Consolidated financial statements and independent auditors' report

National Industries Group Holding – SAK and Subsidiaries

Kuwait

31 December 2007

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Grant Thornton
Anwar Al-Qatami & Co

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2007 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards

Report on Other Legal and Regulatory Requirements

In our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960 and by the parent company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law or of the articles of association, as amended, have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the group or on its financial position.

Anwar Y. Al-Qatami, F.C.C.A.
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Kuwait
17 March 2008

Consolidated statement of income

	Note	Year ended 31 Dec. 2007 KD '000	Year ended 31 Dec. 2006 KD '000
Sales		**117,458**	99,741
Cost of sales		**(90,102)**	(76,018)
Gross profit		**27,356**	23,723
Income from investments	6	**248,129**	80,230
Share of profits of associates		**19,737**	9,522
Interest and other operating income	7	**22,122**	15,485
Distribution costs		**(7,979)**	(6,566)
General, administrative and other expenses		**(24,127)**	(16,815)
		285,238	105,579
Finance costs	9	**(52,220)**	(30,990)
Profit on partial disposal of associates		**-**	559
Net profit on disposal of subsidiaries/businesses	10	**-**	69,605
Profit on disposal of property, plant & equipment		**2,215**	-
Impairment in value of goodwill		**(2,608)**	(1,250)
Impairment in value of associates and joint ventures		**(6,084)**	-
Gain on foreign exchange		**19,790**	3,157
Profit for the year before taxation, KFAS, NLST, Zakat and directors' remuneration		**246,331**	146,660
Taxation	11	**(616)**	428
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**(1,993)**	(1,828)
National Labour Support Tax (NLST)		**(4,746)**	(3,066)
Zakat provision	12	**(115)**	-
Directors' remuneration		**(200)**	(200)
Profit for the year	13	**238,661**	141,994
Attributable to :			
Shareholders of the parent		**209,364**	134,991
Minority interest		**29,297**	7,003
		238,661	141,994
Basic and diluted earnings per share	14	**185 Fils**	133 Fils

The notes set out on pages 9 to 43 form an integral part of these consolidated financial statements

Consolidated balance sheet

	Note	31 Dec. 2007 KD '000	31 Dec. 2006 KD '000
Assets			
Non-current assets			
Goodwill	15	**10,697**	13,586
Property, plant and equipment	16	**34,304**	31,465
Investment in associates	17	**235,653**	125,912
Investment in joint ventures		**-**	285
Investment properties		**-**	267
Available for sale investments	18	**846,206**	426,399
Deferred tax		**132**	151
Total non-current assets		**1,126,992**	598,065
Current assets			
Inventories	19	**23,323**	23,960
Accounts receivable and other assets	20	**129,232**	56,330
Murabaha and wakala investments	21	**33,883**	57,608
Investments at fair value through statement of income	22	**677,267**	456,165
Short-term deposits	32	**187,079**	248,758
Bank balances and cash	32	**17,894**	16,258
Total current assets		**1,068,678**	859,079
Total assets		**2,195,670**	1,457,144
Equity and liabilities			
Equity attributable to shareholders of the parent company			
Share capital	23	**117,736**	107,033
Treasury shares	24	**(27,156)**	(56,378)
Reserves	26	**303,723**	264,315
Cumulative changes in fair value		**215,451**	146,409
Retained earnings		**359,741**	260,404
Minority interest		**969,495**	721,783
		196,999	111,057
Total equity		**1,166,494**	832,840
Non-current liabilities			
Bonds and trust certificates	27	**171,227**	45,857
Long-term borrowings	28	**165,190**	79,710
Leasing creditors		**375**	59
Provisions	29	**9,558**	11,638
Total non-current liabilities		**346,350**	137,264
Current liabilities			
Accounts payable and other liabilities	30	**74,569**	52,203
Short-term borrowings	31	**571,211**	403,185
Due to banks	32	**37,046**	31,652
Total current liabilities		**682,826**	487,040
Total equity and liabilities		**2,195,670**	1,457,144

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

(S.A.K.)

The notes set out on pages 9 to 43 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to shareholders of the parent company							
	Share capital KD '000	Treasury shares KD '000	Reserves (Note 26) KD '000	Cumulative changes in fair value KD '000	Retained earnings KD '000	Sub - Total KD '000	Minority interest KD '000	Total KD '000
Balance at 1 January 2007	107,033	(56,378)	264,315	146,409	260,404	721,783	111,057	832,840
Changes in fair value of available for sale investments	-	-	-	70,663	-	70,663	18,571	89,234
Share of fair value adjustment in associates	-	-	-	27,932	-	27,932	-	27,932
Impairment in value of available for sale investments	-	-	-	2,000	-	2,000	-	2,000
Realised on sale of available for sale investments	-	-	-	(31,553)	-	(31,553)	-	(31,553)
Transfer of excess depreciation and realised on disposal	-	-	(309)	-	309	-	-	-
Currency translation differences	-	-	(520)	-	-	(520)	-	(520)
Net (expense)/income recognised directly in equity	-	-	(829)	69,042	309	68,522	18,571	87,093
Profit for the year	-	-	-	-	209,364	209,364	29,297	238,661
Total recognised (expense)/income for the year	-	-	(829)	69,042	209,673	277,886	47,868	325,754
Issue of bonus shares (Note 33)	10,703	-	-	-	(10,703)	-	-	-
Issue shares to staff by utilizing treasury shares (Note 25)	-	757	-	-	-	757	-	757
Profit on issue of shares to staff (Note 25)	-	-	562	-	-	562	-	562
Cash dividend to shareholders of the parent company (Note 33)	-	-	-	-	(71,421)	(71,421)	-	(71,421)
Purchase of treasury shares	-	(25,630)	-	-	-	(25,630)	-	(25,630)
Disposal of treasury shares	-	54,095	-	-	-	54,095	-	54,095
Profit on disposal of treasury shares	-	-	11,463	-	-	11,463	-	11,463
Transfer to reserves	-	-	28,212	-	(28,212)	-	-	-
Investment made by minority shareholders	-	-	-	-	-	-	49,098	49,098
Dividend paid to minority by the subsidiaries	-	-	-	-	-	-	(11,024)	(11,024)
	10,703	29,222	40,237	-	(110,336)	(30,174)	38,074	7,900
Balance at 31 December 2007	**117,736**	**(27,156)**	**303,723**	**215,451**	**359,741**	**969,495**	**196,999**	**1,166,494**

Consolidated statement of changes in equity (Continued)

	Equity attributable to shareholders of the parent company							
	Share capital KD '000	Treasury shares KD '000	Reserves (Note 26) KD '000	Cumulative changes in fair value KD '000	Retained earnings KD '000	Sub - Total KD '000	Minority interest KD '000	Total KD '000
Balance at 1 January 2006	74,674	(16,800)	115,639	202,342	247,777	623,632	49,878	673,510
Changes in fair value of available for sale investments	-	-	-	(40,275)	-	(40,275)	(1,025)	(41,300)
Share of fair value adjustment in associates	-	-	-	9,992	(2,583)	7,409	-	7,409
Impairment in value of available for sale investments	-	-	-	1,173	-	1,173	-	1,173
Realised on sale of available for sale investments	-	-	-	(25,733)	-	(25,733)	(6,292)	(32,025)
Realised on partial disposal of associates	-	-	-	(141)	-	(141)	-	(141)
Transfer of excess depreciation	-	-	(12)	-	12	-	-	-
Currency translation differences	-	-	(859)	-	-	(859)	10	(849)
Donation for the year 2005	-	-	-	-	(5,000)	(5,000)	-	(5,000)
Net expense recognised directly in equity	-	-	(871)	(54,984)	(7,571)	(63,426)	(7,307)	(70,733)
Profit for the year	-	-	-	-	134,991	134,991	7,003	141,994
Total recognised (expense)/income for the year	-	-	(871)	(54,984)	127,420	71,565	(304)	71,261
Issue of bonus shares	7,467	-	-	-	(7,467)	-	-	-
Transfer on disposal of subsidiaries	-	-	(2,614)	(949)	2,614	(949)	51,170	50,221
Distributing shares of subsidiary	-	-	-	-	(39,577)	(39,577)	-	(39,577)
Issue of shares to staff by utilizing treasury shares (Note 25)	-	1,059	-	-	-	1,059	-	1,059
Loss on issue of shares to staff (Note 25)	-	-	(62)	-	-	(62)	-	(62)
Cash dividend to shareholders of the parent company	-	-	-	-	(42,913)	(42,913)	-	(42,913)
Issue of shares	24,892	-	124,457	-	-	149,349	-	149,349
Purchase of treasury shares	-	(45,264)	-	-	-	(45,264)	-	(45,264)
Disposal of treasury shares	-	4,627	-	-	-	4,627	-	4,627
Profit on disposal of treasury shares	-	-	626	-	-	626	226	852
Transfer to reserves	-	-	27,140	-	(27,140)	-	-	-
Investment made by minority shareholders	-	-	-	-	-	-	11,880	11,880
Dividend paid to minority by the subsidiary	-	-	-	-	-	-	(1,683)	(1,683)
Share issue expenses incurred by subsidiary on increase of capital	-	-	-	-	(310)	(310)	(110)	(420)
	32,359	(39,578)	149,547	(949)	(114,793)	26,586	61,483	88,069
Balance at 31 December 2006	107,033	(56,378)	264,315	146,409	260,404	721,783	111,057	832,840

