

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007

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

We have audited the accompanying consolidated financial statements of The Public Warehousing Company K.S.C. (the "Parent Company") and Subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2007, the related consolidated income statement, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

As further discussed in Note 29 (e) to the consolidated financial statements, during the year ended 31 December 2006, a performance guarantee amounting to KD 10.1 million was called by a counterparty in relation to non performance of obligations under a contract operated by a subsidiary of the Group and encashed during the year ended 31 December 2007. The amount was not expensed in the consolidated financial statements, which in our opinion, is not in accordance with International Financial Reporting Standards. We qualified our opinion in this regard on the consolidated financial statements for the year ended 31 December 2006. Accordingly, other current assets should be decreased by KD 10.1 million and retained earnings should be decreased by KD 10.1 million.

Qualified Opinion

In our opinion, except for the effect of the matter described in the Basis of Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the commitments and contingencies explained in Note 29 (a), (b) and (c) to the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the Parent Company's articles of association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the Parent Company or on its financial position.



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20 March 2008

Kuwait

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

CONSOLIDATED BALANCE SHEET

At 31 December 2007

		2007 KD '000s	2006 KD '000s
ASSETS	<i>Notes</i>		
Current assets			
Cash and bank balances	3	247,082	315,002
Trade receivables	4	346,026	271,935
Inventories	5	66,120	59,235
Investments available for sale	6	93,530	1,820
Other current assets	7	100,858	56,380
Total current assets		853,616	704,372
Non-current assets			
Investment properties	8	204,656	188,228
Projects in progress	9	30,588	18,752
Property, plant and equipment	10	209,294	193,348
Intangible assets	11	17,941	20,386
Goodwill	12,13	204,248	188,162
Other non-current assets		15,679	7,129
Total non-current assets		682,406	616,005
TOTAL ASSETS		1,536,022	1,320,377
LIABILITIES AND EQUITY			
LIABILITIES			
Current liabilities			
Trade and other payables	14	346,604	301,613
Interest bearing loans and borrowings	15	218,964	91,820
Taxes payable	16	6,672	12,242
Dividends payable to shareholders		4,135	2,634
Total current liabilities		576,375	408,309
Non-current liabilities			
Interest bearing loans and borrowings	15	100,224	133,244
Bonds	17	28,650	29,457
Provision for employees' end of service benefits	18	15,758	13,198
Other non-current liabilities	19	30,372	30,652
Total non-current liabilities		175,004	206,551
Total liabilities		751,379	614,860
EQUITY			
Share capital	20	95,167	79,306
Share premium		152,650	152,650
Statutory reserve	21	47,584	39,653
Treasury shares	22	(1,035)	(3,038)
Treasury shares reserve		43,534	42,918
Foreign currency translation reserve		(17,858)	(1,745)
Investment revaluation reserve		(599)	(309)
Retained earnings		437,456	378,682
Equity attributable to equity holders of the Parent Company		756,899	688,117
Minority interests		27,744	17,400
Total equity		784,643	705,517
TOTAL LIABILITIES AND EQUITY		1,536,022	1,320,377



Tarek Abdul Aziz Sultan
Chairman and Managing Director

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

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

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 KD '000s	2006 KD '000s
Revenue			
Logistics and freight forwarding revenues	23	1,591,982	1,271,786
Rental revenues		23,363	23,155
Other services		51,745	31,035
Total revenue		1,667,090	1,325,976
Cost of revenue		(1,058,460)	(830,425)
Net revenue		608,630	495,551
Operating expenses			
General and administrative expenses	24	(138,125)	(116,245)
Salaries and employee benefits	25	(246,207)	(170,132)
Depreciation	10	(47,658)	(33,242)
Amortisation	11	(2,445)	(1,500)
Total operating expenses		(434,435)	(321,119)
Profit from operations		174,195	174,432
Other income			
Change in fair value of investment properties	8	6,776	4,173
Interest income		14,768	15,840
Miscellaneous income		1,583	3,795
Total other income		23,127	23,808
Finance costs		(24,190)	(18,258)
Profit for the year before income tax, contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Directors' remuneration		173,132	179,982
Contribution to KFAS		(1,516)	(1,725)
Income tax		(3,894)	(4,633)
NLST		(3,989)	(4,270)
Zakat		(97)	-
Directors' remuneration		(200)	(165)
PROFIT FOR THE YEAR		163,436	169,189
Attributable to:			
Equity holders of the Parent Company		153,941	166,517
Minority interests		9,495	2,672
		163,436	169,189
BASIC AND DILUTED EARNINGS PER SHARE	26	161.86 Fils	176.84 Fils

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2007

	Notes	2007 KD '000s	2006 KD '000s
OPERATING ACTIVITIES			
Profit for the year before tax, KFAS, NLST, Zakat and Directors' remuneration		173,132	179,982
Adjustments for:			
Provision for employees' end of service benefits	18	7,114	4,355
Depreciation	10	47,658	33,242
Amortisation	11	2,445	1,500
Provision for doubtful trade receivables	4	2,301	1,256
Change in fair value of investment properties	8	(6,776)	(4,173)
Interest income		(14,768)	(15,840)
Finance costs		24,190	18,258
Miscellaneous income		(682)	(1,335)
Operating profit before changes in operating assets and liabilities		234,614	217,245
Trade receivables		(66,344)	(17,469)
Inventories		(6,885)	7,317
Other current assets		(18,959)	(1,144)
Trade and other payables		49,739	48,683
Cash from operations		192,165	254,632
NLST paid		(7,452)	-
Income tax paid		(6,171)	(5,618)
KFAS paid		-	(2,264)
Directors' remuneration paid		(165)	(175)
Employees' end of service benefits paid	18	(4,554)	(5,349)
Net cash from operating activities		173,823	241,226
INVESTING ACTIVITIES			
Purchase of investments available for sale		(92,000)	-
Purchase of investment properties	8	(5,469)	(10,138)
Additions to projects in progress (net of disposals)	9	(29,834)	(17,184)
Purchase of property, plant and equipment	10	(45,014)	(31,183)
Contingent consideration paid in respect of prior period acquisitions		(18,738)	-
Acquisition of subsidiaries (net of cash acquired)	12	(24,902)	(38,179)
Interest received		14,552	15,840
Advance payment to acquire an investment	7	(30,734)	-
Acquisition of additional interest in subsidiaries		(2,591)	(1,938)
Refund of purchase consideration paid towards acquisition of subsidiaries in prior period		686	-
Net movement in deposits with original maturities exceeding three months	3	58,196	(115,389)
Net cash used in investing activities		(175,848)	(198,171)
FINANCING ACTIVITIES			
Dividends paid to shareholders of Parent Company		(69,874)	(36,774)
Dividends paid to minority shareholders of subsidiaries		(6,489)	-
Proceeds from issue of capital by subsidiaries		9,684	-
Finance cost paid		(21,383)	(18,258)
Net movement in interest bearing loans and borrowings		93,857	(2,103)
Purchase of treasury shares		(657)	(3,533)
Proceeds from sale of treasury shares		3,276	18,055
Net cash from (used in) financing activities		8,414	(42,613)
Foreign currency translation adjustments		(16,113)	(1,513)
DECREASE IN CASH AND CASH EQUIVALENTS		(9,724)	(1,071)
Cash and cash equivalents at beginning of the year		199,613	200,684
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	189,889	199,613

