

Consolidated financial statements and independent auditor's report
Specialties Group Holding Company – KSC (Closed) and
Subsidiaries

Kuwait

31 December 2007

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Independent auditor's report

To the shareholders of
Specialties Group Holding Company – KSC (Closed)
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Specialties Group Holding Company – KSC (Closed) (the parent company) and its Subsidiaries (the group), which comprises the consolidated balance sheet as at 31 December 2007, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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 in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the parent company, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Matters

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



Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Anwar Al-Qatami & Co.

Kuwait
12 February 2008

Consolidated statement of income

	Notes	Year ended 31 Dec. 2007 KD	Year ended 31 Dec. 2006 KD
Income			
Revenue form sales and services	5	11,811,867	12,383,536
Cost of sales and services	5	(8,767,941)	(9,933,500)
Gross profit	5	3,043,926	2,450,036
Gain on disposal of intangible assets	17	147,596	-
Gain /(loss) on sale of property, plant and equipment		28,437	(66,515)
Profit from sale of trading properties	14	247,643	-
Other income		80,211	137,110
Selling and distribution expenses		(82,690)	(103,902)
General, administrative and other expenses	6	(1,374,441)	(1,227,421)
Finance costs		(100,030)	(93,814)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Zakat and directors' remuneration		1,990,652	1,095,494
Contribution to KFAS		(17,916)	(9,859)
Zakat		(1,217)	-
Directors' remuneration		(12,000)	-
Profit for the year		1,959,519	1,085,635
Attributable to :			
Shareholders of the parent company		1,927,680	1,085,635
Minority interest		31,839	-
		1,959,519	1,085,635
EARNINGS PER SHARE	7	48Fils	27Fils

The notes set out on pages 7 to 26 form an integral part of these consolidated financial statements.

Consolidated balance sheet

	Notes	31 Dec. 2007 KD	31 Dec. 2006 KD
Assets			
Current assets			
Cash and bank balances		2,541,991	1,352,511
Inventories	10	1,414,716	990,332
Accounts receivable and other assets	11	5,534,126	2,849,203
Due from contracting customers	12	723,361	4,204,776
Due from related parties	13	685,830	1,423,906
Trading properties	14	4,696,689	-
		15,596,713	10,820,728
Non-current assets			
Available for sale investment	15	19,365	26,717
Property, plant and equipment	16	694,499	965,441
Intangible assets	17	1,499,819	999,082
		2,213,683	1,991,240
Total assets		17,810,396	12,811,968
Liabilities and equity			
Current liabilities			
Due to banks		49,032	921,822
Current portion of term loans	18	30,000	100,000
Murabaha payables	19	1,068,595	449,937
Accounts payable and other liabilities	20	4,122,713	3,828,136
Due to related parties	13	-	656,606
		5,270,340	5,956,501
Non-current liabilities			
Non-current portion of term loans	18	-	30,000
Murabaha payables	19	3,500,000	-
Provision for end of service indemnity		247,663	267,593
		3,747,663	297,593
Equity			
Share capital	21	4,000,000	4,000,000
Statutory reserve	22	521,828	325,947
Voluntary reserve	22	550,436	354,555
Revaluation reserve		508,299	836,654
Retained earnings		2,904,991	1,040,718
Total equity attributable to the shareholders of the parent company		8,485,554	6,557,874
Minority interest		306,839	-
Total equity		8,792,393	6,557,874
Total liabilities and equity		17,810,396	12,811,968

The notes set out on pages 7 to 26 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to shareholders of the parent company					Minority interest		Total
	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Revaluation reserve KD	Retained earnings KD	Total KD	KD	
Balance as at 31 December 2005	4,000,000	216,398	245,006	836,654	174,181	5,472,239	-	5,472,239
Profit for the year	-	-	-	-	1,085,635	1,085,635	-	1,085,635
Transfer to reserves	-	109,549	109,549	-	(219,098)	-	-	-
Balance as at 31 December 2006	4,000,000	325,947	354,555	836,654	1,040,718	6,557,874	-	6,557,874
Realised on sale of intangible assets (Note 17)	-	-	-	(328,355)	328,355	-	-	-
Profit for the year	-	-	-	-	1,927,680	1,927,680	31,839	1,959,519
Total recognised (expenses)/income for the year	-	-	-	(328,355)	2,256,035	1,927,680	31,839	1,959,519
Capital introduced by minority shareholders	-	-	-	-	-	-	275,000	275,000
Transfer to reserves	-	195,881	195,881	-	(391,762)	-	-	-
Balance as at 31 December 2007	4,000,000	521,828	550,436	508,299	2,904,991	8,485,554	306,839	8,792,393

