

**MUNSHAAT REAL ESTATE PROJECTS  
COMPANY K.S.C. (CLOSED) AND  
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2008**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C. (CLOSED)**

We have audited the accompanying consolidated financial statements of Munshaat Real Estate Projects Company K.S.C. (Closed) ("the parent company") and its subsidiaries ("the group"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the period from 1 October 2007 till 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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 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  
MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C. (CLOSED) (continued)**

**Opinion**

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

**Report on Other Legal and Regulatory Requirements**

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

**Emphasis of Matter**

- (a) Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which indicates that the group current liabilities exceeded its current assets by KD 11,920,341. The group is in discussion with lenders which include a significant shareholder, for restructuring the liabilities. The management is confident of a positive outcome of the discussion.
- (b) Without qualifying our opinion, we draw attention to note 24 in the consolidated financial statements which shows the revenue, expenses and balances resulted from the group's transactions with associates, major shareholders and other related parties.



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



DR. SAUD AL HUMAIIDI  
LICENCE NO. 51 A  
AL-HUMAIIDI & PARTNERS  
INDEPENDENT MEMBER OF BAKER  
TILLY INTERNATIONAL

31 March 2009

Kuwait

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Period ended 31 December 2008

		<i>15 months ended 31 December 2008 KD</i>	<i>12 months ended 30 September 2007 KD</i>
	<i>Notes</i>		
Sales commission received		5,128,955	2,240,105
Management fees	4	1,596,859	12,550,902
Incentive fees		-	31,352
Arrangement and advisory fee income	6	4,160,255	278,044
Placement fees		1,300,000	242,285
Share of results of associates	11	(117,957)	(386,590)
Gain on sale of investment in an associate	11	360,139	-
Loss on deem disposal of an associate	11	(47,815)	-
Impairment of available for sale investments	12	(1,819,126)	-
Gain on sale of available for sale investments		-	43,253
Unrealised loss from investments carried at fair value through income statement		(2,389,343)	(1,329,240)
Realised gain on sale of investments carried at fair value through income statement		-	236,960
Investment properties income	13	15,933,404	12,378,361
Gain on sale of investment properties	5	6,186,448	11,343,572
Finance income		2,009,983	3,071,844
Dividend income		84,375	586,400
Other income		620,829	458,209
Provision for doubtful debts	16	(2,269,958)	(540,200)
Provision for doubtful debts no longer required	16	792,782	-
Finance costs		(8,921,334)	(6,609,607)
General and administration expenses		(6,801,367)	(4,955,227)
Underwriting fees		(2,064,093)	-
Foreign exchange loss		(3,033,537)	(1,817,338)
Depreciation		(257,599)	(121,795)
<b>PROFIT FOR THE PERIOD / YEAR BEFORE ZAKAT, CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX AND BOARD OF DIRECTORS' REMUNERATION</b>		<b>10,451,900</b>	<b>27,701,290</b>
Zakat		(87,263)	-
Contribution to KFAS		(91,806)	(247,741)
National Labour Support Tax (NLST)		(221,498)	-
Board of directors' remuneration		-	(62,500)
<b>PROFIT FOR THE PERIOD / YEAR</b>	<b>7</b>	<b>10,051,333</b>	<b>27,391,049</b>
Attributable to			
Equity holders of the parent company		9,675,209	27,216,571
Non-controlling interest		376,124	174,478
<b>PROFIT FOR THE PERIOD / YEAR</b>		<b>10,051,333</b>	<b>27,391,049</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>8</b>	<b>30.05 fils</b>	<b>84.52 fils</b>


The attached notes 1 to 32 form part of these consolidated financial statements.

# Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED BALANCE SHEET

At 31 December 2008

		31 December 2008 KD	30 September 2007 KD
<b>ASSETS</b>	<i>Notes</i>		
<b>Non-current assets</b>			
Property and equipment	9	425,955	377,736
Goodwill	10	2,875,238	662,416
Investment in associates	11	6,415,086	3,728,044
Available for sale investments	12	11,333,816	11,867,514
Investment properties	13	192,677,564	59,368,110
Amounts due from related parties	24	-	9,214,011
		<u>213,727,659</u>	<u>85,217,831</u>
<b>Current assets</b>			
Investments carried at fair value through income statement	14	807,785	3,197,128
Wakala receivables	15	-	40,585,691
Accounts receivable and prepayments	16	8,035,768	11,060,859
Amounts due from related parties	24	38,532,616	108,473,403
Cash and cash equivalents	17	16,344,813	3,554,720
		<u>63,720,982</u>	<u>166,871,801</u>
<b>TOTAL ASSETS</b>		<u>277,448,641</u>	<u>252,089,632</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18	32,200,000	28,000,000
Share premium		12,400,000	12,400,000
Statutory reserve	19	8,854,013	7,846,436
Voluntary reserve	19	4,427,007	3,923,218
Cumulative changes in fair values		(92,541)	-
Foreign currency translation reserve		(674,680)	(428,969)
Retained earnings		46,937,869	45,774,026
<b>Equity attributable to equity holders of the parent company</b>		<u>104,051,668</u>	<u>97,514,711</u>
Non-controlling interest		925,395	1,721,937
<b>Total equity</b>		<u>104,977,063</u>	<u>99,236,648</u>
<b>Non-current liabilities</b>			
Murabaha payables	20	38,742,072	31,272,167
Obligations under finance leases	21	1,607,522	1,579,536
Accounts payable and accruals	23	17,491,375	17,309,800
Amounts due to related parties	24	38,902,433	-
Employees' end of service benefits		86,853	121,014
		<u>96,830,255</u>	<u>50,282,517</u>
<b>Current liabilities</b>			
Murabaha payables	20	22,252,620	25,645,815
Wakala payables	22	-	6,835,412
Obligations under finance leases	21	25,583,920	32,090,180
Accounts payable and accruals	23	25,769,402	27,335,518
Amounts due to related parties	24	2,035,381	10,663,542
		<u>75,641,323</u>	<u>102,570,467</u>
<b>Total liabilities</b>		<u>172,471,578</u>	<u>152,852,984</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>277,448,641</u>	<u>252,089,632</u>

  
Masood Akbar  
Chairman

  
Khalid Al-Shatti  
Vice Chairman

The attached notes 1 to 32 form part of these consolidated financial statements.

# Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

Period ended 31 December 2008

		15 months ended 31 December 2008 KD	12 months ended 30 September 2007 KD
<b>OPERATING ACTIVITIES</b>	<i>Notes</i>		
Profit for the period / year		10,051,333	27,391,049
Adjustments for:			
Depreciation		257,599	121,795
Share of results of associates	11	117,957	386,590
Loss on deem disposal of an associate	11	47,815	-
Gain on sale of investment in an associate	11	(360,139)	-
Provision for doubtful debts		2,269,958	540,200
Provision for doubtful debts no longer required		(792,782)	-
Foreign exchange loss		3,033,537	1,817,338
Finance income		(2,009,983)	(3,071,844)
Dividend income		(84,375)	(586,400)
Gain on sale of available for sale investments		-	(43,253)
Impairment of available for sale investments		1,819,126	-
Unrealised loss from investments carried at fair value through income statement		2,389,343	1,329,240
Realised gain on sale of investments carried at fair value through income statement		-	(236,960)
Change in fair values of investment properties	13	(13,167,054)	(12,330,030)
Gain on sale of investment properties		(6,186,448)	(11,343,572)
Finance costs		8,921,334	6,609,607
Provision for employees' end of service benefits		16,179	95,347
		<u>6,323,400</u>	<u>10,679,107</u>
Working capital changes:			
Amounts due from / to related parties		14,343,194	(7,627,601)
Accounts receivable and prepayments		454,865	(39,830,116)
Accounts payable and accruals		546,311	17,105,909
		<u>21,667,770</u>	<u>(19,672,701)</u>
Cash from operations			
Employees' end of service benefits paid		(50,340)	(6,000)
Finance costs paid		(13,166,822)	(2,224,907)
		<u>8,450,608</u>	<u>(21,903,608)</u>
Net cash from (used in) operating activities			
<b>INVESTING ACTIVITIES</b>			
Wakala receivables		38,306,382	(28,149,163)
Purchase of property and equipment	9	(305,818)	(185,454)
Investment in subsidiary (net of cash acquired)	10	(1,749,004)	-
Proceeds from sale of investment in an associate		614,925	-
Purchase of available for sale investments		(1,377,969)	(4,150,090)
Purchase of investment properties		(42,756,118)	-
Proceeds from sale of investment properties		11,670,460	18,782,746
Proceeds from sale of investments carried at fair value through income statement		-	2,055,920
Finance income received		1,980,654	1,640,607
Dividends income received		84,375	586,400
		<u>6,467,887</u>	<u>(9,419,034)</u>
Net cash from (used in) investing activities			
<b>FINANCING ACTIVITIES</b>			
Net movement in non-controlling interest		(1,172,666)	1,547,459
Net movement in murabaha payables		7,813,493	23,580,261
Movement in obligations under finance leases		(6,506,260)	(150,500)
Movement in wakala payables		(6,334,942)	6,835,412
Amounts due from / to related parties		6,995,784	-
Dividends paid		(2,800,000)	(6,000,000)
		<u>(2,004,591)</u>	<u>25,812,632</u>
Net cash (used in) from financing activities			
Foreign currency translation reserve movement		(123,811)	(322,742)
		<u>12,790,093</u>	<u>(5,832,752)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the period / year		3,554,720	9,387,472
		<u>16,344,813</u>	<u>3,554,720</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD / YEAR	17		

The attached notes 1 to 32 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 31 December 2008

	Notes	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Cumulative changes in fair values KD	Foreign currency translation reserve KD	Retained earnings KD	Total KD	Non-controlling interest KD	Total KD
Balance at 1 October 2006		20,000,000	12,400,000	5,093,755	2,546,878	-	(106,227)	36,686,476	76,620,882	-	76,620,882
Foreign currency translation differences		-	-	-	-	-	(322,742)	-	(322,742)	-	(322,742)
Total expense for the year recognised directly in equity		-	-	-	-	-	(322,742)	-	(322,742)	-	(322,742)
Profit for the year		-	-	-	-	-	-	27,216,571	27,216,571	174,478	27,391,049
Total income and expense for the year		-	-	-	-	-	(322,742)	27,216,571	26,893,829	174,478	27,068,307
Issue of bonus shares	18	8,000,000	-	-	-	-	-	(8,000,000)	-	-	-
Dividends	18	-	-	-	-	-	-	(6,000,000)	(6,000,000)	-	(6,000,000)
Transfer to reserves		-	-	2,752,681	1,376,340	-	-	(4,129,021)	-	-	-
Movement in non-controlling interest		-	-	-	-	-	-	-	-	1,547,459	1,547,459
Balance at 30 September 2007		28,000,000	12,400,000	7,846,436	3,923,218	-	(428,969)	45,774,026	97,514,711	1,721,937	99,236,648
Foreign currency translation differences		-	-	-	-	-	(245,711)	-	(245,711)	-	(245,711)
Net unrealised loss of available for sale investments		-	-	-	-	(92,541)	-	-	(92,541)	-	(92,541)
Total expense for the period recognised directly in equity		-	-	-	-	(92,541)	(245,711)	-	(338,252)	-	(338,252)
Profit for the period		-	-	-	-	-	-	9,675,209	9,675,209	376,124	10,051,333
Total income and expense for the period		-	-	-	-	(92,541)	(245,711)	9,675,209	9,336,957	376,124	9,713,081
Issue of bonus shares	18	4,200,000	-	-	-	-	-	(4,200,000)	-	-	-
Dividends	18	-	-	-	-	-	-	(2,800,000)	(2,800,000)	-	(2,800,000)
Transfer to reserves		-	-	1,007,577	503,789	-	-	(1,511,366)	-	-	-
Movement in non-controlling interest		-	-	-	-	-	-	-	-	(1,172,666)	(1,172,666)
Balance at 31 December 2008		32,200,000	12,400,000	8,854,013	4,427,007	(92,541)	(674,680)	46,937,869	104,051,668	925,395	104,977,063