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the Parent Company									Minority interests	Total
	Share capital	Share premium	Statutory reserve	Treasury shares	Treasury shares reserve	Foreign currency translation reserve	Investment revaluation reserve	Retained earnings	Sub total	KD '000s	KD '000s
	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s		
Balance at 1 January 2007	79,306	152,650	39,653	(3,038)	42,918	(1,745)	(309)	378,682	688,117	17,400	705,517
Changes in unrealised fair value of available for sale investments	-	-	-	-	-	-	(290)	-	(290)	-	(290)
Foreign currency translation adjustments	-	-	-	-	-	(16,113)	-	-	(16,113)	(1,765)	(17,878)
Total expense for the year recognised directly in equity	-	-	-	-	-	(16,113)	(290)	-	(16,403)	(1,765)	(18,168)
Profit for the year	-	-	-	-	-	-	-	153,941	153,941	9,495	163,436
Total (expense) income for the year	-	-	-	-	-	(16,113)	(290)	153,941	137,538	7,730	145,268
Dividends paid (Note 27)	-	-	-	-	-	-	-	(71,375)	(71,375)	(6,489)	(77,864)
Issue of bonus shares (Note 20)	15,861	-	-	-	-	-	-	(15,861)	-	-	-
Sale of treasury shares	-	-	-	2,660	616	-	-	-	3,276	-	3,276
Purchase of treasury shares	-	-	-	(657)	-	-	-	-	(657)	-	(657)
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	-	(581)	(581)
Issue of additional share capital by subsidiaries	-	-	-	-	-	-	-	-	-	9,684	9,684
Transfer to statutory reserve	-	-	7,931	-	-	-	-	(7,931)	-	-	-
Balance at 31 December 2007	95,167	152,650	47,584	(1,035)	43,534	(17,858)	(599)	437,456	756,899	27,744	784,643

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the Parent Company									Minority interests	Total
	Share capital KD '000s	Share premium KD '000s	Statutory reserve KD '000s	Treasury shares KD '000s	Treasury shares reserve KD '000s	Foreign currency translation reserve KD '000s	Investment revaluation reserve KD '000s	Retained earnings KD '000s	Sub total KD '000s	KD '000s	KD '000s
Balance at 1 January 2006	68,962	152,650	36,777	(17,467)	42,825	(232)	(305)	263,317	546,527	8,446	554,973
Changes in unrealised fair value of available for sale investments	-	-	-	-	-	-	(4)	-	(4)	-	(4)
Foreign currency translation adjustments	-	-	-	-	-	(1,513)	-	-	(1,513)	(50)	(1,563)
Total expense for the year recognised directly in equity	-	-	-	-	-	(1,513)	(4)	-	(1,517)	(50)	(1,567)
Profit for the year	-	-	-	-	-	-	-	166,517	166,517	2,672	169,189
Total (expense) income for the year	-	-	-	-	-	(1,513)	(4)	166,517	165,000	2,622	167,622
Dividends paid (Note 27)	-	-	-	-	-	-	-	(37,932)	(37,932)	-	(37,932)
Issue of bonus shares (Note 20)	10,344	-	-	-	-	-	-	(10,344)	-	-	-
Purchase of treasury shares	-	-	-	(3,533)	-	-	-	-	(3,533)	-	(3,533)
Sale of treasury shares	-	-	-	17,962	93	-	-	-	18,055	-	18,055
Arising on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	8,270	8,270
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	-	(1,938)	(1,938)
Transfer to statutory reserve	-	-	2,876	-	-	-	-	(2,876)	-	-	-
Balance at 31 December 2006	79,306	152,650	39,653	(3,038)	42,918	(1,745)	(309)	378,682	688,117	17,400	705,517

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

1 INCORPORATION AND ACTIVITIES

The Public Warehousing Company K.S.C. (the “Parent Company”) was incorporated in 1979 as a Kuwaiti shareholding company.

The consolidated financial statements were authorised for issue by the Parent Company’s Board of Directors on 20 March 2008. The Shareholders’ General Assembly has the power to amend these consolidated financial statements after issuance.

The main objectives of the Parent Company are as follows:

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

The address of the Parent Company is Sulaibia, beside Land Customs Clearing Area, P.O. Box 25418, Safat 13115, Kuwait.

The Group employed 31,055 employees as at 31 December 2007 (2006: 24,558 employees).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement of fair value of investment properties, investments carried at fair value through income statement (which are insignificant), investments available for sale and derivative financial instruments.

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

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and applicable requirements of Ministerial Order No. 18 of 1990.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (the “Group”) as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power directly or indirectly to govern the financial and operating policies of entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The principal consolidated subsidiaries of the Group are as follows:

<i>Name of company</i>	<i>Effective equity interest as at 31 December 2007</i>	<i>Effective equity interest as at 31 December 2006</i>	<i>Country of incorporation</i>
PWC Transport Company W.L.L.	100%	100%	State of Kuwait
Gulf Catering Company for General Trading and Contracting W.L.L.	51%	51%	State of Kuwait
PWC Logistics Services Company K.S.C.(closed)	100%	100%	State of Kuwait
Transoceanic Shipping Inc.	100%	100%	United States of America
Agility Logistics Inc.	100%	100%	United States of America
Agility Logistics GmbH	100%	100%	Germany
Agility Spain SA	100%	100%	Spain
Agility Logistics Limited	100%	100%	United Kingdom
Cronat Transport Holding AG	100%	100%	Switzerland
Agility Logistics Limited	100%	100%	Hong Kong
Agility Logistics Private Limited	100%	100%	India

Changes in accounting policies

The accounting policies are consistent with those used in the previous financial year except as follows:

The Group has adopted the following new applicable and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations during the year. Adoption of these revised standards and interpretations did not have any material effect on the consolidated financial statements of the Group. They did however, give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment - Presentation of Financial Statements: Capital Disclosures
- IFRIC 10 Interim Financial Reporting and Impairment

International Financial Reporting Standard (IFRS) 7: Financial Instruments Disclosures

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The standard requires additional disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the consolidated financial statements.

International Accounting Standard (IAS) 1: Presentation of financial Statements – Capital Disclosures (amended)

Amendments to IAS 1 presentation of Financial Statements were issued by the IASB as Capital Disclosures in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. These amendments require the Group to make new disclosures to enable users of the consolidated financial statements to evaluate the Group's objectives, policies and processes for managing capital.

IFRIC 10 Interim Financial Reporting and Impairment

IFRIC 10 Interim Financial Reporting and Impairment is effective for the year ended 31 December 2007, which have had no impact on the financial position or performance of the Group.

The following International Accounting Standards Board ("IASB") Standards applicable to the Group have been issued but are not yet mandatory, and have not yet been adopted by the Group:

IFRS 8 Operating Segments was issued by the IASB in November 2006 and will be effective for annual periods beginning on or after 1 January 2009. Under the requirements of the standard, the Group would be required to disclose information used by management internally for the purpose of evaluating the performance of operating segments and allocating resources to those segments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 1 "Presentation of Financial Statements" (Revised) was issued by IASB in September 2007 and will be effective for annual periods beginning on or after 1 January 2009. When effective, this revised standard would require disclosure of information regarding Group's comprehensive income that will combine all the items of income and expense recognised in the consolidated income statement together with the gains and losses on available for sale assets.

Significant accounting judgments, estimates and assumptions

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

Judgements

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

Classification of investments

Management decides upon acquisition of an investment whether it should be classified as investments available for sale or investments carried at fair value through income statement. Classification of investments as fair value through income statement depends on how management monitors the performance of those investments. When investments have readily available and reliable fair values and the changes in fair values are reported as part of the consolidated income statement in the management accounts, they are classified as fair value through income statement.