The notes set out on pages 7 to 26 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 Dec. 2007 KD	Year ended 31 Dec. 2006 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, Zakat and directors' remuneration		1,990,652	1,095,494
Adjustments for:			
Gain on disposal of intangible assets		(147,596)	-
Depreciation and amortisation		235,348	269,831
(Gain)/loss on sale of property, plant and equipment		(28,437)	66,515
Finance costs		100,030	93,814
Provision for end of service indemnity		21,304	29,238
		2,171,301	1,554,892
Changes in operating assets and liabilities:			
Inventories		(424,384)	265,728
Accounts receivable and other assets		(2,684,925)	(368,042)
Due from contracting customers		3,481,415	(3,260,197)
Due from related parties		738,076	455,514
Accounts payable and other liabilities		263,445	2,190,966
Due to related parties		(656,606)	1,387,896
Trading properties		(4,696,689)	-
Indemnity paid		(41,234)	(16,948)
Net cash (used in)/from operating activities		(1,849,601)	2,209,809
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(77,100)	(274,737)
Purchase of leasehold land		(900,000)	-
Proceeds from disposals of property, plant and equipment		185,813	-
Proceed from disposal of intangible assets		502,178	-
Proceeds from available for sale investment		7,352	17,003
Net cash used in investing activities		(281,757)	(257,734)
FINANCING ACTIVITIES			
Movement in murabaha payables		4,118,658	(2,914,613)
Finance costs paid		(100,030)	(93,814)
Change in minority interest		275,000	-
Repayment of term loans		(100,000)	(100,000)
Net cash from/(used in) financing activities		4,193,628	(3,108,427)
Net increase/(decrease) in cash and cash equivalents		2,062,270	(1,156,352)
Cash and cash equivalents at beginning of the year		430,689	1,587,041
Cash and cash equivalents at end of the year	23	2,492,959	430,689

The notes set out on pages 7 to 26 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

31 December 2007

1 Incorporation and activities

Specialties Group Holding Company – KSC (Closed) ("the parent company") [formerly: Alghanim Specialties Company WLL] was initially incorporated as a Kuwaiti limited liability company on 1 October 1988 in accordance with the Commercial Companies Law in Kuwait to carry out trading in construction materials, fire equipment, cleaning material and to engage in building construction and other general trading activities ("general trading and contracting activities").

During the previous year the parent company changed the legal form of the company from a Kuwaiti limited liability company to a Kuwaiti closed shareholding company and also changed its name from Alghanim Specialties Company – WLL to Specialties Group Holding Company – KSC (Closed) and amended its articles of association accordingly. According to the revised articles of association of the parent company, its objectives are as follows;

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

Further during the previous year, upon completion of the change in the legal form of the parent company as mentioned above, the net assets of the parent company's "general trading and contracting activities" were transferred at their book values to a newly acquired wholly owned subsidiary (see note 4). Since the wholly owned subsidiary is consolidated the transfer has no impact on the consolidated financial statements for the year ended 31 December 2006.

The group comprises the parent company and its subsidiaries. Details of the subsidiaries are set out in Note 4.

The address of the parent company's registered office is PO Box 23595, Safat 13096, State of Kuwait.

The board of directors of the parent company authorised these consolidated financial statements for issue on 12 February 2008 and are subject to the approval of the general assembly of the shareholders.

2 Adoption of new and revised International Financial Reporting Standards

In the current year, the group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007 and the consequential amendment to IAS 1 Presentation of Financial Statements.