The notes set out on pages 9 to 43 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

	Year ended 31 Dec. 2007 KD '000	Year ended 31 Dec. 2006 KD '000
OPERATING ACTIVITIES		
Profit for the year before taxation, KFAS, NLST, Zakat and board of directors' remuneration	**246,331**	146,660
Adjustments:		
Depreciation of property, plant and equipment	**5,023**	4,640
Profit on disposal of property, plant and equipment	**(2,215)**	-
Impairment in value of goodwill	**2,608**	1,250
Impairment in value of associates and joint ventures	**6,084**	-
Share of profits of associates	**(19,737)**	(9,522)
Income from murabaha and wakala investments	**(3,311)**	(2,139)
Dividend income from available for sale investments	**(9,151)**	(4,081)
Profit on sale of available for sale investments	**(30,372)**	(42,353)
Impairment in value of available for sale investments	**2,000**	1,173
Profit on partial disposal of associates	-	(559)
Net profit on disposal of subsidiaries/businesses	-	(69,605)
Net provisions (released)/charged	**(660)**	105
Finance costs	**52,220**	30,990
Interest income	**(10,753)**	(8,403)
	238,067	48,156
Changes in operating assets and liabilities:		
Inventories	**637**	(230)
Accounts receivable and other assets	**(72,689)**	74,578
Investments at fair value through statement of income	**(236,295)**	(59,988)
Accounts payable and other liabilities	**18,726**	4,801
Cash (used in)/from operations	**(51,554)**	67,317
Taxation paid	**(500)**	(345)
KFAS contribution paid	**(1,492)**	(244)
Board of directors' remuneration paid	**(180)**	(200)
National labour support tax paid	**(3,429)**	(282)
Net cash (used in)/from operating activities	**(57,155)**	66,246

Consolidated statement of cash flows (continued)

	Note	Year ended 31 Dec. 2007 KD '000	Year ended 31 Dec. 2006 KD '000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(11,878)**	(8,822)
Proceeds from sale of property, plant and equipment		**3,921**	2,347
Cash invested on acquisition of subsidiary/businesses		**-**	(4,500)
Net cash inflow on disposal of subsidiaries/businesses		**-**	81,627
Proceeds from sale of investment property		**-**	1,588
Investment in associated companies		**(66,730)**	(5,591)
Proceeds from partial disposal of associates		**-**	914
Dividend received from associates		**6,653**	5,553
Decrease/(increase) in murabaha and wakala investments maturing after three months		**5,000**	(35,000)
Income received from murabaha and wakala investment		**3,311**	2,139
Purchase of available for sale investments		**(424,028)**	(175,166)
Proceeds from sale of available for sale investments		**98,765**	78,822
Dividend income received from available for sale investments		**9,151**	4,081
Interest income received		**12,520**	5,893
Net cash used in investing activities		**(363,315)**	(46,115)
FINANCING ACTIVITIES			
Proceeds from issue of shares		**-**	141,412
Decrease in bonds		**(3,102)**	(35,000)
Net increase in long-term borrowings		**85,480**	21,637
Issue of trust certificates		**128,472**	28,479
Finance lease receipt/(payments)		**365**	(1,510)
Net increase in short-term borrowings		**168,026**	151,033
Dividend paid		**(70,305)**	(42,764)
Finance costs paid		**(50,556)**	(31,624)
Purchase of treasury shares		**(25,630)**	(37,407)
Proceeds from sale of treasury shares		**65,558**	5,479
Increase in minority interest		**38,074**	9,430
Net cash from financing activities		**336,382**	209,165
Net (decrease)/increase in cash and cash equivalents		**(84,088)**	229,296
Translation difference		**(74)**	98
Cash and cash equivalents at beginning of the year		**(84,162)**	229,394
		255,972	26,578
Cash and cash equivalents at end of the year	32	**171,810**	255,972

The notes set out on pages 9 to 43 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
31 December 2007

1 Incorporation and Activities

National Industries Group Holding – SAK ("the parent company") was incorporated in 1961 as a Kuwaiti shareholding company in accordance with the Commercial Companies Law in the State of Kuwait and in April 2003, its status was transformed to a "Holding Company". The parent company along with its subsidiaries are jointly referred to as "the group". The parent company's shares are traded on the Kuwait Stock Exchange and Dubai Financial Market.

The main objectives of the parent company are as follows:

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

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

The board of directors of the parent company approved these consolidated financial statements for issuance on 17 March 2008. The general assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

2 Adoption of new and revised International Financial Reporting Standards

In the current year, the group has adopted IFRS 7 Financial Instruments: Disclosures, and the consequential amendments to IAS 1 Presentation of Financial Statements both effective for annual reporting periods beginning on or after 1 January 2007 and IFRIC 10 Interim Financial Reporting and Impairment effective for annual reporting periods beginning on or after 1 November 2006.

2 Adoption of new and revised International Financial Reporting Standards (continued)

IFRS 7 Financial Instruments: Disclosures
IFRS 7 Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends disclosure requirements previously set out in IAS 32 Financial Instruments: Presentation and Disclosures. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the group's financial statements now feature:

- A sensitivity analysis, to explain the group's market risk exposure in regards to its financial instruments, and
- Net gain or loss on each category of financial assets.

at each balance sheet date. The first time adoption of IFRS 7, however, has not resulted in any prior-period adjustments of cash flows, net income or balance sheet line items.

IAS 1 Presentation of Financial Statements
In accordance with the amendments to IAS 1 Presentation of Financial Statements, the group now reports on its capital management's objectives, policies and procedures in the annual financial report.

IFRIC 10 Interim Financial Reporting and Impairment
IFRIC 10 Interim Financial Reporting and Impairment prohibits impairment losses recognised in an interim period for goodwill and investments in equity instruments classified as available for sale investments and financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the group's financial statements.

The following new Standards and Interpretations which are yet to become effective have not been adopted:

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

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

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

IAS 1 Presentation of Financial Statements has been revised to require that an entity must present all non-owner changes in equity either in one statement of comprehensive income or in two separate statements (i.e. a statement of income and a statement of comprehensive income). Components of comprehensive income such as changes in revaluation surplus, gains and losses on remeasuring available for sale investments and gains and losses arising from translating the financial statements of foreign operation may not be presented in the statement of changes in equity.

The application of the revised standard is not expected to result in any prior period adjustments of cash flow, net income or balance sheet line items in the initial period of application.

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

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

2 Adoption of new and revised International Financial Reporting Standards (continued)

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)
- IFRIC 14 IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008)

Based on the group's current business model and accounting policies, management does not expect material impact on the group's financial statements in the period of initial applications of the above interpretations.

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

The following standards, amendments and interpretations are mandatory for reporting periods beginning on or after 1 January 2007 but they are not relevant to the group's operations:

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper-Inflationary Economies; and
- IFRIC 9 Reassessment of Embedded Derivatives.

3 Significant Accounting Policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2006. The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Basis of preparation
The consolidated financial statements of the group are prepared in accordance with International Financial Reporting Standards.

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

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2007, and the financial statements of its subsidiaries prepared to that date, or to a date not earlier than three months of the parent company's year end using consistent accounting policies. During the previous year the group decided to change the annual accounting period of the foreign subsidiaries for the purpose of consolidation to 30 November 2006 whereas in the year 2005 it was 31 December. Consequently, during the previous year the group had consolidated the foreign subsidiaries for the eleven months ended 30 November 2006 whereas in the current year these subsidiaries have been consolidated for the year ended 30 November 2007.

Necessary adjustments are made for the effects of significant transactions or other events that occur between the reporting date of the subsidiaries and 31 December 2007, the reporting date of the parent company. The details of the significant consolidated subsidiary companies are set out in Note 5 to the consolidated financial statements.

Subsidiaries are those enterprises controlled by the group and are fully consolidated from the date on which control is transferred to the group.

3 Significant Accounting Policies (continued)

Basis of consolidation (continued)
Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

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

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

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

Goodwill
Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated balance sheet. Goodwill arising on the acquisition of an associate is included within the carrying amount of the investment. Goodwill, which represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition, is measured at cost less impairment losses. Goodwill is tested for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to cash generating units.

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

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

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

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

Interest income
Interest income is recognised using the effective interest method.

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

3 Significant Accounting Policies (continued)

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

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

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

Share-based Payment
Certain employees of the parent company receive remuneration in the form of share-based payment transactions, whereby the employees render services in exchange for shares ("equity settled transactions").

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

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

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

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

Depreciation on the re-valued properties is charged to the consolidated statement of income over their remaining estimated useful lives and an amount equivalent to the excess depreciation charge relating to the increase in carrying amount is transferred each year from the revaluation reserve to retained earnings.