Operating Lease Commitments – Group as Lessor

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

Fair values of assets and liabilities acquired

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

Contingencies

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

Estimates and assumptions

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:

Impairment of goodwill and indefinite life intangible assets

The Group determines whether goodwill and indefinite life of intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the respective asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill and intangible assets with an indefinite life at 31 December 2007 were KD 204,248 thousand and KD 4,721 thousand, respectively, (2006: KD 188,162 thousand and KD 4,721, respectively). More details are given in Notes 11, 12 and 13.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Valuation of investment properties

Fair value of investment properties have been assessed by an independent real estate appraiser. Two main methods were used to determine the fair value of property interests in investment properties; (a) formula based discounted cash flow analysis and (b) comparative analysis as follows:

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

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

Valuation of unquoted investments

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

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

Pension and other post employment benefits

The cost of defined benefit pension plans and other post employment medical benefits is determined using independent actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability at 31 December 2007 is KD 15,758 thousand (2006: KD 13,198 thousand). Further details are given in Note 18.

Impairment of trade receivables

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

At the balance sheet date, gross trade accounts receivables were KD 388,383 thousand (2006: KD 312,527 thousand), and the provision for doubtful trade receivables was KD 42,357 thousand (2006: KD 40,592 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated income statement.

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the functional currency rate of exchange ruling at that date. Any resultant gains or losses are recognised in the consolidated income statement.

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

Assets and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the balance sheet date. Operating results of such operations are translated at average rates of exchange for the foreign operation's period of operations. The resulting exchange differences are accumulated in a separate section of equity (foreign currency translation reserve) until the disposal of the foreign operation.

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

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

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

Investment properties

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

At each balance sheet date, valuations are carried out by an independent valuer who has recent experience in the location and category of the investment property being valued, on the bases referred to above.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, those adjustments that are probable and can be measured reliably are included in the cost of the combination at the acquisition date. If the future events do not occur or the estimate needs to be revised, the cost of the business combination is adjusted accordingly. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed 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 acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

Intangible assets

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

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

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement. Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or change in circumstances indicate the carrying value may be impaired, either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Customer contracts

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

Customer lists

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

Brand

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

Financial assets and liabilities

The Group classifies its financial assets as “investments available for sale”, “trade receivables” and “cash and cash equivalents” whereas the financial liabilities are classified as “interest bearing loans and borrowings”, “bonds” and “trade payables”.

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

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

Investments available for sale

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

Trade receivables

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, and have not been designated ‘as at fair value through profit or loss’. After initial recognition, interest bearing loans and borrowings are subsequently re-measured at amortised cost using the effective interest method.

Trade payables

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

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Financial liabilities (continued)

Fair value

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

Derecognition of financial assets and liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Impairment and uncollectibility of financial assets

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

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

Offsetting

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

Inventories

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

Projects in progress

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been, subsequently reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to equity. Gains realised subsequently on the sale of treasury shares are used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve. No cash dividends are paid on these shares. The issuance of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Provisions

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

Employees' end of service benefits

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

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

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

Share based payment transactions

Certain employees of the Group receive remuneration in the form of share based payment transactions whereby employees render services in exchange for share options. Share options may be settled at the discretion of the Parent Company by paying cash equivalent to the theoretical value of the option at the date of exercise.

The cost of services received from employees is recorded over the period in which service conditions are fulfilled under the intrinsic method of valuation. Under this method, cost is determined by comparing the market value of the Parent Company's shares at each reporting date to the exercise price with any change in intrinsic value recognised in the consolidated income statement.

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

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

Group as a lessor

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

Group as a lessee

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

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

Revenue recognition

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

Rental revenue

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

Logistics revenue

Logistics revenue primarily comprises inventory management, order fulfilment and transportation services. Logistics revenue is measured at the fair value of consideration received or receivable for goods and services. Revenues from transportation services are recognised by reference to the stage of completion. Stage of completion is measured by reference to the total transportation days completed to date as a percentage of total transportation days for each contract. Other logistics services are recognised upon completion of the services.

Freight forwarding and project forwarding revenues

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

Interest income

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

Dividend income

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

Income taxes

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

Zakat

Effective 10 December 2007, the Group has provided for Zakat in accordance with the requirements of law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

National Labour Support Tax (NLST)

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Derivative financial instruments

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The resulting gain or loss on re-measurement to fair value is recognised in the consolidated income statement.

Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3 CASH AND BANK BALANCES

Cash and bank balances include the following amounts:

	2007 KD '000s	2006 KD '000s
Cash at bank and on hand	71,887	45,529
Short term deposits	118,002	154,084
Cash and cash equivalents	189,889	199,613
Deposits with original maturities exceeding three months	57,193	115,389
	247,082	315,002

Cash at bank earns interest which ranges from 6% to 7%. Short term deposits with original maturities upto three months are made of varying periods of one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

Included in cash and bank balances are balances denominated in foreign currencies amounting to KD 65,508 thousand (2006: KD 50,575 thousand), mainly in US Dollars.

4 TRADE RECEIVABLES

	2007 KD '000s	2006 KD '000s
Gross trade receivables	388,383	312,527
Provision for doubtful trade receivables	(42,357)	(40,592)
	346,026	271,935

Trade receivables are non-interest bearing and are generally 30 to 70 days terms. As at 31 December 2007, trade receivables at nominal value of KD 42,357 thousand (2006: KD 40,592) were impaired and fully provided for.

The Public Warehousing Company K.S.C. and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 31 December 2007

4 TRADE RECEIVABLES (continued)

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

	2007 KD '000s	2006 KD '000s
At 1 January	40,592	39,336
Charge for the year	2,301	1,256
Amounts written off	(536)	-
At 31 December	<u>42,357</u>	<u>40,592</u>

As at 31 December, the analysis of trade receivables that were not impaired is as follows:

	Neither past due nor impaired KD '000s	Past due but not impaired					Total KD '000s
		< 30 days KD '000s	30 to 60 days KD '000s	60 to 90 days KD '000s	90 to 120 days KD '000s	> 120 days KD '000s	
2007	211,752	68,949	30,828	9,983	17,182	7,332	346,026
2006	199,861	31,856	14,700	8,565	7,192	9,761	271,935

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

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

	2007 KD '000s	2006 KD '000s
US Dollars	202,352	171,349
Euros	59,466	41,775
British Pounds	12,512	11,109
UAE Dirhams	13,780	8,461
	<u>288,110</u>	<u>232,694</u>

5 INVENTORIES

	2007 KD '000s	2006 KD '000s
Goods for resale	37,391	31,965
Goods in transit	29,072	27,428
	<u>66,463</u>	<u>59,393</u>
Provision for obsolete and slow moving inventories	(343)	(158)
	<u>66,120</u>	<u>59,235</u>

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

The Public Warehousing Company K.S.C. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6 INVESTMENTS AVAILABLE FOR SALE

	2007 KD '000s	2006 KD '000s
Unquoted securities	93,530	1,820

During the year, the Group made an investment in Korek Telecom in the form of one year 7% convertible debt amounting to US\$ 250,000 thousand. The conversion is an embedded derivative and is not considered to be closely related to the host instrument from the holder's perspective. In accordance with IAS 39, the conversion option has been stripped out of the debt instrument and carried at fair value through income statement (which is insignificant). The residual value of the debt instrument amounting to KD 68,410 thousand is carried as an investment available for sale in the consolidated balance sheet.