IFRS 7 Financial Instruments: Disclosures

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

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

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

IAS 1 Presentation of Financial Statements

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

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

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

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

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

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

- IFRS 8 Operating Segments (effective for annual periods on or after 1 January 2009)
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)
- IFRIC 14 IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008)

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

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

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

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper-Inflationary Economies;
- IFRIC 9 Reassessment of Embedded Derivatives; and
- IFRIC 10 Interim Financial Reporting and Impairment

3 Significant accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2006.

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Basis of preparation

The consolidated financial statements of the group are prepared in accordance with the International Financial Reporting Standards under the historical cost convention as modified by the revaluation of property, plant and equipment, available for sale investments and intangible assets.

The financial statements have been presented in Kuwaiti Dinars which is the functional currency of the parent company.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2007, and the financial statements of its subsidiaries prepared to that date using consistent accounting policies.

Subsidiaries are those enterprises controlled by the group and are fully consolidated from the date on which control is transferred to the group. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal.

All significant inter-company balances and transactions are eliminated on consolidation.

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

Recognition of contract revenues and costs

The group recognises contract revenues and costs on the basis of the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. The group measures the stage of completion of each contract on the basis of the engineers' reports.

3 Significant accounting policies (continued)

Recognition of contract revenues and costs (continued)

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The group presents as an asset, under the heading "Due from contracting customers", the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "accounts receivables and other assets".

Finance cost

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not taken into consideration. Costs of ordinarily interchangeable items are assigned using weighted average cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Trade and other receivables

Trade receivables are stated at face value less impairment losses or provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Property, plant, equipment and depreciation

Property, plant and equipment are stated at cost or revaluation net of accumulated depreciation and impairment losses. The group depreciates its property, plant and equipment on the straight-line basis at rates estimated to depreciate the property, plant and equipment concerned over their estimated useful lives.

Intangible assets

Intangible assets represent right of use of land leased from the government and are stated at revalued amounts net of accumulated amortisation and impairment losses. Right of use of leased land is amortised over the lease period.

Trading properties

Trading properties include purchase costs of unsold real estate and recorded at the lower of cost and net realizable value.

Available for sale investments

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

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

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

Fair values

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

3 Significant accounting policies (continued)

Fair values (continued)

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

Trade and settlement date accounting

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

Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised either when the group has transferred substantially all the risk and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards, but no longer has control over the asset or a proportion of the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Impairment of financial assets

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

- (a) For assets carried at fair value, impairment is the difference between cost and fair value; and
- (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.

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

Impairment of non-financial assets

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

In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

3 Significant accounting policies (continued)

Impairment of non-financial assets (continued)

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

Murabaha payables

Murabaha payable is the total amount due on murabaha instalments as a result of financing of construction contracts and trading properties in accordance with murabaha arrangements. Murabaha payable is recorded at the total amount due after adding the proportionate profit for the year. This profit is charged to the statement of income based on time span and total profit margin.

Trade and other payables

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

Provisions

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

Provision for staff indemnity

The provision for staff indemnity is calculated on the basis of the accumulated period of service for each employee in accordance with the Kuwait labour law for the private sector and the company's bye-laws.

Cash and cash equivalents

For the purpose of the cash flows statement cash and cash equivalents consist of cash and bank balances net of due to banks.

Foreign currencies

Foreign currency transactions are converted into Kuwaiti Dinars at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Kuwaiti Dinars using the rates of exchange prevailing at the balance sheet date. All exchange differences are reported in the statement of income.

Critical accounting judgements and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that may affect amounts reported in these financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Judgements and estimates that are significant to the financial statements are as follows;

Estimation of impairment of financial assets

The group's management reviews periodically items classified as loans and receivables to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgement by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

Estimation of impairment of non-financial assets and useful lives

The group's management tests annually whether non financial assets have suffered impairment in accordance with other accounting policies which are stated above. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

3 Significant accounting policies (continued)*Estimation of impairment of non-financial assets and useful lives (continued)*

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

Estimation of contract revenues and costs

The group uses the percentage-of-completion method in accounting for its construction contracts. Use of this method requires the group to depend on estimated completion schedules, costs and values approved by engineers.