No depreciation is provided on freehold land. Properties in the course of construction for production or administrative purposes, are carried at cost, less any recognised impairment loss. Depreciation of these assets, are on the same basis as other property assets, commences when the assets are ready for their intended use.

3 Significant Accounting Policies (continued)

Investment in associates
An associate is a company over which the group has significant influence usually evidenced by holding of 20% to 50% of the voting power of the investee company. The consolidated financial statements include the group's share of the associates results using the equity method of accounting.

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the investee. The group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date the influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate, arising from changes in the associates equity that have not been recognised in the associate's statement of income. The group's share of those changes is recognised directly in equity. The financial statements of the associates are prepared either to the reporting date of the parent company or to a date not earlier than three months of the parent company's reporting date, using consistent accounting policies.

Unrealised gains on transactions with associates are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

Financial instruments
Classification
The group classifies financial assets upon initial recognition into the following categories:

i. Investments at fair value through statement of income
ii. Loans and receivables
iii. Available for sale investments

Financial liabilities are classified as "non trading financial liabilities". The group's financial liabilities are classified under "bonds and trust certificates", "Long term and short term borrowings", "Lease creditors", "accounts payable and other liabilities" and "due to banks" in the consolidated balance sheet.

Investments at fair value through statement of income are either "held for trading" or "designated" as such on initial recognition.

The group classifies investments as trading if they are acquired principally for the purpose of selling or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Investments are classified as designated at fair value through statement of income at inception if they have readily available reliable fair values and the changes in fair values are reported as part of the statement of income in the management accounts, according to a documented investment strategy.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The groups loans and receivables are classified under "accounts receivables and other assets", "murabaha and wakala investments", "short term deposits" and "bank balances and cash" in the consolidated balance sheet.

Financial assets which are not classified as above are classified as available for sale investments.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of these financial instruments at initial recognition.

3 Significant Accounting Policies (continued)

Measurement

Investments at fair value through statement of income

Investments at fair value through statement of income are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs.

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

Loans and receivables

Loans and receivables are stated at amortised cost using the effective interest rate method.

Available for sale investments

Available for sale investments are initially recognised at cost, being the fair value of the consideration given, plus transaction costs that are directly attributable to the acquisition.

Subsequent to initial recognition, available for sale investments are re-measured at fair value unless fair value cannot be reliably measured, in which case they are measured at cost less impairment, if any.

Changes in fair value of available for sale investments are recognised as a separate component in equity under "cumulative changes in fair value" account until the investment is either derecognised or determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income.

Financial liabilities

Non-trading financial liabilities are stated at amortised cost using the effective interest method.

Fair values

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

The determination of fair value is done for each investment individually.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place concerned.

Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument.

A financial asset (in whole or in part) is de-recognised when the contractual rights to receive cash flows from the financial asset has expired or the group has transferred substantially all risks and rewards of ownership and has not retained control. If the group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

3 Significant accounting policies (continued)

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

(a) For financial assets carried at fair value, impairment is the difference between cost and fair value; and
(b) For financial assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
(c) For financial assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for reversal of impairment losses related to equity instruments classified as available for sale, all other impairment reversals are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Impairment reversals in respect of equity instruments classified as available for sale are recognised in the cumulative changes in fair value reserve in equity.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

Taxation
Deferred taxation is provided in respect of all temporary differences. Deferred tax assets are recognised in respect of unutilised tax losses when it is probable that the loss will be used against future profits.

Inventories
Inventories are valued at the lower of cost and net realisable value. In respect of finished goods and work-in-progress, cost includes all direct costs of production and an appropriate proportion of production overheads. Cost of raw materials, consumables and spare parts is calculated using the weighted average cost method and provision is taken for slow moving and obsolete items.

Murabaha and wakala investments
These investments are financial assets which are treated as loans and receivables and are stated at amortised cost.

3 Significant Accounting Policies (continued)

Treasury shares
Treasury shares are stated at cost as a deduction within equity and they are not entitled to cash dividends.

Gains or losses resulting from the sale of treasury shares are taken directly to equity under "Gain on sale of treasury shares reserve". Should the reserve fall short of any losses from the sale of treasury shares, the difference is charged to retained profits then reserves, subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves then retained profits equal to the loss previously charged to these accounts.

Bonds payable and trust certificates
Bonds and trust certificates (Mudarabaha and Musharaka sukuk) are carried on the consolidated balance sheet at their principal amount, net of directly related costs of issuing the bonds/certificates to the extent that such costs have not been amortised. These costs are amortised through the consolidated statement of income over the life of the bonds/certificates using the effective cost rate method.

Finance cost is charged as an expense as it accrues, with unpaid amounts included in other liabilities.

Leasing and hire purchase
Assets acquired under finance leases and hire purchase arrangements are capitalised and the related liabilities, excluding finance charges, are included in liabilities. Finance charges in respect of such liabilities are charged to the consolidated statement of income. Operating lease rentals are written off on a straight-line basis over the lease period.

Wakala payables
Wakala payables represent Islamic financing arrangements, whereby the group receives funds for the purpose of financing its investment activities and they are stated at amortised cost.

Repurchase agreements
Investments sold with a simultaneous commitment to repurchase at a specified future date (repos) are retained in the consolidated financial statements under the relevant investment category. The counterparty liability for amounts received under these agreements is included in 'short term borrowings'. The difference between sale and repurchase price is treated as interest expense using the effective yield method.

Provisions
Provisions are recognised when the group has a present obligation (legal or constructive) resulting from a past event and the costs to settle the obligation are both probable and reliably measurable.

Provision for end of service indemnity
For the parent company and the local subsidiaries the provision for staff indemnity is computed based on employees' accumulated periods of service at the balance sheet date in accordance with the Kuwait labour law for the private sector.

Provision for land fill expenses
Provision for land fill expenses is calculated based on the expected cost which is required to restore the leased sites, used by the group for extracting raw materials for its operations, to its original condition.

Pensions (Related to the foreign subsidiaries)
Contributions are paid to both defined benefit and defined contribution pension schemes in accordance with the recommendations of independent actuaries and advisers.

Defined contribution schemes
Contributions to defined contribution schemes are charged to the consolidated statement of income on an accrual basis.

3 Significant Accounting Policies (continued)

Defined benefit schemes
In respect of defined benefit schemes a defined benefit liability (or asset) is recognised in the consolidated balance sheet and it is calculated as the present value of the defined benefit obligation using the projected unit credit method plus any unrecognised actuarial gains or losses less any past service cost not recognised less the market value of the plan assets.

Pension expense is charged to the consolidated statement of income and is calculated as the aggregate of current service cost (using the projected unit credit method), an interest cost on the discounted defined benefit obligation net of the expected return on plan assets, recognised actuarial gains and losses, recognised past service costs and the effect of curtailments or settlements.

Actuarial gains or losses are recognised as income or expense if the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligations; and
- 10% of the fair value of plan assets.

The portion of actuarial gains and losses to be recognised is the excess determined above, divided by the expected average remaining service lives of participating employees.

Fiduciary assets
Assets held in a trust or fiduciary capacity are not treated as assets of the group and, accordingly, they are not included in these consolidated financial statements.

Foreign currencies
Functional and presentation currency
The consolidated financial statements are presented in Kuwaiti Dinars, which is the parent company's functional and presentational currency. 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 and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to "foreign exchange gain/loss" in the consolidated statement of income.

Non-monetary items that are measured in terms of 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. Translation difference on non-monetary asset classified as, "fair value through statement of income" are reported as part of the fair value gain or loss in the consolidated statement of income and "available for sale" are reported as part of the cumulative change in fair value reserve within equity.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Group companies
As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into the parent company's presentation currency (the Kuwaiti Dinar) at the rate of exchange ruling at the balance sheet date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation reserve within equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

3 Significant Accounting Policies (continued)

Derivative financial instruments
The group uses derivative financial instruments, such as interest rate swaps to mitigate its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at cost, being the fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The groups does not adopt hedge accounting, and any realised and unrealised (from changes in fair value) gain or losses are recognised directly in the consolidated statement of income.

Cash and cash equivalents
Cash and cash equivalents included in the consolidated statement of cash flows consist of cash on hand and in banks, demand deposits, murabaha and wakala investments and short term highly liquid investments maturing within three months from the date of inception less due to banks.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting polices, which are described in note 3, management is required to make judgements, estimates and assumption about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Classification of investments
Management decides on acquisition of an investment whether it should be classified as fair value through statement of income, loans and receivables or available for sale. In making that judgement the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgement determines whether it is subsequently measured at cost, amortised cost or at fair value and if the changes in fair value of instruments are reported in the statement of income or directly in equity.

Impairment of available for sale investments
The group treats certain financial assets as available for sale and recognise movement in their fair value in equity when the fair value declines, management makes assumption about the decline in value to determine whether it is an impairment that should be recognised in profit or loss. During the year ended at 31 December 2007 impairment losses of KD2,000 thousand was recognised for available for sale investments (2006: KD1,173 thousand).

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

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instruments that is substantially the same; or
- an earnings multiple ;
- the expected cash flow discounted at current rates applicable for items with similar terms and risk characteristics;
- other valuation models.