Included in unquoted securities is an amount of KD 22,757 thousand which represent an investment in Orange East Africa SA, a company registered in France. Orange East Africa SA owns 51% of the equity interest in Telkom Kenya. Although the Parent Company holds 21.5% equity interest in Orange East Africa SA, it does not have significant influence on the board of directors and does not participate in policy making processes. Consequently, the Parent Company is not in a position to exercise "significant influence" over Orange East Africa. Accordingly, this investment is being accounted for as an investment available for sale. Furthermore, after the year end, the Parent Company disposed off 1.3% equity interest in the Orange East Africa SA resulting in a revised equity interest of 20.2%.

In addition, unquoted investments include an amount of KD 1,530 thousand (2006: KD 1,820 thousand), the fair values which have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. Management believe that the estimated fair values resulting from the valuation techniques which are recorded in the balance sheet and the related investment revaluation reserve in equity are reasonable and the most appropriate at the balance sheet date.

7 OTHER CURRENT ASSETS

	2007 KD '000s	2006 KD '000s
Advances to suppliers	20,250	22,863
Prepaid expenses and deposits	24,133	15,659
Staff receivables	1,999	1,433
Accrued income	7,286	4,463
Other assets	47,190	11,962
	100,858	56,380

Included in other assets is an amount of KD 30,734 thousand (2006: KD Nil) which represents an advance payment made by the Group to acquire a strategic investment.

8 INVESTMENT PROPERTIES

	2007 KD '000s	2006 KD '000s
At 1 January	188,228	160,590
Additions	5,469	10,138
Transfers from projects in progress (Note 9)	4,899	9,523
Leases capitalised	-	3,804
Transfer to property, plant and equipment (Note 10)	(716)	-
Changes in fair value	6,776	4,173
At 31 December	204,656	188,228

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

8 INVESTMENT PROPERTIES (continued)

Investment properties as at 31 December 2007 comprises of the following:

- property held under operating leases amounting to KD 72,443 thousand (2006: KD 65,667 thousand); and
- properties held on leased land amounting to KD 132,213 thousand (2006: KD 122,561 thousand).

Lease periods range from five to twenty years and are renewable.

Included in investment properties is a property with a carrying value of KD 8,596 thousand which includes unrealised gains of KD 665 thousand recorded in previous periods. This property is subject to ongoing litigation arising from a claim filed by and against the Parent Company with respect to certain lease contracts, which have been cancelled by the counterparty at the balance sheet date (Note 29 (c)).

9 PROJECTS IN PROGRESS

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

	<i>2007</i> <i>KD '000s</i>	<i>2006</i> <i>KD '000s</i>
At 1 January	18,752	22,762
Additions	29,834	17,184
Transfer to property, plant and equipment (Note 10)	(13,099)	(10,572)
Transfer to investment properties (Note 8)	(4,899)	(9,523)
Disposals	-	(1,099)
At 31 December	30,588	18,752

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

	<i>Buildings and improvements KD '000s</i>	<i>Tools, machinery and equipment KD '000s</i>	<i>Vehicles and ships KD '000s</i>	<i>Furniture and office equipment KD '000s</i>	<i>Total KD '000s</i>
Cost:					
1 January 2007	70,005	31,682	136,013	46,918	284,618
Additions	16,865	10,468	7,877	9,804	45,014
Transfer from investment properties	716	-	-	-	716
Transfer from projects in progress	7,660	2,372	1,599	1,468	13,099
Disposals	(1,401)	(3,179)	(962)	(3,365)	(8,907)
Arising on acquisition of subsidiaries	1,783	-	-	133	1,916
Foreign currency translation differences	5,673	2,167	1,023	8,104	16,967
31 December 2007	101,301	43,510	145,550	63,062	353,423
Accumulated depreciation and impairment:					
1 January 2007	15,110	16,075	28,788	31,297	91,270
Charge for the year	11,466	7,797	16,766	11,629	47,658
Relating to disposals	(226)	(2,533)	(483)	(3,276)	(6,518)
Foreign currency translation differences	2,487	966	986	7,280	11,719
31 December 2007	28,837	22,305	46,057	46,930	144,129
Net book value:					
31 December 2007	72,464	21,205	99,493	16,132	209,294
31 December 2006	54,895	15,607	107,225	15,621	193,348

Parent Company's buildings with a carrying value of KD 7,141 thousand (2006: KD 7,669 thousand) are erected on land leased from local Government for periods ranging from five to twenty years and are renewable.

11 INTANGIBLE ASSETS

	<i>Customer contracts KD '000s</i>	<i>Customer lists KD '000s</i>	<i>Brand KD '000s</i>	<i>Total KD '000s</i>
Cost:				
At 1 January and 31 December 2007	9,894	7,271	4,721	21,886
Amortisation:				
At 1 January 2007	818	682	-	1,500
Charge for the year	1,947	498	-	2,445
31 December 2007	2,765	1,180	-	3,945
Net book value:				
31 December 2007	7,129	6,091	4,721	17,941
31 December 2006	9,076	6,589	4,721	20,386

The purchase price allocation was performed by senior management of the Group who have the knowledge and experience of the industry in which the acquired subsidiaries operate. The senior management, while performing this exercise considered the valuation and due diligence exercises conducted by external consulting firms prior to acquisition.

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

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11 INTANGIBLE ASSETS (continued)

Customer contracts, customer lists and brand represent intangible assets acquired through business combinations in previous years.

The brand is assumed to have an indefinite useful life. The brand was acquired in August 2006 and is subject to impairment testing on an annual basis.

12 GOODWILL

The goodwill arising on acquisition of subsidiaries is summarised as follows:

	2007 KD '000s	2006 KD '000s
Cost:		
At 1 January	193,440	168,270
Additions	22,627	47,576
Transfer to intangible assets (Note 11)	-	(21,886)
Foreign exchange differences	(6,541)	(520)
At 31 December	<u>209,526</u>	<u>193,440</u>
Impairment:		
At 1 January and 31 December	<u>5,278</u>	<u>5,278</u>
Net carrying value	<u><u>204,248</u></u>	<u><u>188,162</u></u>

On 28 February 2007, the Group acquired 100% of the share capital of Leader Group Limited for a cash consideration of KD 302 thousand. Goodwill arising on acquisition amounted to KD 273 thousand, based on the tentative estimates of the fair value of the net assets acquired. From the date of acquisition, Leader Group Limited incurred a loss of KD 28 thousand.

On 3 April 2007, the Group acquired 100% of the share capital of WTS of Houston Inc. and World Transportation Services Inc. for a total cash consideration of KD 1,613 thousand excluding transaction costs of KD 93 thousand. Goodwill arising on acquisition amounted to KD 1,369 thousand, based on the tentative estimates of the fair value of the net assets acquired. From the date of acquisition, the above subsidiaries contributed KD 188 thousand to the profit of the Group.

On 31 May 2007, the Group acquired 75% of the share capital of LEP International (NZ) Limited and its subsidiaries, 100% of Pan Orient Shipping Services Pty Limited and 100% of Kurada no. 8 Limited for a cash consideration of KD 21,900 thousand excluding transaction costs of KD 90 thousand. The fair values of the identifiable assets and liabilities as on the date of acquisition were as follows:

	KD '000s
Total assets	<u>10,400</u>
Total liabilities	<u>4,650</u>
Fair value of net assets acquired	5,750
Goodwill arising on acquisition	<u>16,240</u>
Purchase consideration	21,990
Less: cash and cash equivalents	<u>1,518</u>
Cash flow on acquisition net of cash acquired	<u><u>20,472</u></u>

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

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12 GOODWILL (continued)

The tentative estimate of fair values of the identifiable assets and liabilities acquired, are equivalent to their carrying values as on the date of acquisition. From the date of acquisition, the above subsidiaries contributed KD 474 thousand to the profit of the Group.