4 Subsidiary companies

The details of the consolidated subsidiaries which have been incorporated in Kuwait are as follows:

Company name	Percentage of ownership		Principal activities
	31 Dec. 2007	31 Dec. 2006	
Alghanim Specialties Company – WLL	100%	100%	Trading in construction materials and to engage in building construction and other general trading activities
Specialties Real Estate Company – WLL	75%	-	Investment and real estate
Specialties Energy Company – WLL	70%	-	Trading in petrol devices and equipment and to engage in excavation and maintenance of oil wells

5 Gross profit

	Revenue from sales and services		Cost of sales and services		Gross profit	
	31 Dec. 2007 KD	31 Dec. 2006 KD	31 Dec. 2007 KD	31 Dec. 2006 KD	31 Dec. 2007 KD	31 Dec. 2006 KD
General trading	4,522,113	4,468,453	3,044,941	2,996,350	1,477,172	1,472,103
Contracting division	1,469,155	2,779,335	1,218,279	2,518,600	250,876	260,735
Construction division	5,655,245	3,632,551	4,330,553	2,940,016	1,324,692	692,535
Other projects	165,354	1,503,197	174,168	1,478,534	(8,814)	24,663
	11,811,867	12,383,536	8,767,941	9,933,500	3,043,926	2,450,036

6 Profit for the year

Profit for the year is stated after charging:

	Year ended 31 Dec. 2007 KD	Year ended 31 Dec. 2006 KD
Staff costs (Note 6a)	950,325	819,403
Depreciation and amortisation (Note 6b)	235,348	269,831
Bad and doubtful debt expenses (Note 6c)	50,000	70,000

a. Staff cost for the year have been allocated as follows:

	2007 KD	2006 KD
Cost of sales and services	150,204	147,522
Selling and distribution expenses	18,092	25,940
General, administration and other expenses	782,029	645,941
	950,325	819,403

6 Profit for the year (continued)

b. Depreciation and amortisation for the year have been allocated as follows:

	Year ended 31 Dec. 2007 KD	Year ended 31 Dec. 2006 KD
Cost of sales and services	76,669	84,556
General, administration and other expenses	158,679	185,275
	235,348	269,831

c. Bad and doubtful expenses have been included under general, administrative and other expenses.

7 Earnings per share

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

	Year ended 31 Dec. 2007	Year ended 31 Dec. 2006
Profit for the year attributable to the shareholders of the parent company (KD)	1,927,680	1,085,635
Weighted average number of shares outstanding during the year	40,000,000	40,000,000
Earnings per share	48 Fils	27 Fils

8 Net gain or (loss) on financial assets

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

	Year ended 31 Dec. 2007 KD	Year ended 31 Dec. 2006 KD
Trade receivables	(50,000)	(70,000)

9 Finance costs

Finance costs relate to due to banks, bank loans and Murabaha payable. All these financial liabilities are stated at amortised cost.

10 Inventories

	31 Dec. 2007 KD	31 Dec. 2006 KD
Construction materials	542,597	470,286
Raw and packing materials	895,248	530,841
Fire and safety equipment	4,334	4,657
Goods in transit and others	13,258	6,914
	1,455,437	1,012,698
Provision for slow moving inventory	(40,721)	(22,366)
	1,414,716	990,332

11 Accounts receivable and other assets

	31 Dec. 2007 KD	31 Dec. 2006 KD
Financial assets		
Trade receivables	3,018,939	1,787,326
Retentions	1,680,767	718,507
Provision for doubtful debts	(256,651)	(212,988)
	4,443,055	2,292,845
Staff receivables	13,847	15,123
	4,456,902	2,307,968
Non-financial assets		
Advance to suppliers	171,687	317,525
Prepaid expenses and other assets	905,537	223,710
	5,534,126	2,849,203

11.1 The carrying values of the financial assets included above approximate their fair values and all of them are due within one year.

Trade receivables are non-interest bearing and generally on 30 – 60 days terms.