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

Impairment of goodwill
The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill 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.

Estimation of impairment of property, plant and equipment and their useful lives
The group's management tests annually whether property plant and equipment (non-financial asset) have suffered impairment in accordance with the accounting policies stated within note 3 above. The recoverable amount of the assets are determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The group's management determines the useful lives of property plant and equipment and the related depreciation charge. The depreciation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Pension liabilities/asset
Pension assumptions are detailed in Note 34 and the pension expense for the year is sensitive to such assumptions and to the basis and period of spreading the actuarial deficit.

5 Subsidiary companies

The significant consolidated subsidiaries as at 31 December 2007 and 2006 are as follows:

	Country of registration	Percentage ownership 2007 %	2006 %
NI Group (Bahrain) EC	Bahrain	**100**	100
NIC Holdings (Guernsey) Limited	Guernsey	**100**	100
NIG (Guernsey) Limited	Guernsey	**100**	100
NIC Holdings (UK) Plc	United Kingdom	**100**	100
BI Group Plc	United Kingdom	**100**	100
National Land Transport Company – SAK (Closed)	Kuwait	**100**	100
National Combined Health Services Co. – KSC (Closed)	Kuwait	**100**	100
National Industries Company for Combined Energy – KSC (Closed)	Kuwait	**100**	100
Al Durra National Real Estate – KSC (Closed)	Kuwait	**100**	100
Gas & Oil Field Services Co. – WLL	Kuwait	**100**	100
Denham Investment LTD	Cayman Islands	**80**	71
Ikarus Industrial Petroleum Company – SAK (Closed)	Kuwait	**72**	72
National Industries Company for Building Materials - SAK (Closed)	Kuwait	**51**	51
Noor Financial Investment Company – KSC (Closed)	Kuwait	**51**	51

5 Subsidiary companies (continued)

a. NIG (Guernsey) Limited is the ultimate European holding company of the UK trading group and owns 100% of NIC Holdings (UK) Plc which in turn owns 100% of BI Group Plc.

b. Certain minority shareholdings in the above subsidiary companies are held on behalf of the parent company by third party nominees.

6 Income from investments

	2007 KD '000	2006 KD '000
Dividend income:		
- From investments at fair value through statement of income	**9,868**	10,796
- From available for sale investments	**9,151**	4,081
Profit on sale of available for sale investments	**30,372**	42,353
Impairment in value of available for sale investments	**(2,000)**	(1,173)
Realised gain on investment at fair value through statement of income	**99,815**	5,324
Unrealised gain on investment at fair value through statement of income	**100,923**	18,849
	248,129	80,230

7 Interest and other operating income

	2007 KD '000	2006 KD '000
Management and placement fees	**2,671**	4,262
Interest income on bank balances and short term deposits	**10,753**	8,403
Realised income from dealing in interest rate Swaps	**1,128**	-
Income from murabaha and wakala investments	**3,311**	2,139
Income from financing of future trade by customers	**3,657**	33
Others	**602**	648
	22,122	15,485

8 Net gain or loss on financial assets

Net gain or loss on financial assets, analysed by category, is as follows:

	2007 KD '000	2006 KD '000
Loans and receivables		
- bank and cash balances and short term deposits	**10,753**	8,403
- murabaha and wakala investments	**3,311**	2,139
- account receivable and other assets	**3,657**	33
Assets at fair value through statement of income		
- held for trading	**150,529**	45,155
- realised income from dealing in interest rate swaps (Derivatives)	**1,128**	-
- designated as such on initial recognition	**60,077**	(10,186)
Available for sale investments		
- recognised directly in consolidated equity	**41,110**	(64,835)
- recycled from equity to consolidated statement of income	**29,553**	24,560
- recognised directly in consolidated statement of income	**7,970**	20,701
	308,088	25,970
Net gain recognised in the consolidated statement of income	**266,978**	90,805
Net gain/(loss) recognised in the consolidated statement of changes in equity	**41,110**	(64,835)
	308,088	25,970

9 Finance costs

Finance cost relate to due to banks, short and long term borrowings, bonds and trust certificates and lease creditors which are financial liabilities stated at amortised cost.

10 Disposal of subsidiaries/businesses

Significant disposals during 2007:
There were no significant disposal of subsidiaries/ businesses during the year ended 31 December 2007.

Significant disposals during 2006:

a. The parent company sold 28%, out of its 100% owned subsidiary Ikarus Industrial Petroleum Company SAK (Closed), for a consideration of KD64,140 thousand resulting in a profit of KD34,258 thousand.

b. The parent company sold 9%, out of its 80% owned subsidiary Denham Investment Ltd. for a consideration of KD17,487 thousand resulting in a profit of KD14,264 thousand.

c. The parent company realised a profit of KD21,083 thousand on distribution of shares of the subsidiary National Industries Company for Building Materials – SAK (Closed), which represents the difference between the carrying value amounting to KD18,494 thousand and the fair value amounting to KD39,577 thousand of the distributed shares. Further this distribution has diluted the group's holding in the subsidiary from 74% to 51%.

11 Taxation

	2007 KD '000	2006 KD '000
Current tax expense		
Current year charge	**(602)**	(395)
Deferred tax (expense)/credit		
Current year (charge)/credit	**(14)**	823
	(616)	428

12 Zakat provision

In accordance with the requirements of the Zakat Law No: 46 of 2006, the group has provided for zakat effective from 10 December 2007.

13 Profit for the year

Profit for the year is stated after charging:

	2007 KD '000	2006 KD '000
Depreciation	**5,023**	4,640
Staff costs	**32,037**	28,201

14 Basic and diluted earnings per share

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

	2007	2006
Profit for the year attributable to the shareholders of the parent (KD '000)	**209,364**	134,991
Weighted average number of shares outstanding during the year (excluding treasury shares)	**1,133,420,778**	1,013,659,118
Basic and diluted earnings per share	**185 Fils**	133 Fils

The weighted average number of ordinary shares outstanding during the year ended 31 December 2006 has been restated due to the issue of bonus shares during the year.

15 Goodwill

	2007 KD '000	2006 KD '000
Balance at 1 January	**13,586**	9,776
Additions	**10**	3,802
Disposals and other adjustments	**66**	28
Impairment in value	**(2,608)**	(1,250)
Foreign exchange adjustment	**(357)**	1,230
	10,697	13,586

The annual impairment review of goodwill related to the foreign subsidiaries was based on value in use of the related business which was calculated using a discount rate of 5.0%.

16 Property, plant and equipment

Year ended 31 December 2007

	Freehold property KD '000	Leasehold property KD '000	Property on leasehold land KD '000	Plant and machinery KD '000	Motor vehicles KD '000	Furniture and equipment KD '000	Leased plant, machinery & vehicles KD '000	Property under construction KD '000	Total 2007 KD '000
Cost or valuation									
At 1 January 2007	8,176	2,793	32,380	59,028	7,494	6,491	1,582	878	**118,822**
Foreign exchange adjustments	(44)	(95)	-	(253)	(5)	-	(71)	-	**(468)**
Additions/transfers	340	37	1,497	3,214	1,089	415	150	5,136	**11,878**
Write offs	-	-	(1,418)	-	-	-	-	-	**(1,418)**
Disposals	(3,337)	(1,722)	(4)	(2,003)	(163)	(65)	-	-	**(7,294)**
Reclassification	-	-	-	152	-	-	(152)	-	**-**
At 31 December 2007	5,135	1,013	32,455	60,138	8,415	6,841	1,509	6,014	**121,520**
Accumulated depreciation and impairment losses									
At 1 January 2007	1,920	776	28,360	43,238	6,290	5,367	1,406	-	**87,357**
Foreign exchange adjustments	6	(30)	-	(63)	(6)	-	(45)	-	**(138)**
Charge for the year	132	50	277	3,637	512	335	80	-	**5,023**
On write offs	-	-	(1,418)	-	-	-	-	-	**(1,418)**
Reversal of impairment in value	-	-	-	(655)	-	-	(247)	-	**(902)**
Relating to disposals	(845)	(23)	(4)	(1,633)	(136)	(65)	-	-	**(2,706)**
At 31 December 2007	1,213	773	27,215	44,524	6,660	5,637	1,194	-	**87,216**
Net carrying value									
At 31 December 2007	**3,922**	**240**	**5,240**	**15,614**	**1,755**	**1,204**	**315**	**6,014**	**34,304**

A full independent valuation of all freehold properties held by NIC Holding (Guernsey) and NIG (Guernsey) Limited was obtained as at 1 January 1999 and the valuation was incorporated into the consolidated financial statements. The directors of the group consider that there has been no significant change in the market value since the last valuation of these properties.

Property on leasehold land, plant and machinery with a net book value of KD1,115 thousand (2006: KD1,271 thousand) are secured against the trust certificates (Musharaka sukuk) (refer Note 27).

Properties on lease hold land, relating to a subsidiary, are on lands which have been leased from the goverment of Kuwait through renewable lease contracts.