On 31 August 2007, the Group acquired 100% of the share capital of Synergy Logistics Pte Ltd, Synergy Shipping Pte Ltd and its subsidiary for a total cash consideration of KD 2,515 thousand. Goodwill arising on acquisition amounted to KD 675 thousand, based on the tentative estimates of the fair value of the net assets acquired.

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

Upon finalisation of the valuation of net assets acquired in respect of the acquisition of subsidiaries during the year ended 31 December 2006, the Group's management did not identify any additional intangible assets during this exercise in 2007. Accordingly, the provisional goodwill of KD 33,268 thousand arising in 2006 is considered as final.

The contingent consideration of KD 18,738 thousand in respect of acquisition of Gulf Catering Company for General Trade and Contracting W.L.L. in 2006 was fully settled during the current year, as the conditions attached therewith were met.

13 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSET WITH INDEFINITE LIFE

The Group underwent significant restructuring during the past two years and re-organised its core business activities in to the following categories:

- Global Integrated Logistics
- Defence and Government Services
- Investments

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

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

	<i>Carrying amount of goodwill 2007 KD '000s</i>	<i>Carrying amount of goodwill 2006 KD '000s</i>
Cash generating units		
Global Integrated Logistics	165,933	150,145
Defence and Government Services	26,851	27,339
Investments	11,464	10,678
Total	204,248	188,162

The recoverable amount of the cash generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management for 2008 and assuming a 10% growth rate for the four year period thereafter, which is in the range of the current short term growth rate for the logistics industry. The pre-tax discount rate applied to cash flow projections is 10% and cash flows beyond the 5 year period are extrapolated using 3% growth rate which is below the long-term average growth rate for the logistics industry, on a conservative basis.

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13 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSET WITH INDEFINITE LIFE (continued)

Key assumptions used in value in use calculations

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

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

Sensitivity to changes in assumptions

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

Intangible asset with indefinite life

Intangible asset with indefinite life of KD 4,721 thousand (2006: 4,721 thousand) represents the brand which has been tested for impairment at the balance sheet date. In the opinion of the management, no impairment is considered necessary.

14 TRADE AND OTHER PAYABLES

	<i>2007</i> <i>KD ‘000s</i>	<i>2006</i> <i>KD ‘000s</i>
Trade payables	193,183	184,089
Amounts due to related parties (Note 31)	5,937	9,046
Accrued expenses	75,816	57,055
Amounts payable in respect of acquisition of subsidiaries	-	18,188
Accrued employee related expenses	42,749	22,295
Retentions	609	5,246
KFAS payable	3,306	3,005
Directors’ remuneration	200	165
Other liabilities	24,804	2,524
	<u>346,604</u>	<u>301,613</u>

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

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15 INTEREST BEARING LOANS AND BORROWINGS

	<i>2007</i> <i>KD '000s</i>	<i>2006</i> <i>KD '000s</i>
Total loan of US\$ 550,000 thousand obtained from a foreign bank which carries interest at LIBOR plus margin ranging from 0.7% to 1% and is divided into five tranches as explained below:		
• Tranche A1 amounting to US\$ 155,000 thousand was repaid in August 2007	-	44,817
• Tranche A2 amounting to US\$ 25,000 thousand was repaid in August 2007	-	7,229
• Tranche B1 amounting to US\$ 239,818 thousand is repayable by annual instalments of 20 percent of the loan balance over the period of three years commencing from September 2007 with a final repayment due in September 2010.	52,376	69,340
• Tranche B2 amounting to US\$ 110,000 thousand is repayable through annual instalments of 20 percent of the loan balance over a period of three years commencing from September 2007 with a final repayment in September 2010.	24,024	31,805
• Tranche B3 amounting to US\$ 20,182 thousand is repayable through annual instalments of 20 percent of the loan balance over a period of three years commencing from September 2007 with a final repayment due in September 2010.	4,407	5,835
Loan of KD 100,000 thousand borrowed from a local bank in October 2007 which carries interest at KIBOR plus 2.5% and is repayable in four quarterly instalments commencing from April 2008.	100,000	-
Loan of US\$ 250,000 thousand borrowed from a local bank in October 2007 which carries interest at LIBOR plus 2.25% and is repayable in October 2008.	68,250	-
Loan of US\$ 60,000 thousand borrowed from a local bank in 2003 which carries interest at LIBOR plus 0.75% and is repayable in quarterly instalments commencing from September 2005.	11,562	14,372
Loan of US\$ 40,000 thousand borrowed from a local bank in 2003 which carries interest at LIBOR plus 0.75% and is repayable in quarterly instalments commencing from April 2007.	7,020	11,565
Other loans	51,549	40,101
	<u>319,188</u>	<u>225,064</u>

On 30 August 2005, the Parent Company obtained a loan amounting to US\$ 460,000 thousand (equivalent to KD 134,320 thousand) the primary purpose of which was to finance the acquisition of GeoLogistics Corporation. On 15 December 2005, additional funding of US\$ 90,000 thousand (equivalent to KD 26,280 thousand) was obtained under the terms of the same loan agreement to fund the operations of the Group. The loan is denominated in US Dollars and is divided into five trenches; A1, A2, B1, B2, and B3.

The terms of the loan agreements require the Parent Company to meet certain financial covenants. At 31 December 2007, these covenants have been met.

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

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15 INTEREST BEARING LOANS AND BORROWINGS (continued)

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

	<i>Current portion KD '000s</i>	<i>Non-current portion KD '000s</i>	<i>Total KD '000s</i>
Kuwaiti Dinars	105,120	7,824	112,944
US Dollars	101,430	85,920	187,350
Euros	2,343	1,170	3,513
Others	10,071	5,310	15,381
Balance at 31 December 2007	218,964	100,224	319,188
Balance at 31 December 2006	91,820	133,244	225,064

Included in interest bearing loans and borrowings are loans amounting to KD 21,387 thousand (2006: KD 16,804 thousand) which are held by subsidiaries in the Group. Trade receivables and certain other assets of the respective subsidiaries are pledged as collateral against these loans.

Included in interest bearing loans and borrowings is an amount of KD 10,500 thousand in a subsidiary, Global Clearing House Systems K.S.C. (Closed) on a non-recourse basis. The net worth of this subsidiary at 31 December 2007 is negative KD 15,633 thousand. The Parent Company is only liable for losses equal to the contributed share capital of the subsidiary amounting to KD 3,030 thousand at the balance sheet date. Certain assets of the subsidiary amounting to KD 11,679 thousand have been pledged as collateral against this loan.