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

	31 Dec. 2007 KD	31 Dec. 2006 KD
Past due but not impaired		
- less than 3 months	2,033,849	1,050,674
- 3 – 6 months	290,545	34,835
- over 6 months	2,269,200	1,328,838
Impaired (fully provided for)		
- over 6 months	106,112	91,486
Total trade receivables and retention receivables	4,699,706	2,505,833

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of KD4,593,594 (2006: KD2,414,347) were past due but not impaired.

12 Due from contracting customers

	31 Dec. 2007 KD	31 Dec. 2006 KD
Total contract costs incurred on contracts in progress and recognised profits (less recognised losses) to date	7,927,149	6,242,768
Progress billings	(7,203,788)	(2,037,992)
	723,361	4,204,776

13 Due from/to related parties

	31 Dec. 2007 KD	31 Dec. 2006 KD
Due from:		
Al Khadda International General Trading & Contracting Company – WLL	-	1,229,034
Equipment Holding Company – WLL	685,830	-
Future Ready Mix Concrete Company – WLL	-	194,872
	685,830	1,423,906

13 Due from/to related parties (continued)

	31 Dec. 2007 KD	31 Dec. 2006 KD
Due to:		
Equipment Holding Company – WLL	-	154,102
Arabian Gulf Pearl Company – WLL	-	12,710
Equipment Holding Company – KSC (Closed)	-	489,794
	-	656,606

14 Trading properties

	31 Dec. 2007 KD	31 Dec. 2006 KD
Properties in UAE	4,346,689	-
Properties in Kuwait	350,000	-
	4,696,689	-

These represent the purchase cost of various land purchased in UAE and Kuwait for trading purpose. During the year the company sold one of its property in Kuwait for a consideration of KD710,000 realising a profit of KD247,643. The amount due on this sale has been included under accounts receivable and other assets. Properties amounting to KD1,648,311 are pledged under the terms of a Murabaha financing agreement with an Islamic financial institution registered in UAE (Note 19).

15 Available for sale investment

This represents an investment in a foreign fund which is stated at cost, since its fair value cannot be reliably measured.

16 Property, plant and equipment

	Buildings KD	Furniture and fittings KD	Equipment and machinery KD	Motor vehicles KD	Computers KD	31 Dec. 2007 KD
Cost or revaluation						
At 1 January 2007	552,162	226,249	1,079,561	139,676	52,976	2,050,624
Additions	-	28,169	28,651	7,559	12,721	77,100
Disposals	(179,210)	(6,000)	(102,431)	-	-	(287,641)
At 31 December 2007	372,952	248,418	1,005,781	147,235	65,697	1,840,083
Accumulated depreciation						
At 1 January 2007	201,184	198,167	541,471	97,899	46,462	1,085,183
Charge for the year	22,164	16,626	126,599	21,001	4,276	190,666
Reclassification	(909)	416	371	122	-	-
Relating to disposals	(81,388)	(300)	(48,577)	-	-	(130,265)
At 31 December 2007	141,051	214,909	619,864	119,022	50,738	1,145,584
Net book value at 31 December 2007	231,901	33,509	385,917	28,213	14,959	694,499

16 Property, plant and equipment (continued)

	Buildings KD	Furniture and fittings KD	Equipment and machinery KD	Motor vehicles KD	Computers KD	31 Dec. 2006 KD
Cost or revaluation						
At 1 January 2006	552,162	317,159	1,789,643	209,384	87,626	2,955,974
Transferred to related parties	-	(98,516)	(779,292)	(109,617)	(36,637)	(1,024,062)
Additions	-	7,606	224,210	39,909	3,012	274,737
Disposals	-	-	(155,000)	-	(1,025)	(156,025)
At 31 December 2006	552,162	226,249	1,079,561	139,676	52,976	2,050,624
Accumulated depreciation						
At 1 January 2006	182,464	212,214	568,424	98,667	48,293	1,110,062
Transferred to related parties	-	(30,678)	(98,475)	(17,671)	(5,792)	(152,616)
Charge for the year	18,720	16,631	160,929	16,903	4,064	217,247
Relating to disposals	-	-	(89,407)	-	(103)	(89,510)
At 31 December 2006	201,184	198,167	541,471	97,899	46,462	1,085,183
Net book value at 31 December 2006	350,978	28,082	538,090	41,777	6,514	965,441

The group depreciates its property, plant and equipment at the following annual rates:

Buildings	5%
Furniture, fittings and computers	20%
Machinery and equipment	25% - 50%
Motor vehicles	33%

Building, machinery and equipment with net book value of KD531,132 (31 December 2006: KD686,402) have been mortgaged as security for the long term loans (Note 18).