Property under construction represents the cost incurred on the expansion of one of the subsidiaries existing factories and the construction of a new office building for the same subsidiary. This amount will be transferred to the appropriate asset categories when the assets are ready for their intended use.

16 Property, plant and equipment (continued)

Year ended 31 December 2006

	Freehold property KD '000	Leasehold property KD '000	Property on leasehold land KD '000	Plant and machinery KD '000	Motor vehicles KD '000	Furniture and equipment KD '000	Leased plant, machinery & vehicles KD '000	Property under construction KD '000	Total 2006 KD '000
Cost or valuation									
At 1 January 2006	7,021	2,525	30,751	58,006	6,590	6,309	2,124	1,203	114,529
Foreign exchange adjustments	818	268	-	2,619	9	-	310	-	4,024
Additions/transfers	837	-	2,357	4,632	1,112	209	-	(325)	8,822
Write offs	-	-	(728)	(3,046)	-	-	-	-	(3,774)
Disposals/transfers	(598)	-	-	(3,979)	(217)	(27)	(69)	-	(4,890)
Acquisitions	98	-	-	13	-	-	-	-	111
Reclassification	-	-	-	783	-	-	(783)	-	-
At 31 December 2006	8,176	2,793	32,380	59,028	7,494	6,491	1,582	878	118,822
Accumulated depreciation and impairment losses									
At 1 January 2006	1,407	677	28,767	44,458	6,076	5,122	1,616	-	88,123
Foreign exchange adjustments	176	123	-	1,888	12	7	201	-	2,407
Charge for the year	469	32	321	3,100	392	262	64	-	4,640
On write offs	-	-	(728)	(3,046)	-	-	-	-	(3,774)
Relating to disposals	(188)	-	-	(3,569)	(190)	(24)	(68)	-	(4,039)
Reclassification	56	(56)	-	407	-	-	(407)	-	-
At 31 December 2006	1,920	776	28,360	43,238	6,290	5,367	1,406	-	87,357
Net carrying value									
At 31 December 2006	6,256	2,017	4,020	15,790	1,204	1,124	176	878	31,465

17 Investment in associates

The significant associates of the group as at 31 December 2007 and 2006 are as follows:

	Percentage ownership	
	2007	2006
Kuwait Ceramic Factory Company – WLL	**49%**	49%
Kuwait Rocks Company – SAK (Closed)	**38%**	38%
KES Power Ltd.	**40%**	40%
Kuwait Privatization Project Holding Company – SAK (Closed)	**28%**	28%
Kuwait Cement Company – SAK (Closed)	**25%**	22%
Al Raya International Real Estate – KSC (Closed)	**23%**	23%
Marsa Alam Holding Company – KSC (Closed)	**20%**	20%
Eastern United Petroleum Services Company – KSC (Closed)	**20%**	20%
Meezan Bank Ltd	**35%**	-
Kuwait National Real Estate Investment and Services Company – KSC (Closed)	**-**	16%

All of the above associates are registered in Kuwait with the exception of KES Power Ltd and Meezan Bank Ltd, which are registered in the Cayman Islands and Pakistan respectively.

During the fourth quarter, the group acquired additional shares in Meezan Bank Ltd, a bank listed in the Karachi Stock Exchange - Pakistan, increasing its equity holding in the investee from 16% at 31 December 2006 to 35% giving it significant influence over Meezan Bank Ltd., as a result of which the investment has been classified as investment in associate. In 2006, the investment was classified as "available for sale investments". In accordance with IAS 28 "Investment in Associates" and IFRS 3 "Business Combination" the interest in the investee was accounted for under the equity method of accounting. The consequent impact on total consolidated equity of the previous years is not significant. A goodwill amounting to KD8,767 thousand has arisen as a result of the above acquisition and this has been included in the carrying value of the investment totalling KD18,299 thousand as at 31 December 2007, in comparison to its market value of KD22,485 thousand on the same date.

During the year, the group reclassified its 16% shareholding in its previous associated company Kuwait National Real Estate Investment and Services Company – KSC (Closed) with a carrying value of KD6,388 thousand to available for sale investments, since the group ceased to have significant influence in the investee company.

Aggregate share of associates' assets and liabilities:

	2007	2006
	KD '000	KD '000
Assets	**348,771**	144,865
Liabilities	**131,544**	18,953

Aggregated share of associates' revenue and profit:

Revenue	**26,908**	23,765
Profit	**19,737**	9,522

Investment in quoted associates with a carrying value of KD162,245 thousand (2006: KD77,587 thousand) have a market value of KD234,476 thousand (2006: KD152,215 thousand).

18 Available for sale investments

	2007	2006
	KD '000	KD '000
Managed funds	**207,711**	75,990
Unquoted equity participations	**181,170**	141,866
Quoted shares	**457,325**	208,543
	846,206	426,399

18 Available for sale investments (continued)

Unquoted investments of KD24,338 thousand (2006: KD10,753 thousand) are carried at cost less impairment in value if any, since their fair value cannot be reliably determined. Management is not aware of any circumstances that would indicate impairment in the value of these investments.

Managed funds include investments in private equity funds with a carrying value of KD92,380 thousand (2006: KD31,963 thousand). Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

During the year the group realised a profit of KD1,365 on disposal of certain available for sale investments which were being carried at cost of KD4,644 at 31 December 2006.

19 Inventories

	2007 KD '000	2006 KD '000
Finished goods and work-in-progress	**13,988**	13,774
Raw materials and consumables	**7,770**	8,900
Spare parts and others	**2,748**	2,820
Goods in transit	**893**	612
	25,399	26,106
Provision for obsolete and slow moving inventories	**(2,076)**	(2,146)
	23,323	23,960

20 Accounts receivable and other assets

	2007 KD '000	2006 KD '000
Financial assets		
Trade receivables – gross	**22,395**	20,673
Less: Provision for impairment of trade receivables	**(1,419)**	(1,158)
Net trade receivables	**20,976**	19,515
Proceed due on sale of investments	**2,309**	12,787
Due from associates and joint venture	**13,732**	3,234
Due from key management personnel	**313**	312
Advance payments to acquire investments	**9,832**	3,806
Due from Kuwait Clearing Company	**37,563**	4,455
Due from investment brokerage companies	**9,018**	1,566
Interest and other accrued income	**2,203**	3,954
Other financial assets	**8,584**	3,714
	104,530	53,343
Non-financial assets		
Advance payments to acquire properties	**23,778**	2,987
Other assets	**924**	-
	24,702	2,987
	129,232	56,330

Trade receivables are non-interest bearing and generally on 30 to 90 days terms.

20 Accounts receivable and other assets (continued)

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

	2007 KD '000	2006 KD '000
Neither past due nor impaired	**17,813**	16,519
Past due but not impaired		
- less than 3 months	**2,374**	1,804
Past due and partially impaired		
- 3 – 6 months	**934**	1,357
- over 6 months	**1,274**	993
Total trade receivables	**22,395**	20,673

Trade receivables that are less than three months past due are not considered impaired since they relate customers for whom there is no recent history of default.

21 Murabaha and wakala investments

These investments carry effective profit rates ranging from 5% - 8.5% (2006: 6% - 8.5%) per annum and mature during the year 2008.

22 Investments at fair value through statement of income

	2007 KD '000	2006 KD '000
Held for trading :		
Quoted shares	**478,765**	268,924
Designated on initial recognition :		
Local funds	**157,298**	153,305
International managed portfolios and funds	**41,204**	33,936
	198,502	187,241
	677,267	456,165

Quoted shares with a fair value of KD32,491 thousand (2006: KD23,361 thousand) are secured against bank loans.

23 Share capital

Following approval of the general assembly held on 4 April 2007, the parent company issued 107,032,907 bonus shares amounting to KD10,703 thousand.

As of 31 December 2007 the authorised, issued and fully paid share capital of the parent company was made up of 1,177,361,971 shares of 100 Fils each (2006: 1,070,329,064 shares).

24 Treasury shares

At 31 December 2007 the group held 32,523,555 (2006 : 59,547,444) of the parent company's shares (treasury shares) equivalent to 2.76% (2006 : 5.56%) of the shares issued. The treasury shares are stated at cost, and the market value as at 31 December 2007 amounted to KD53,989 thousand (2006 : KD75,030 thousand). Reserves equivalent to the cost of the investment in treasury shares have been earmarked as non-distributable.

25 Staff shares

During the year the parent company issued 1,014,749 (2006: 701,750) shares to its senior management as bonus shares by utilizing its treasury shares. The carrying amount and market value of these shares issued amounted to KD757 thousand and KD1,319 thousand (2006: KD1,059 thousand and KD997 thousand) respectively and the resultant gain of KD562 (2006: loss of KD62 thousand was debited) was credited to the gain on sale of treasury shares reserve account.