16 TAXES PAYABLE

This represents tax due on certain companies in the Group as at 31 December, the details of which are as follows:

	<i>2007 KD '000s</i>	<i>2006 KD '000s</i>
Subsidiaries located overseas		
Income tax payable		
ICS Incorporation Limited, UK	171	333
GeoLogistics Corporation	1,836	3,684
Cronat Transport Holding AG	196	319
Taos Industries Inc.	290	307
Translink Group	133	235
Others	186	40
	2,812	4,918
Kuwait National Labour Support Tax		
Public Warehousing Company K.S.C.	3,822	7,284
Metal & Recycling Company K.S.C.	38	40
	6,672	12,242

NLST is calculated in accordance with the applicable provisions of Kuwait Law currently in force.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17 BONDS

	2007 KD '000s	2006 KD '000s
Unsecured US Dollar fixed rate bonds issued on 30 September 2003 (Principal amount: US\$ 50,000 thousand) in four semi-annual tranches from the date of issue. The bonds bear fixed interest at the annual rate of 4% and are maturing on 30 September 2008*.	13,650	14,457
Unsecured Kuwait Dinar fixed rate bonds issued on 30 September 2003 (Principal amount: KD 15,000 thousand) in four semi-annual tranches from the date of issue. The bonds bear fixed interest at the annual rate of 5% and are maturing on 30 September 2008*.	15,000	15,000
	<u>28,650</u>	<u>29,457</u>

The fixed interest in respect of the US Dollar bonds and the Kuwait Dinar bonds will accrue from the date of issue of each tranche. The interest will be payable semi-annually in arrears commencing six months from the date of issue of each tranche. At the sole discretion of the Parent Company, the bonds may be redeemed at par, in whole or in part, at each coupon payment date after the second anniversary of the issuance of the first tranche.

*The Parent Company has the option to extend the maturity date of these bonds and therefore the maturity date of these bonds was extended to 30 September 2009.

18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

The Group has a number of defined benefit pension plans that cover a substantial number of employees. Retirement benefits are provided based on compensation as defined by local labour laws or employee contracts. The Group's policy is to fund these plans in accordance with local practice and contributions are made in accordance with independent actuarial valuations.

	2007 KD '000s	2006 KD '000s
Movements in the provision recognised in the consolidated balance sheet are as follows:		
Provision at 1 January	13,198	14,192
Provided during the year	7,114	4,355
Employees' end of service benefits paid	(4,554)	(5,349)
Provision at 31 December	<u>15,758</u>	<u>13,198</u>

As a result of the acquisition of GeoLogistics Corporation in 2005, the Group has assumed responsibility for defined benefit plans for the employees of GeoLogistics Corporation and its subsidiaries. As at 31 December the status of the plan was as follows:

	2007 KD '000s	2006 KD '000s
Defined benefit obligation	(53,867)	(55,132)
Fair value of plan assets	40,572	40,310
Funded status of the plan	(13,295)	(14,822)
Unrecognised net actuarial loss	4,868	5,968
Accrued benefit cost, net	<u>(8,427)</u>	<u>(8,854)</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	2007	2006
Discount rate at 31 December	4%	5%
Expected rate of increase of employee remuneration	3%	4%
Average length of employee service	5 years	5 years
Expected return on plan assets	4%	7%

19 OTHER NON-CURRENT LIABILITIES

	2007 KD '000s	2006 KD '000s
Lease obligations	7,032	7,295
Amounts due to related parties (Note 31)	8,551	8,495
Amounts payable in respect of acquisition of subsidiaries	-	4,256
Other liabilities	14,789	10,606
	<u>30,372</u>	<u>30,652</u>

20 SHARE CAPITAL

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	2007 KD '000s	2006 KD '000s	2007 KD '000s	2006 KD '000s
Shares of KD 0.100 each	<u>95,167</u>	<u>79,306</u>	<u>95,167</u>	<u>79,306</u>

The annual general meeting of the shareholders of the Parent Company held on 12 June 2007, approved the increase of authorised share capital from KD 79,306 thousand to KD 95,167 thousand by issuing 158,611,622 bonus shares amounting to KD 15,861 thousand (2006: 103,442,363 bonus shares amounting to KD 10,344 thousand).

21 STATUTORY RESERVE

In accordance with the Law of Commercial Companies and the Parent Company's Articles of Association, the Parent Company has resolved not to increase the statutory reserve above an amount equal to 50% of its paid up share capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration, is the amount required to raise the reserve to 50% of paid up share capital. The statutory reserve is not available for distribution except in certain circumstances stipulated by law.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22 TREASURY SHARES

	<i>2007</i>	<i>2006</i>
Number of treasury shares	853,991	2,280,499
Percentage of issued shares	0.09%	0.29%
Market value in KD ‘000s	1,196	3,832
Cost in KD ‘000s	1,035	3,038

23 LOGISTICS AND FREIGHT FORWARDING REVENUES

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

24 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2007</i> <i>KD ‘000s</i>	<i>2006</i> <i>KD ‘000s</i>
Repairs and maintenance	35,110	22,058
Professional fees	29,915	21,886
Rent	21,487	15,438
Travel and marketing	18,065	13,138
Customs fees	12,689	14,140
Communication expenses	8,499	6,425
Insurance	4,523	3,698
Provision for doubtful trade receivables	2,301	1,256
Other expenses	5,536	18,206
	138,125	116,245

25 SALARIES AND EMPLOYEE BENEFITS

	<i>2007</i> <i>KD ‘000s</i>	<i>2006</i> <i>KD ‘000s</i>
Salaries		
Employee benefits	213,138	147,758
Bonus	11,974	8,328
	21,095	14,046
	246,207	170,132

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26 BASIC AND DILUTED EARNINGS PER SHARE

The information necessary to calculate basic and diluted earnings per share attributable to equity holders of the Parent Company based on the weighted average number of shares outstanding during the year is as follows:

	2007 KD '000s	2006 KD '000s
Earnings:		
Profit for the year attributable to equity holders of the Parent Company	<u>153,941</u>	<u>166,517</u>
Shares outstanding:		
At beginning of the year	951,669,735	951,669,735
Weighted average number of treasury shares	<u>(593,774)</u>	<u>(10,069,381)</u>
Weighted average number of shares outstanding	<u>951,075,961</u>	<u>941,600,354</u>
Basic and diluted earnings per share	<u>161.86 Fils</u>	<u>176.84 Fils</u>

The basic and diluted earnings per share for the previous year have been restated as a result of bonus shares issued in 2007 (Note 20).

27 DIVIDENDS

On 20 March 2008, the board of directors proposed a cash dividend of 80 fils per share and bonus shares at 10% or 10 shares per 100 shares, subject to approval by the shareholders' general assembly.

On 12 June 2007, the shareholders at the Annual General Assembly of the Parent Company approved the consolidated financial statements for the year ended 31 December 2006 and declared a cash dividend of 90 fils per share (2005: 55 fils per share) and bonus shares at 20% or 20 shares per 100 shares (2005: 15% or 15 shares per 100 shares).

28 DERIVATIVE FINANCIAL INSTRUMENTS

The following table shows the derivatives held for trading by the Parent Company at 31 December:

	Positive fair value KD '000s	Negative fair value KD '000s	Notional amount Total KD '000s	Notional amounts by term to maturity	
				Within one year KD '000s	1 - 5 years KD '000s
31 December 2007					
<i>Derivatives held for trading:</i>					
Interest rate swap	-	444	51,870	-	51,870
Foreign currency swaps	<u>2,262</u>	<u>-</u>	<u>200,006</u>	<u>200,006</u>	<u>-</u>
	Positive fair value KD '000s	Negative fair value KD '000s	Notional amount Total KD '000s	Notional amounts by term to maturity	
				Within one year KD '000s	1 - 5 years KD '000s
31 December 2006					
<i>Derivatives held for trading:</i>					
Interest rate swap	<u>86</u>	<u>-</u>	<u>52,768</u>	<u>86</u>	<u>52,768</u>

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29 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Group has contingent liabilities and capital commitments at the balance sheet date as follows:

	2007 KD '000s	2006 KD '000s
Letters of guarantee	39,267	25,725
Operating lease commitments	31,590	37,755
Capital commitments	12,355	28,879
	<u>83,212</u>	<u>92,359</u>

Capital commitments relate to the construction of warehouses and for the purchase of vehicles to be used in the Group's logistics operations.