The company's buildings are constructed on land leased from the government (Note 17). The buildings were revalued by an independent valuer on 30 September 2005, which resulted in a revaluation surplus of KD6,162 and an impairment loss of KD117,007.

17 Intangible assets

	Right of use of leased land KD	Sealant line expenses KD	31 Dec. 2007 KD	31 Dec. 2006 KD
Cost				
At 1 January	1,097,963	10,949	1,108,912	1,108,912
Additions	900,000	-	900,000	-
Disposal	(394,005)	-	(394,005)	-
At 31 December	1,603,958	10,949	1,614,907	1,108,912
Amortisation				
At 1 January	98,881	10,949	109,830	57,246
Charge for the year	44,682	-	44,682	52,584
Relating to disposal	(39,424)	-	(39,424)	-
At 31 December	104,139	10,949	115,088	109,830
Net book value at 31 December	1,499,819	-	1,499,819	999,082

Right of use of lands represent the value of the right to use the lease hold land from the government and these are amortized over 20 years. On 30 September 2005 the rights of use of the lease hold land from the government were revalued by an independent evaluator which resulted in a revaluation surplus of KD841,083.

During the year ended 31 December 2007, the group sold one of its right of use of leasehold land with a net carrying value of KD354,582 for a consideration of KD502,178, resulting in a gain of KD147,596. Consequently, the revaluation surplus relating to the disposed asset amounting to KD328,355 has been transferred from revaluation reserve to retained earnings.

18 Term loans

	31 Dec. 2007 KD	31 Dec. 2006 KD
Amounts due within one year	30,000	100,000
Amounts due after one year	-	30,000
	30,000	130,000

The above represents two term loans from a local bank and are secured against two factories of the group (Note 16). The loans are repayable in semi annual instalments and carry interest at fixed rates ranging from 5% - 6% (2006: 5% - 6%) per annum.

19 Murabaha payables

Murabaha payable represents the value of commodities and trading properties purchased on a deferred basis and carries an effective profit payable rate of 9.25% (31 December 2006: 7.5%) per annum. The Murbaha payable relating to the finance of the trading properties is secured by the same property (Note 14).

20 Accounts payable and other liabilities

	31 Dec. 2007 KD	31 Dec. 2006 KD
Financial liabilities		
Trade payables	1,028,920	730,646
Retention – Due to subcontractors	150,662	165,435
Notes payable	388,523	183,158
Due on purchase of leased hold land	700,000	-
Advances received from contracting customers	1,489,696	2,467,753
	3,757,801	3,546,992
Non - Financial liabilities		
Provisions and other payables	364,912	281,144
	4,122,713	3,828,136

21 Share capital

At 31 December 2007, the authorized, issued and paid up capital of the parent company comprised 40,000,000 (2006: 40,000,000) shares of 100 fils each.

22 Statutory and voluntary reserves

As required by the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year before KFAS, Zakat and directors' remuneration is transferred to the statutory reserve until the balance reaches 50% of the company's issued and paid-up capital. No transfer is required in a year when losses are made. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the distribution of a dividend of that amount.

In accordance with parent company's articles of association, a certain percentage of the parent company's profit before KFAS, Zakat and directors' remuneration is to be transferred to the voluntary reserve at the discretion of the board of directors which is to be approved at the general assembly. For the year 2007 the board of directors propose to transfer 10% profit before KFAS and Zakat to the voluntary reserve.

23 Cash and cash equivalents

	31 Dec. 2007 KD	31 Dec. 2006 KD
Cash and bank balances	2,541,991	1,352,511
Less: Due to banks	(49,032)	(921,822)
	2,492,959	430,689

Due to banks represent unsecured overdraft facilities obtained from local banks which are repayable on demand and carry interest at 8.5% - 9.25% per annum.