26 Reserves

	Share premium KD '000	Statutory reserve KD '000	General reserve KD '000	Revaluation reserve KD '000	Gain on Sale of treasury shares reserve KD '000	Foreign currency translation reserve KD '000	Total KD '000
Balances at 31 December 2005	28,234	61,270	25,159	322	236	418	115,639
Transfer of excess depreciation	-	-	-	(12)	-	-	(12)
Currency translation differences	-	-	-	40	-	(899)	(859)
Transfer on disposal of subsidiaries	-	(1,870)	(744)	-	-	-	(2,614)
Loss on issue of shares to staff	-	-	-	-	(62)	-	(62)
Issue of shares	124,457	-	-	-	-	-	124,457
Profit on disposal of treasury shares	-	-	-	-	626	-	626
Transfer to reserves	-	25,934	1,206	-	-	-	27,140
Balances at 31 December 2006	152,691	85,334	25,621	350	800	(481)	264,315
Transfer of excess depreciation and realised on disposal	-	-	-	(309)	-	-	(309)
Currency translation differences	-	-	-	(13)	-	(507)	(520)
Profit on issue of shares to staff	-	-	-	-	562	-	562
Profit on disposal of treasury shares	-	-	-	-	11,463	-	11,463
Transfer to reserves	-	25,125	3,087	-	-	-	28,212
Balances at 31 December 2007	**152,691**	**110,459**	**28,708**	**28**	**12,825**	**(988)**	**303,723**

Share premium
Share premium is not available for distribution.

Statutory reserve
In accordance with the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year before KFAS, NLST, Zakat and directors remuneration but after minority interest is to be transferred to statutory reserve. The parent company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the distribution of a dividend of that amount.

27 Bonds and trust certificates

	2007 KD '000	2006 KD '000
Trust certificates		
- Murdaraba sukuk	**129,912**	-
- Musharaka sukuk	**27,038**	28,479
Bonds issued	**14,277**	17,378
	171,227	45,857

Trust certificates – Mudaraba sukuk:
During August 2007 the parent company entered into an Islamic financing arrangement whereby the parent company issued through a special purpose vehicle Trust certificates (Mudaraba Sukuk) of US Dollars 475,000 thousand at an issue price of 100% of their principal amount which are due at the end of 5 years from the date of issue. The certificate holders will be entitled to a quarterly profit distribution at the rate of 3 months LIBOR plus 1.05% per annum.

Trust certificates - Musharaka sukuk:
During October 2006 the subsidiary, National Industries Company for Building Materials entered into an Islamic financing arrangement whereby the subsidiary, through a special purpose vehicle, issued secured trust certificates (Musharaka sukuk) of US Dollars 100,000 thousand at an issue price of 100% of their principal amount which are due in 4 equal semi-annual instalments commencing from April 2010 and ending in October 2011. The certificate holders will be entitled to a semi-annual profit distribution at the rate of 6 months LIBOR plus 1% per annum. The Islamic financing arrangement is secured by four of the subsidiary's factories (refer Note 16).

Bonds
On 6 May 2004, the parent company issued unsecured floating rate bonds of U.S. Dollar 60,000 thousand at face value. The bonds carried a one time call option for early redemption during the year 2007 and accordingly certain investors' holding bonds with a face value of US Dollars 7,800 thousand exercised their right during the year. The remaining bonds as at 31 December 2007 with a face value of US Dollars 52,200 thousand mature in May 2009 and bear interest at 0.90% per annum above LIBOR for 6 months U.S. Dollar deposits and payable semi-annually in arrears.

28 Long-term borrowings

Currency	Effective Interest rate	Security	2007 KD '000	2006 KD '000
Kuwaiti Dinars	7%	Unsecured	**100,000**	-
US Dollars	5.5%-6.7%	Unsecured	**58,802**	75,292
Sterling	5.5%-7.7%	Unsecured	**2,469**	744
Long-term portion of loans in Sterling	4%-7.5%	Secured	**861**	1,815
Long-term portion of loans in Euro	4.75%-5.75%	Secured	**3,058**	1,859
			165,190	79,710

During the year the parent company obtained a term loan of KD100,000 thousand from a local bank. The loans matures after 3 years in 2010 and carries interest at CBK discount rate plus 0.75% per annum, payable quarterly in arrears.

The US Dollar denominated loans includes an unsecured syndicated loan of US Dollars 200,000 thousand obtained in December 2006 from foreign banks. The loan matures in December 2009 and carries interest at LIBOR plus 0.8% per annum, payable semi annually in arrears.

The Sterling loan is secured against property, plant and equipment with a book value of KD326 thousand (2006: KD339 thousand) and inventories and debtors with book values totalling to KD1,585 thousand (2006: KD1,645 thousand).

28 Long-term borrowings (continued)

The Euro loans are secured against property, plant and equipment with a book value of KD548 thousand (2006 : KD670 thousand).

29 Provisions

	2007 KD '000	2006 KD '000
Provision for staff indemnity	**4,961**	4,405
Provision for land-fill expenses	**573**	550
Provision for rental property	**6,779**	7,451
Pension liabilities (see Note 34)	**-**	567
	12,313	12,973
Less: Provision for rental property – amount due in less than one year	**(2,755)**	(1,335)
	9,558	11,638

The provision for rental property relates to onerous property rental costs (net of estimated rent receivable) and dilapidations obligations which are payable over various periods upto 2017.

30 Accounts payable and other liabilities

	2007 KD '000	2006 KD '000
Financial liabilities		
Trade payables	**17,377**	13,033
Accrued interest	**3,922**	2,257
Dividend payable	**2,205**	1,088
Leasing creditors - amount due in less than one year	**172**	124
Provision for rental property – amount due in less than one year	**2,755**	1,335
National labour support tax	**8,682**	7,365
Kuwait Foundation for the Advancement of Sciences	**4,447**	3,946
Corporation tax of foreign subsidiaries	**275**	183
Other accruals	**10,179**	8,754
Donations payable	**8,475**	6,365
Due to investments brokerage companies	**-**	1,060
Due to associates and related parties	**6,843**	1,655
Due to key management personnel	**3,226**	1,178
Other liabilities	**6,011**	3,860
	74,569	52,203

31 Short-term borrowings

Currency	Effective Interest rate	Security	2007 KD '000	2006 KD '000
Conventional loans				
Kuwaiti Dinars	7.25%-8.75%	Unsecured	**287,620**	146,525
Kuwaiti Dinars	8.25%	Secured	**20,000**	20,000
US Dollars	5.87%-7.62%	Unsecured	**240,309**	214,648
Sterling	5.5%-6.8%	Unsecured	**16,271**	20,945
Euro	4.32%	Unsecured	**172**	326
Sterling – current portion	4%-7.5%	Secured	**656**	510
Euro – current portion	4.75%-5.75%	Secured	**183**	231
			565,211	403,185
Islamic financing arrangements				
Wakala payables	8%-8.37%	Unsecured	**6,000**	-
			6,000	-
Total			**571,211**	403,185

31 Short-term borrowings (continued)

Kuwaiti Dinars loans amounting to KD20,000 thousand are secured by investments at fair value through statement of income (refer Note 22).

32 Cash and cash equivalents

	2007 KD '000	2006 KD '000
Murabaha and wakala investments – maturing within three months	**3,883**	22,608
Short term deposits	**187,079**	248,758
Bank balance and cash	**17,894**	16,258
Due to banks	**(37,046)**	(31,652)
	171,810	255,972

Short term deposits yield interest rates ranging from 5% to 7% per annum (2006: 5.4% to 7.5% per annum).

Bank balance and cash include call accounts which yield interest rates ranging from 2% to 2.5% per annum (2006: 2% to 2.5% per annum).

Due to banks are subject to interest rates ranging from 6% to 7% per annum (2006: 6% to 6.5% per annum).

33 Proposed dividend

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the board of directors of the parent company have proposed to distribute the following dividends for the year ended 31 December 2007 to the shareholders of record as of the date of the general assembly:

- Cash dividend of 75 Fils per share (2006: 70 Fils per share);
- Bonus shares of 10% (2006: 10%) of paid-up share capital.

The following distributions for the year ended 31 December 2006 to the shareholders of record on the date of the general assembly, were approved at the general assembly held on 4 April 2007 and were subsequently distributed:

- Cash dividend of 70 Fils per share amounting to KD71,421 thousand;
- Bonus shares of 10% of paid-up share capital amounting to KD10,703 thousand.

34 Defined benefit pensions schemes

The group has defined benefit pension schemes for the employees of certain subsidiaries in the United Kingdom. The following disclosures cover all the schemes on an aggregated basis. The schemes are closed to new members and are not accruing further benefits. Actuarial calculations have been made in order to determine pension liabilities and pension expenses in connection with the group's defined benefit pension schemes. The following assumptions have been used in calculating the liabilities and expenses incurred:

	2007	2006
Discount rate	**6.1%**	5.20%
Expected return on plan assets	**6.1%**	6.20%
Future salary increases	**N/A**	N/A
Future pension increases	**3.3%**	2.70%

34 Defined benefit pensions schemes (continued)

Consolidated statement of income

	2007 KD '000	2006 KD '000
Interest cost	**1,620**	1,410
Expected return on assets	**(1,649)**	(1,243)
Actuarial loss	**190**	231
Net annual charge included in general and administrative expenses	**161**	398

The actuarial loss of the schemes in excess of 10% of the present value of the defined benefit obligations are being charged as an expense over periods up to 13 years.