Included in letters of guarantee are bank guarantees for KD 31,372 thousand, provided by a bank on behalf of the subsidiary, Global Clearing House Systems K.S.C. (Closed), to the General Administration of Customs in the State of Kuwait. These guarantees are issued by the bank on a non-recourse basis to the Group. The net worth of the subsidiary at 31 December 2007 is negative KD 15,633 thousand. The Parent Company is only liable for losses equal to the contributed share capital of the subsidiary amounting to KD 5,000 thousand. During the current year the Department of Customs called a guarantee of KD 10,092 thousand. As further explained below, the subsidiary did not charge this payment to the income statement.

Legal claims

(a) Subsistence Prime Vendor Contract – US investigation

During the year, the Parent Company was served administrative subpoena by the US Government in connection with an investigation into certain aspects of the Subsistence Prime Vendor Contract ("PV"). In addition, some employees of the Group were served with civil investigative demands. The Parent Company is cooperating with this investigation and has produced several hundred thousand of records in response to this request.

As at 31 December 2007, the Parent Company (after consulting the external legal counsel) is not able to comment on the likely outcome of the investigation and, as no formal allegations have yet been made, the management has concluded that no provision is considered necessary in the accompanying consolidated financial statements.

(b) Freight forwarding business - investigation

In October 2007, certain subsidiaries in the Group received formal notifications from the competition authorities of the EU, the United States, Canada and New Zealand confirming that they are being investigated as part of an industry-wide investigation into the setting of surcharges and fees by the freight forwarders. These subsidiaries are fully cooperating with these authorities.

At this time, the Group's management (after consulting the external legal counsel) is not able to comment on the likely outcome of the investigations and as no formal allegations have yet been made against these subsidiaries, the management has concluded that no provision is considered necessary in the accompanying consolidated financial statements.

(c) Lease agreements

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

The Parent Company protested against this order through case No. 940/2006 "Administrative". In the Hearing held on 25 December 2006, the court pronounced its ruling to repeal the aforesaid Resolution of the Ministry of Commerce & Industry and its resultant impacts.

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29 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

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

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

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

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

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

In January 2008, the Court of Appeal ruled in favour of the Parent Company whereby Al-Jahra Fish, Meat and Vegetables Market Project Contract is to be given back to the Parent Company. The Court of Appeal also ruled out that the Parent Company be compensated for losses and expenses that arose as a result of this case.

(d) Prime Vendor Services Contract – legal dispute

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

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

(e) Guarantee encashment

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

In the opinion of the Company’s external legal consulting firms the violations against which a portion of the bank guarantee provided has been encashed, are non-contractual violations, and in accordance with the law, believe that a verdict shall be issued in favour of the Company to return the encashed portion of the guarantee plus interest of 7%. The Parent Company holds a 51% investment in this Company. Management believes that this matter is incidental and will be resolved in the courts during 2008 and, accordingly, no expense has been recorded in the accompanying consolidated financial statements.

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

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30 SHARE LINKED COMPENSATION AND INCENTIVE PLANS

Employees are eligible to participate in the share linked compensation and incentive plan. The exercise price of the units in the plan is equal to the market price of the shares on the date of grant. The units vest if the employee remains in service for periods up to a maximum seven years. At the exercise date, employees will receive the equivalent theoretical value of the units in cash at the Parent Company's discretion. For each grant, the underlying number of units and the associated exercise price are subsequently adjusted to immunise the value of such units from changes in the capital structure that result from share dividends, cash dividends, or other changes. The fair value of these units cannot be established reliably. Accordingly, the intrinsic valuation method has been used. The expense recognised relating to the share linked compensation and incentive plan for employee services received during the year ended 31 December 2007 is KD 6,000 thousand (2006: KD 5,250 thousand). The liability in relation to units outstanding at the end of the year is KD 8,137 thousand (2006: KD 4,878 thousand).

The Group has launched a long term incentive plan for certain senior management employees under which the eligible employees are granted units, the value of which is determined by the performance of the Group, and in particular the aggregate growth in profits over a three year period ending on 31 December 2008. 50% of the units' value will vest if the employee remains in service for the full three year period and the amount will be settled in cash during 2009. The other 50% will be deferred for one more year and converted to one phantom share of the Parent Company's stock, providing the holder the right to the value in cash of one share of the Parent Company, subject to being in employment at the end of 2009. On vesting the employee will receive a cash payout equivalent to the phantom shares value, based on the average daily share price of the Parent Company's stock for the month of December 2009. The expense recognised relating to the long term incentive plan for employee services received during the year ended 31 December 2007 is KD 1,800 thousand (2006: KD 1,800 thousand). The liability in relation to units outstanding at the end of the year is KD 3,600 thousand (2006: KD 1,800 thousand).

31 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Group, and companies which they control or over which they exert significant influence. Pricing policies and terms of these transactions are approved by the Group's management.

Material transactions and balances with related parties are as follows:

	<i>Other related parties KD '000s</i>	<i>Total 2007 KD '000s</i>	<i>Total 2006 KD '000s</i>
Consolidated income statement			
Purchases (net of discounts)	46,843	46,843	50,116
Fees for management services	-	-	301
Consolidated balance sheet			
Amounts due to related parties	14,488	14,488	17,541

Amounts due to related parties are disclosed in Notes 14 and 19. These balances are non-interest bearing and have arisen as a result of transactions made in the ordinary course of the business.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	<i>2007 KD '000s</i>	<i>2006 KD '000s</i>
Short-term benefits	3,819	4,127
Employees' end of service benefits	225	96
Share-based payments	3,900	2,250
	7,944	6,473

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

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31 RELATED PARTY TRANSACTIONS (continued)

Short term benefits include discretionary bonus amounting to KD 3,086 thousand (2006: KD 3,322 thousand) awarded to key management personnel.

The terms of the equity linked compensation and incentive plans are disclosed in Note 30. During the year KD 2,740 thousand (2006: KD 2,523 thousand) has been paid under this scheme.

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

32 SEGMENT REPORTING

The Group's efforts to re-organise and integrate its business activities were substantially completed during later part of 2007. However, internal reporting systems are not fully in place to facilitate the process of segment reporting.

Therefore, for the current year, geographic segments continue to be determined to be the primary segments for the purpose of segmental reporting.

For the year ending 31 December 2008, management expects the internal reporting systems to be in place after which the primary segments will be the business segments as follows:

- Global Integrated Logistics (GIL);

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

- Defence and Government Services (DGS); and

The DGS segment provides logistics and freight services to clients mainly consisting of government, civilian and military agencies and other international multi-lateral organisations.