24 Related party transactions

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

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

	31 Dec. 2007 KD	31 Dec. 2006 KD
Consolidated balance sheet		
Due from related parties (Note 13)	685,830	1,423,906
Due to related parties (Note 13)	-	656,606
Consolidated statement of income		
Other income	80,211	69,313
Key management compensation		
Salaries and other short term benefits	197,400	108,860

25 Risk management objectives and policies

The group's principal financial liabilities comprise due to banks, borrowings and accounts payable. The main purpose of these financial liabilities is to raise finance for group operations. The group has various financial assets such as accounts receivable and other assets, cash and bank balances and investment securities which arise directly from operations.

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

The parent company's board of directors are ultimately responsible to set out policies and strategies for management of risks.

The group does not use derivative financial instruments.

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

25.1 Market risk

a) Foreign currency risk

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

The group mainly operates in the Middle Eastern countries and USA and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar and UAE Dirham. The group's balance sheet can be significantly affected by the movement in these currencies. To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

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

	31 Dec. 2007 Equivalent KD	31 Dec. 2006 Equivalent KD
US Dollar	(457,477)	(167,137)
UAE Dirham	4,346,689	-

25 Risk management objectives and policies (continued)**25.1 Market risk (continued)****a) Foreign currency risk (continued)**

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

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

	Profit for the year	
	2007 KD	2006 KD
US Dollar	22,874	8,357
UAE Dirham	(217,334)	-
Total (loss)/profit	(194,460)	8,357

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

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

b) Interest and profit rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest and profit rate risk with respect to its due to banks, murabaha payable and borrowings. The risk is managed by the group by monitoring regularly to ensure positions are maintained within established limits.

The group does not have any off balance sheet financial instrument which are used to manage the interest and profit risk rate risk.

The following table illustrates the sensitivity of the profit for the year to a reasonable possible change in interest and profit rates with effect from the beginning of the year. Based on observation of current market conditions it has been assumed that a reasonable possible change in the interest and profit rates would be +25 and -75 basis points for LIBOR and +25 and -50 basis points for Kuwaiti Dinar interest rates for the year 2007 and 2006. The calculation is based on the group's financial instruments held at each balance sheet date. All other variables are held constant. There is no impact on group's equity.

	Increase in interest or profit rates		Decrease in interest or profit rates	
	2007 KD	2006 KD	2007 KD	2006 KD
Profit for the year	(11,619)	(3,679)	23,238	7,359

c) Price risk

Price risk arises from the possibility that changes in market prices will affect future profitability or fair value of financial instruments. The group has no significant financial assets subject to price risk except available for sale investment which is stated at cost.

25 Risk management objectives and policies (continued)**25.2 Credit risk**

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

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

	31 Dec. 2007 KD	31 Dec. 2006 KD
Bank balances	2,481,826	1,315,125
Accounts receivable and other assets (Note 11)	4,456,902	2,307,968
Due from contracting customers	723,361	4,204,776
Due from related parties	835,830	1,423,906
	8,497,919	9,251,775

The group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The group's policy is to deal only with creditworthy counterparties. The group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality other than those disclosed in note 11.1.

None of the group's financial assets are secured by collateral or other credit enhancements.

The credit risk for bank balances is considered negligible, since the counterparties are financial institution with high credit quality. Information on other significant concentrations of credit risk is set out in note 25.3

25.3 Concentration of assets

The distribution of financial assets by geographic region for 2007 and 2006 is as follows:

	Kuwait KD	Middle East KD	Total KD
At 31 December 2007			
Cash and bank balances	2,009,321	532,670	2,541,991
Accounts receivable and other assets	5,371,974	12,152	5,384,126
Due from contracting customers	723,361	-	723,361
Due from related parties	835,830	-	835,830
Available for sale investment	-	19,365	19,365
	8,940,486	564,187	9,504,673
At 31 December 2006			
Cash and bank balances	1,352,511	-	1,352,511
Accounts receivable and other assets	2,834,280	14,923	2,849,203
Due from contracting customers	4,204,776	-	4,204,776
Due from related parties	1,423,906	-	1,423,906
Available for sale investment	-	26,717	26,717
	9,815,473	41,640	9,857,113