A reconciliation of the movement in the liability for defined benefit pension scheme is as follows:

Consolidated balance sheet

	2007 KD '000	2006 KD '000
Brought forward liability	**567**	504
Consolidated statement of income (net)	**161**	398
Contributions	**(748)**	(404)
Increase in unrecognised asset	**20**	6
Foreign exchange adjustment	**-**	63
Carried forward liability (Note 29)	**-**	567

Reconciliation of consolidated balance sheet liability

	2007 KD '000	2006 KD '000
Present value of obligations	**29,314**	32,830
Fair value of plan assets	**(26,405)**	(26,842)
Net plan deficit	**2,909**	5,988
Unrecognised actuarial losses	**(3,255)**	(5,760)
Unrecognised asset	**346**	339
Net liability recognised in the consolidated balance sheet (Note 29)	**-**	567

Changes in the present value of the defined benefit obligation

	2007 KD '000	2006 KD '000
Opening defined benefit obligation	**32,830**	30,363
Interest cost	**1,620**	1,410
Actuarial losses	**(2,858)**	(1,502)
Benefits paid	**(1,169)**	(1,173)
Foreign exchange adjustment	**(1,109)**	3,732
Closing defined benefit obligation	**29,314**	32,830

34 Defined benefit pensions schemes (continued)

Changes in the fair value of the plan assets

	2007 KD '000	2006 KD '000
Opening fair value of plan assets	**26,842**	23,013
Expected return	**1,649**	1,243
Actuarial (losses)/gains	**(668)**	400
Contributions by employer	**748**	404
Benefits paid	**(1,169)**	(1,173)
Foreign exchange adjustment	**(997)**	2,955
Closing fair value of plan assets	**26,405**	26,842

The groups expects to contribute KD496 thousand to its defined benefits plans during 2008.

The fair value of the plan assets, by category is as follows:

	2007 KD '000	2006 KD '000
Plan assets:		
Equities	**12,032**	13,070
Bonds	**13,965**	13,524
Other assets	**408**	248
	26,405	26,842

35 Segmental analysis

For management purposes the group's primary format for reporting segment information is business segments, with secondary information reported geographically.

Business segments

The parent company and local subsidiaries primarily operate in two business segments: investment and building materials. The investment activities are both in and outside Kuwait. The building materials activities of the group are conducted wholly within the State of Kuwait.

The major overseas subsidiary companies of the group principally operate in one business segment, the specialist engineering sector, the activities of which are conducted overseas, principally in Europe and the Americas.

35 Segmental analysis (Continued)

Revenue, profit for the year, total assets, total liabilities and net assets of the group are analysed by business activity as follows:

	Investment		Building materials		Specialist engineering		Total	
	2007 KD '000	2006 KD '000	**2007 KD '000**	2006 KD '000	**2007 KD '000**	2006 KD '000	**2007 KD '000**	2006 KD '000
Segment revenue	**289,988**	105,237	**33,346**	30,138	**81,124**	66,737	**404,458**	202,112
Less:								
Income from investments							**(248,129)**	(80,230)
Share of profits of associates and joint ventures							**(19,737)**	(9,522)
Interest and other operating income							**(22,122)**	(15,485)
Unallocated sales							**2,988**	2,866
Sales, per consolidated statement of income							**117,458**	99,741
Segment profit	**264,698**	162,583	**10,034**	8,108	**4,051**	4,045	**278,783**	174,736
Less:								
Finance costs							**(52,220)**	(30,990)
Unallocated income							**19,768**	2,914
Profit for the year before KFAS, NLST, Zakat and directors remuneration, per consolidated statement of income							**246,331**	146,660
Segment assets	**2,075,797**	1,343,968	**34,750**	39,407	**83,776**	72,537	**2,194,323**	1,455,912
Segment liabilities	**(43,355)**	(26,433)	**(10,447)**	(8,808)	**(23,469)**	(23,240)	**(77,271)**	(58,481)
Segment net assets	**2,032,442**	1,317,535	**24,303**	30,599	**60,307**	49,297	**2,117,052**	1,397,431
Unallocated assets							**1,347**	1,232
Bonds and trust certificates							**(171,227)**	(45,857)
Loans and other unallocated liabilities							**(780,678)**	(519,966)
Net assets, per consolidated balance sheet							**1,166,494**	832,840

35 Segmental analysis (Continued)

Property, plant and equipment of the group are primarily utilised by the building materials segment and the specialist engineering segment. The additions and depreciation relating to property, plant and equipment by business segment, in which the assets are used, are as follows:

	Investment KD '000	Building materials KD '000	Specialist engineering KD '000	Unallocated KD '000	Total KD '000
At 31 December 2007					
Additions to property, plant and equipment	**331**	**6,973**	**4,566**	**8**	**11,878**
Depreciation	**122**	**1,903**	**2,815**	**183**	**5,023**
At 31 December 2006					
Additions to property, plant and equipment	39	2,006	6,775	2	8,822
Depreciation	46	1,773	2,641	180	4,640

Geographical segments

A segmental analysis of total assets employed and sales by geographical location, are as follows:

	Assets		Sales	
	2007 KD '000	2006 KD '000	**2007 KD '000**	2006 KD '000
Kuwait	**1,392,148**	1,014,225	36,334	33,004
Outside Kuwait	**803,522**	442,919	81,124	66,737
	2,195,670	1,457,144	117,458	99,741

Additions to property, plant and equipment and goodwill by geographical area in which the assets are located, are as follows:

	2007 KD '000	2006 KD '000
Kuwait	**7,312**	5,732
Outside Kuwait	**4,576**	6,892
	11,888	12,624

36 Related party transactions

Related parties represent, associates, joint ventures, directors and key management personnel of the group, and other related parties such as major shareholders and companies in which directors and key management personnel of the group are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the group's management.

36 Related party transactions (continued)

Details of significant related party transactions and balances are as follows:

	2007 KD '000	2006 KD '000
Consolidated balance sheet		
Due from related parties (refer note 20)	**14,045**	3,546
Due to related parties (refer note 30)	**10,069**	2,833
Consolidated statement of income		
Profit on partial disposal of subsidiaries – to associated company	**-**	2,904
Purchase of raw materials – from associates	**8,223**	8,248
Compensation of key management personnel of the group		
Short term employee benefits	**6,798**	3,338
End of service benefits	**449**	511
Cost of share based payments	**46**	58
	7,293	3,907

37 Summary of financial assets and liabilities by category

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated balance sheet may also be categorized as follows:

	2007 KD '000	2006 KD '000
Loans and receivables:		
• Accounts receivable and other financial assets (refer note 20)	**104,530**	53,343
• Murabaha and wakala investments	**33,883**	57,608
• Short term deposits	**187,079**	248,758
• Cash and bank balances	**17,894**	16,258
Investment at fair value through statement of income:		
• Held for trading	**478,765**	268,924
• Designated on initial recognition	**198,502**	187,241
Available for sale investments	**846,206**	426,399
	1,866,859	1,258,531
Financial liabilities:		
• Bonds and trust certificates	**171,227**	45,857
• Long term borrowings	**165,190**	79,710
• Leasing creditors	**375**	59
• Accounts payable and other financial liabilities	**74,569**	52,203
• Short term borrowings	**571,211**	403,185
• Due to banks	**37,046**	31,652
	1,019,618	612,666

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the group's management, except for certain available for sale investments which are carried at cost for reasons specified in Note 18 to the financial statements the carrying amounts of financial assets and liabilities as at 31 December 2007 and 2006 approximate their fair values.

38 Risk management

The group's principal financial liabilities comprise due to banks, short term and long term borrowings, bonds and trust certificates, leasing creditors and accounts payable. The main purpose of these financial liabilities is to raise finance for group operations. The group has various financial assets such as accounts receivable and other assets, cash and bank balances, murabaha and wakala investments, short term deposits and investment securities which arise directly from operations.

38 Risk management objectives and policies (continued)

The group's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The board of directors sets out policies for reducing each of the risks discussed below.

The group also enters into derivative transactions, primarily interest rate swaps. The purpose is to manage the interest rate risks arising from the group's sources of finance. The group's policy is not to trade in derivative financial instruments.

The most significant financial risks to which the group is exposed to are described below.

38.1 Market risk

a) Foreign currency risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The group mainly operates in the Middle East, USA and United Kingdom and is exposed to foreign currency risk arising, primarily from US Dollar and GBP. The group's balance sheet can be significantly affected by the movement in these currencies. To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Foreign currency risk is managed on the basis of limits determined by the parent company's board of directors and a continuous assessment of the groups' open positions.

The group's significant net exposure to foreign currency denominated monetary assets less monetary liabilities at the balance sheet date, translated into Kuwaiti Dinars at the closing rates are as follows:

	2007 ***Equivalent*** **KD '000**	2006 *Equivalent* KD '000
US Dollars	**(381,128)**	(313,950)
GBP	**(11,329)**	(12,718)

Based on the average market volatility in exchange rates in the previous twelve months, the parent company's management estimates that a reasonable possible changes in the above exchange rate would be 5%.