- Investments

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

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

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31 December 2007

32 SEGMENT REPORTING (continued)

Primary segment

The Group operates in different geographical areas. A geographical analysis based on location of assets and liabilities is as follows:

31 December 2007	<i>Asia KD '000s</i>	<i>Europe KD '000s</i>	<i>America KD '000s</i>	<i>Africa KD '000s</i>	<i>Total before inter-group elimination KD '000s</i>	<i>Inter-group elimination KD '000s</i>	<i>Total KD '000s</i>
Income	1,113,134	483,652	208,960	17,822	1,823,568	(149,702)	1,673,866
Expenses	906,584	487,987	233,458	14,568	1,642,597	(149,702)	1,492,895
Segment results	<u>206,550</u>	<u>(4,335)</u>	<u>(24,498)</u>	<u>3,254</u>	<u>180,971</u>	<u>-</u>	180,971
Interest income							14,768
Finance costs							(24,190)
Investment and other income							1,583
Taxes							(7,883)
Unallocated corporate charges							(1,813)
Profit for the year							163,436
Segment assets	1,143,734	184,887	514,661	28,596	1,871,878	(434,359)	1,437,519
Investments							98,503
Total assets							1,536,022
Segment liabilities	323,230	178,445	311,652	24,573	837,900	(434,359)	403,541
Interest bearing liabilities							347,838
Other unallocated liabilities							-
Total liabilities							751,379
Capital expenditure:							
Property, plant and equipment	27,587	8,246	1,129	8,052	45,014	-	45,014
Projects in progress	26,688	136	1,436	1,574	29,834	-	29,834
Investment properties	5,469	-	-	-	5,469	-	5,469
Depreciation	42,726	2,599	1,501	832	47,658		47,658
Amortisation	2,445	-	-	-	2,445	-	2,445

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

32 SEGMENT REPORTING (continued)

Primary segment (continued)

31 December 2006	<i>Asia KD '000s</i>	<i>Europe KD '000s</i>	<i>America KD '000s</i>	<i>Africa KD '000s</i>	<i>Total before inter-group elimination KD '000s</i>	<i>Inter-group elimination KD '000s</i>	<i>Total KD '000s</i>
Income	964,307	324,076	115,918	2,229	1,406,530	(76,381)	1,330,149
Expenses	775,265	322,930	125,351	4,379	1,227,925	(76,381)	1,151,544
Segment results	189,042	1,146	(9,433)	(2,150)	178,605	-	178,605
Interest income							15,840
Finance costs							(18,258)
Investment and other income							3,795
Taxes							(8,903)
Unallocated corporate charges							(1,890)
Profit for the year							169,189
Segment assets	1,077,512	120,385	147,275	1,554	1,346,726	(33,597)	1,313,129
Investments	7,248	-	-	-	-	-	7,248
Total assets							1,320,377
Segment liabilities	225,708	109,518	27,951	4,132	367,309	-	367,309
Interest bearing liabilities							247,551
Total liabilities							614,860
Capital expenditure:							
Property, plant and equipment	27,644	1,121	660	1,758	31,183		31,183
Projects in progress	16,722	90	-	372	17,184		17,184
Investment properties	7,506	-	-	717	8,223		8,223
Intangible assets	5,993	11,617	4,276	-	21,886		21,886
Depreciation	31,063	691	1,244	244	33,242		33,242
Amortisation	631	613	256	-	1,500		1,500

33 RISK MANAGEMENT

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

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

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

Risk management structure

The board of directors of the Parent Company are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk mitigation

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

Excessive risk concentration

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

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

16% (2006: 15%) of accounts receivable represents amounts outstanding from a governmental institution of high repute, accordingly, this is not considered to represent significant credit risk. There are no other significant concentrations of credit risk.

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 trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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31 December 2007

33 RISK MANAGEMENT (continued)

Credit risk (continued)

Gross maximum exposure to credit risk

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

	2007 KD '000s	2006 KD '000s
Bank balances	244,735	305,804
Trade receivables	346,026	271,935
Other receivables	23,024	46,238
	<u>613,785</u>	<u>623,977</u>

Liquidity risk

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

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

Financial liabilities	<i>Less than 1 months KD '000s</i>	<i>1 to 3 months KD '000s</i>	<i>3 to 12 months KD '000s</i>	<i>1 to 5 years KD '000s</i>	<i>Over 5 years KD '000s</i>	<i>Total KD '000s</i>
31 December 2007						
Interest bearing loans and borrowings	3,882	82,551	145,786	104,538	1,075	337,832
Trade payables	28,884	57,767	259,953	-	-	346,604
Bonds	-	324	972	29,622	-	30,918
Total financial liabilities	<u>32,766</u>	<u>140,642</u>	<u>406,711</u>	<u>134,160</u>	<u>1,075</u>	<u>715,354</u>
31 December 2006						
Interest bearing loans and borrowings	1,458	2,600	95,841	142,746	642	243,287
Trade payables	25,134	50,269	226,210	-	-	301,613
Bonds	-	324	972	31,725	-	33,021
Total financial liabilities	<u>26,592</u>	<u>53,193</u>	<u>323,023</u>	<u>174,471</u>	<u>642</u>	<u>577,921</u>

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	<i>3 to 12 months KD '000s</i>	<i>1 to 5 years KD '000s</i>	<i>Total KD '000s</i>
2007			
Letters of guarantee	-	39,267	39,267
Commitments	9,868	23,023	32,891
2006			
Contingent liabilities	-	25,725	25,725
Commitments	19,790	46,844	66,634

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 RISK MANAGEMENT (continued)

Market risk

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

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

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. Interest rate risk is managed by the finance department of the Parent Company. The Group is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits, loans and bonds) as a result of mismatches of interest rate re-pricing of assets and liabilities. It is the Group's policy to manage its interest cost using a mix of fixed and variable rate debts.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the Group's profit before KFAS, NLST, Zakat and directors' remuneration, based on floating rate financial assets and financial liabilities held at 31 December 2007 and 2006. There is no impact on equity.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates, with all other variables held constant:

	<i>50 basis points movement</i>	
	<i>Effect on consolidated income statement</i>	
	<i>2007</i>	<i>2006</i>
	<i>KD '000s</i>	<i>KD '000s</i>
Liabilities bearing interest at floating rates (US Dollars)	1,252	744

Foreign currency risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in the foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments and ensures that the net exposure is kept to an acceptable level.

	<i>Change in currency rate by 1 %</i>			
	<i>Effect on equity</i>		<i>Effect on consolidated income statement</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>KD '000s</i>	<i>KD '000s</i>	<i>KD '000s</i>	<i>KD '000s</i>
US Dollars	2,888	1,545	718	941

Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the finance department of the Parent Company. The unquoted equity price risk exposure arises from the Group's investment portfolio. The Group manages this through constant monitoring of the fair values of the investments and managing the exposures accordingly.

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

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33 RISK MANAGEMENT (continued)

Equity price risk (continued)

	<i>Change in equity price by 5%</i>	
	<i>Effect on equity</i>	
	<i>2007</i>	<i>2006</i>
	<i>KD '000s</i>	<i>KD '000s</i>
5%	1,256	91

Other risks

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

34 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2007 and 31 December 2006.

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

	<i>2007</i>	<i>2006</i>
	<i>KD '000s</i>	<i>KD '000s</i>
Interest bearing liabilities	347,838	254,521
Other liabilities	357,411	317,489
Cash and bank balances	(247,082)	(315,002)
Net debt	458,167	257,008
Equity attributable to the equity holders of the Parent Company	756,899	688,117
Investment revaluation reserve	(599)	(309)
Equity	756,300	687,808
Gearing ratio	61%	37%

35 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial instruments are not materially different from their carrying values at the balance sheet date.

36 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the presentation in the current year. Such reclassifications relate to the following:

- For the year ended 31 December 2006, presentation of logistics revenue and costs gross, amounting to KD 625,225 thousand and KD 309,950 thousand respectively, and the combination of these amounts with freight and project forwarding revenues and costs amounting to KD 646,561 thousand and KD 514,594 thousand respectively, as this better reflects the elements of financial performance of the Group.
- Reclassification of investments in joint ventures, investments carried at fair value through income statement and investments in associates, in the aggregate amount of KD 3,254 thousand at 31 December 2006 to other non-current assets, as these balances are not material to the consolidated financial statements to the extent that separate disclosure is required.