management, the Group uses or may choose to use derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

Excessive risk concentration

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 geographical location.

In order to avoid excessive concentrations and the risk arising there from, the Group monitors them on an ongoing basis. Identified concentrations of credit risks are controlled and managed accordingly.

8% (2008: 11%) of accounts receivable represents amounts outstanding from governmental institutions of high repute, accordingly, this is not considered to represent significant credit risk. There are no other significant concentrations of credit risk.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and other receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored and proper actions is taken.

Credit risk from balances with banks and financial institutions is managed by Group's treasury in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2009 and 2008 is the carrying amounts at the reporting date.

Gross maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk across financial assets before credit risk mitigation:

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Bank balances	307,747	246,445
Trade receivables	340,456	321,619
Other receivables	37,778	36,463
	<u>685,981</u>	<u>604,527</u>

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a periodic basis.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations:

	<i>Less than 1 month KD 000's</i>	<i>1 to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>1 to 5 years KD 000's</i>	<i>Total KD 000's</i>
Financial liabilities					
2009					
Interest bearing loans	3,570	2,289	109,052	246,479	361,390
Trade and other payables	47,448	74,561	284,203	-	406,212
Total financial liabilities	<u>51,018</u>	<u>76,850</u>	<u>393,255</u>	<u>246,479</u>	<u>767,602</u>
2008					
Interest bearing loans	342	5,892	195,845	207,220	409,299
Trade and other payables	31,160	62,320	291,575	-	385,055
Bonds	-	651	29,446	-	30,097
Total financial liabilities	<u>31,502</u>	<u>68,863</u>	<u>516,866</u>	<u>207,220</u>	<u>824,451</u>

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk, and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, financial assets available for sale, and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as at 31 December 2009 and 2008.

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group also manages its interest rate risk by entering into interest rate swaps and forward rate agreements in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of Liabilities bearing interest. With all other variables held constant, the Group's profit before taxation and Directors' remuneration is affected through the impact on floating rate borrowings as follows.

	<i>50 basis points movement</i>	
	<i>Effect on consolidated income statement</i>	
	<i>2009</i>	<i>2008</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Liabilities bearing interest at floating rates (US Dollars)	1,502	1,736

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a currency other than Kuwaiti Dinar) and the Group's net investments in foreign subsidiaries.

The Group manages its foreign currency risk by use of derivative financial instruments and ensures that the net exposure is kept to an acceptable level.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the Kuwaiti Dinar exchange rate, with all other variables held constant, of the Group's profit before taxation and Directors' remuneration (due to changes in the fair value of monetary assets and liabilities including non designated foreign currency derivatives) and the Group's equity (due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges). The Group's exposure to foreign currency for all other currencies is not material.

	<i>Change in currency rate by 1 %</i>			
	<i>Effect on other comprehensive income</i>		<i>Effect on consolidated income statement</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
US Dollars	330	1,144	3,488	2,526

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Equity price risk

Equity price risk arises from changes in the fair values of equity investments. The Group is not exposed to equity price risk as all its equity investments are carried at cost as explained in Note 10.

Other risks

Other risks are substantially represented in business risks that are associated with the Group's various business activities in Iraq. The unpredictable climate and political instability in Iraq expose the Group to the risk of possible loss of assets and continuity of substantial logistics' business. In this regard, the Group takes appropriate security and insurance measures and ensures that its investment in supplies and other resources is commensurate with its short term business requirements.

34 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 2009 and 31 December 2008.

The Group includes within net debt, interest bearing loans and bonds less bank balances and cash. Capital includes equity attributable to the equity holders of the Parent Company less the investment revaluation reserve.

	2009 KD 000's	2008 KD 000's
Interest bearing loans	352,953	385,062
Bonds	-	28,795
Bank balances and cash	(314,173)	(253,425)
Net debt	38,780	160,432
Equity attributable to the equity holders of the Parent Company	940,964	755,478
Investment revaluation reserve	584	618
Equity	941,548	756,096
Gearing ratio	4%	21%

35 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amount approximates their fair value. The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (Note 10), are not materially different from their carrying values.

36 COMPARATIVE FIGURES

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present the items of consolidated statement of financial position and consolidated income statement. Such reclassifications do not affect previously reported total assets, total equity, total liabilities and profit reported in the prior year.