If the Kuwaiti Dinar had strengthened against the foreign currencies assuming the above sensitivity (5%), then this would have the following impact on the profit for the year. There is no impact on the group's equity.

	Profit for the year	
	2007 **KD '000**	2006 KD '000
US Dollars	**19,056**	15,698
GBP	**566**	636
	19,622	16,334

If the Kuwaiti Dinar had weakened against the foreign currencies assuming the above sensitivity (5%), then there would be an equal and opposite impact on the profit for the year, and the balances shown above would be negative.

38 Risk management objectives and policies (continued)

38.1 Market risk (continued)

a) Foreign currency risk (continued)

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the group's exposure to the foreign currency risk.

b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk on its cash & cash equivalents (refer note 32), murabaha and wakala investments (refer note 21) bonds and trust certificates (refer note 27) and short and long term borrowings (refer note 31 and 28), which are at fixed and floating interest rates.

Positions are monitored on a regular basis to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit for the year to reasonable possible change of interest rate of +25 (0.25%) and -75 (0.75%) basis points with effect from the beginning of the year. The calculation is based on the group's financial instruments held at each balance sheet date. All other variables are held constant. There is no impact on group's equity.

	Increase in interest rates		Decrease in interest rates	
	2007	2006	**2007**	2006
	KD '000	KD '000	**KD '000**	KD '000
(Decrease)/increase in profit for the year	**(1,765)**	(594)	**5,294**	1,783

c) Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The group is exposed to equity price risk with respect to its listed equity investments which are primarily located in Kuwait, Jordan, Bahrain, Abu Dhabi and USA. Equity investments are classified either as "investments at fair value through statement of income" or "available for sale investments".

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The equity price risk sensitivity is determined on the exposure to equity price risks at the reporting date. If equity prices had been 10% higher/lower, the effect on the profit for the year and equity for the year ended 31 December would have been as follows:

A positive number below indicates an increase in profit and other equity where the equity prices increase by 10%. All other variables are held constant.

	Profit for the year		Increase in equity	
	2007	2006	**2007**	2006
	KD '000	KD '000	**KD '000**	KD '000
Investments at fair value through statement of income	**63,606**	42,223	**-**	-
Available for sale investments	**-**	-	**45,732**	20,854

For a 10% decrease in the equity prices there would be an equal and opposite impact on the profit for the year and equity, and the balances shown above would be negative.

38 Risk management objectives and policies (continued)

38.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the balance sheet date, as summarized below:

	2007 KD '000	2006 KD '000
Available for sale investments	**846,206**	426,399
Accounts receivable and other assets (refer note 20)	**104,530**	53,343
Murabaha and wakala investments	**33,883**	57,608
Investments at fair value through statement of income	**677,267**	456,165
Short term deposits	**187,079**	248,758
Bank balances and cash	**17,894**	16,258
	1,866,859	1,258,531

Except for certain receivables, and certain available for sale investments none of the above financial assets are past due nor impaired. The group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The group's policy is to deal only with creditworthy counterparties. The group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

In respect of receivables, the group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk for bank balances, short term deposits and murabaha and wakala investments is considered negligible, since the counterparties are reputable financial institution with high credit quality. Information on other significant concentrations of credit risk is set out in note 38.3

38.3 Concentration of assets

The distribution of financial assets by geographic region was as follows:

	Kuwait KD '000	**Other Middle Eastern Countries** KD '000	**Asia & Africa** KD '000	**UK & Europe** KD '000	**USA** KD '000	**Total** KD '000
At 31 December 2007						
Geographic region:						
Available for sale investments	**314,168**	**332,797**	**28,186**	**46,060**	**124,995**	**846,206**
Accounts receivable and other assets	**61,497**	**22,433**	**1,044**	**18,436**	**1,120**	**104,530**
Murabaha and wakala investments	**33,883**	**-**	**-**	**-**	**-**	**33,883**
Investments at fair value through statement of income	**592,874**	**21,881**	**14,149**	**6,270**	**42,093**	**677,267**
Short-term deposits	**163,854**	**2,735**	**-**	**-**	**20,490**	**187,079**
Bank balances and cash	**9,285**	**-**	**731**	**7,261**	**617**	**17,894**
	1,175,561	**379,846**	**44,110**	**78,027**	**189,315**	**1,866,859**
At 31 December 2006						
Geographic region:						
Available for sale investments	136,497	210,192	28,886	17,260	33,564	426,399
Accounts receivable and other assets	35,089	3,418	148	12,610	2,078	53,343
Murabaha and wakala investments	57,608	-	-	-	-	57,608
Investments at fair value through statement of income	396,882	13,341	11,343	2,649	31,950	456,165
Short-term deposits	225,311	2,896	-	-	20,551	248,758
Bank balances and cash	10,065	-	1,304	4,764	125	16,258
	861,452	229,847	41,681	37,283	88,268	1,258,531

38 Risk management objectives and policies (continued)

38.4 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 regular basis.

The contractual maturity of financial liabilities based on undiscounted cash flows are as follows:

	Up to 1 month KD '000	1-3 months KD '000	3-12 months KD '000	1-5 years KD '000	Total KD '000
31 December 2007					
Financial liabilities (undiscounted)					
Bonds and trust certificates	-	2,036	8,387	206,507	216,930
Long-term borrowings	-	70	11,671	183,806	195,547
Leasing creditors	-	-	-	375	375
Accounts payable and other liabilities	12,347	19,335	42,887	-	74,569
Short-term borrowings	228,226	246,125	104,758	-	579,109
Due to banks	37,046	-	-	-	37,046
	277,619	267,566	167,703	390,688	1,103,576
31 December 2006					
Financial liabilities (undiscounted)					
Bonds and trust certificates	-	-	2,518	56,365	58,883
Long-term borrowings	-	-	3,430	89,736	93,166
Leasing creditors	-	-	-	59	59
Accounts payable and other liabilities	8,871	31,313	12,019	-	52,203
Short-term borrowings	163,395	177,090	68,514	-	408,999
Due to banks	31,652	-	-	-	31,652
	203,918	208,403	86,481	146,160	644,962

39 Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments of the group represent interest rate swaps.

The notional principal amounts shown in the table below 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.

Credit risk in respect to derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the group.

The maturities of the interest rates swaps based on remaining period from the balance sheet date to the contractual maturity date are as follows:

Year ended 31 December 2007	Notional principal amount				
	Up to 1 month KD '000	1-3 months KD '000	3-12 months KD '000	1-5 years KD '000	Total KD '000
Interest rate swaps (denominated in US Dollars)	75,185	-	20,505	109,360	205,050

39 Derivative financial instruments (continued)

The above interest rate swaps have been entered into with reputable local and foreign banks. The interest rate swaps are based on either 3 months LIBOR or 6 months LIBOR and accordingly the underlying rates are reset every 3 to 6 months. The contractual repricing maturity (resetting of rates) of the swap contracts are all within 3 months of the consolidated balance sheet date and the positive fair value of the interest rate swaps as at 31 December 2007 was not material to group's financial statements.

There were no significant interest rate swaps outstanding as at 31 December 2006.

40 Capital risk management

The group's capital management objectives are to ensure that the group maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, buy back shares, issue new shares or sell assets to reduce debt.

The capital structure for the group consists of the following:

	2007 KD '000	2006 KD '000
Bonds and trust certificates (note 27)	**171,227**	45,857
Long term borrowings (note 28)	**165,190**	79,710
Short term borrowings (note 31)	**571,211**	403,185
Less: Cash and cash equivalents (note 32)	**(171,810)**	(255,972)
Net debt	**735,818**	272,780
Total equity	**1,166,494**	832,840

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. The group's policy is to keep the gearing ratio below 80%.

This ratio is calculated as net debt divided by total equity as follows:

	2007 %	2006 %
Net debt to equity ratio	**63**	33

41 Contingent liabilities

At 31 December 2007, the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD553 thousand (2006: KD1,774 thousand).

42 Fiduciary assets

One of the subsidiaries of the group manages mutual funds, portfolios on behalf of related and third parties, and maintains securities in fiduciary accounts which are not reflected in the group's balance sheet. Assets under management at 31 December 2007 amounted to KD80,768 thousand (31 December 2006 : KD10,974 thousand) of which assets managed on behalf of related parties amounted to KD18,599 thousand (31 December 2006: KD5,438 thousand).

43 Capital commitments

At the balance sheet date the group had commitments for the purchase of investments and the acquisition of property, plant and equipment totalling KD61,200 thousand (2006: KD57,092 thousand).

44 Subsequent event

At the extraordinary general assembly held on 27 January 2008, the shareholders of the parent company decided to increase the paid up share capital by 25% by way of an issue of shares during the year 2008, at par value of 100 Fils per share and premium of 800 Fils per share.

45 Comparative amounts

Certain prior year amounts have been reclassified to conform to the current years presentation. These reclassifications were made in order to more appropriately present the items of balance sheet and statement of income as a result of adoption of IFRS 7. Such reclassifications do not affect previously reported total assets, total equity, total liabilities and profit reported in the prior year.