25 Risk management objectives and policies (continued)**25.4 Liquidity risk**

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

The table below summarises the maturity profile of the group's liabilities. The maturities of liabilities have been determined on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	1 year KD	1-5 years KD	Total KD
31 December 2007			
LIABILITIES			
Due to banks			
Term loans	49,032	-	49,032
Murabaha payables	30,000	-	30,000
Accounts payable and other liabilities	1,068,595	3,500,000	4,568,595
Provision for end of service indemnity	3,757,801	-	3,757,801
	-	247,663	247,663
	4,905,428	3,747,663	8,653,091
31 December 2006			
LIABILITIES			
Due to banks			
Term loans	921,822	-	921,822
Murabaha payables	100,000	30,000	130,000
Accounts payable and other liabilities	449,937	-	449,937
Due to related parties	3,546,992	-	3,546,992
Provision for end of service indemnity	656,606	-	656,606
	-	267,593	267,593
	5,675,357	297,593	5,972,950

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

	Up to 1 month KD	1-3 months KD	3-12 months KD	1-5 years KD	Total KD
31 December 2007					
Financial liabilities					
Due to banks	49,032	-	-	-	49,032
Term loans	-	-	30,000	-	30,000
Murabaha payables	546,978	24,970	496,647	4,147,500	5,216,095
Accounts payable and other liabilities	802,124	1,692,778	1,262,899	-	3,757,801
Provision for end of services indemnity	-	-	-	247,663	247,663
	1,398,134	1,717,748	1,789,546	4,395,163	9,300,591
31 December 2006					
Financial liabilities					
Due to banks	921,822	-	-	-	921,822
Term loans	-	-	100,000	30,000	130,000
Murabaha payables	12,485	24,970	412,482	-	449,937
Accounts payable and other liabilities	542,594	632,354	2,372,044	-	3,546,992
Due to related parties	-	-	656,606	-	656,606
Provision for end of services indemnity	-	-	-	267,593	267,593
	1,476,901	657,324	3,541,132	297,593	5,972,950

26 Summary of financial assets and liabilities by category

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

	31 Dec. 2007 KD	31 Dec. 2006 KD
Financial assets:		
Cash and bank balances	2,541,991	1,352,511
Accounts receivable and other assets (Note 11)	4,456,902	2,307,968
Due from contracting customers	723,361	4,204,776
Due from related parties	835,830	1,423,906
	8,558,084	9,289,161
Financial liabilities:		
Due to banks	49,032	921,822
Term loans	30,000	130,000
Murabaha payables	4,568,595	449,937
Accounts payable and other liabilities (Note 20)	3,757,801	3,546,992
Due to related parties	-	656,606
	8,405,428	5,705,357

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the group's management, except for certain available for sale investments which are carried at cost for reasons specified in Note 15 to the financial statements the carrying amounts of financial assets and liabilities as at 31 December 2007 and 2006 approximate their fair values.

27 Capital management objectives

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

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

The capital structure of the group consists of the following:

	31 Dec. 2007 KD	31 Dec. 2006 KD
Term loans	30,000	130,000
Murabaha payables	4,568,595	449,937
Less: Cash and cash equivalents (Note 23)	(2,492,959)	(430,689)
Net debt	2,105,636	149,248
Equity attributable to the shareholders of the parent company	8,485,554	6,557,874

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. The group's policy is to keep the gearing ratio within 100%.

27 Capital management objectives (continued)

This ratio is calculated as net debt divided by equity attributable to the shareholders of the parent company as follows:

	31 Dec. 2007 KD	31 Dec. 2006 KD
Net debt	2,105,636	149,248
Equity attributable to the shareholders of the parent company	8,485,554	6,557,874
Gearing ratio	25%	2%

28 Contingent liabilities

At the balance sheet date the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD7,013,544 (2006 : KD10,222,505).