The attached notes 1 to 32 form part of these consolidated financial statements.

## 1 ACTIVITIES

The consolidated financial statements of Munshaat Real Estate Projects Company K.S.C. (Closed) (the parent company) and its subsidiaries (the group) for the fifteen month period ended 31 December 2008 were authorised for issue in accordance with a resolution of the board of directors on 31 March 2009.

Munshaat Real Estate Projects Company K.S.C. (Closed) (the parent company) was established on 8 April 2003 in accordance with the articles of association authenticated at the Real Estate Registration and Authentication Department in the Ministry of Justice under No. 1416/Vol.1.

The main objectives of the group are to own, sell and purchase real estate, in addition to developing them for the benefit of the group inside and outside the State of Kuwait, and to manage properties of other parties. The group also can utilise its surpluses by investing them in financial and real estate portfolios that are managed by specialised entities.

The extraordinary general meeting of the parent company's shareholders hold on 16 September 2008 approved the change in the financial year end of the parent company from 30 September to 31 December.

The objectives for which the parent company was established shall be practiced according to Islamic Shari'a, and the parent company shall not directly or indirectly perform any operations that include dealing through usury or any other work that may contradict the Islamic Shari'a.

The parent company's registered address is P.O. Box 1393 Dasman – 15464 - State of Kuwait.

On 5 November 2007, the parent company's shares became listed on the Kuwait Stock Exchange.

Details of subsidiary companies are stated in note 3.

## 2 FUNDAMENTAL ACCOUNTING CONCEPT

The group's current liabilities exceeded its current assets by KD 11,920,341. However, consolidated financial statements have been prepared under going concern concept as the group is in discussion with the lenders, which include a significant shareholder, for restructuring the liabilities. The management is confident of a positive outcome of the discussion.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements have been presented in Kuwaiti Dinars.

### **Accounting convention**

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

The group has adopted IFRS 7 'Financial Instruments: Disclosures' and amendments to IAS 1 'Presentation of Financial Statements' effective for the period ended 31 December 2008. This has resulted in amended and additional disclosures relating to financial instruments and associated risks, capital and capital management. In accordance with transitional requirements of the standards, the group has provided full comparative information.

### **Changes in accounting policies and disclosures**

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 30 September 2007, except for the application of capitalisation of borrowing cost as discussed below:



### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Capitalisation of borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised while the asset is being constructed as part of the cost of that asset. Capitalisation of borrowing costs should commence when:

- Expenditure for the asset and borrowing costs are being incurred; and
- Activities necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended. When construction occurs piecemeal and use of each part is possible as construction continues, capitalisation for each part ceases on substantial completion of the part.

For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowing is used.

#### New and amended IASB Standards issued but not adopted

- IAS 1 (Revised): Presentation of Financial Statements (effective for periods beginning on or after 1 January 2009);
- IFRS 8: Operating Segments (effective for periods beginning on or after 1 January 2009);
- IAS 23 (Revised): Borrowing costs (effective for periods beginning on or after 1 January 2009);
- IFRS 3 (Revised): Business Combinations (effective for periods beginning on or after 1 July 2009);
- IAS 27 (Revised): Consolidated and Separate Financial Statements (effective for periods beginning on or after 1 July 2009);
- IAS 40 (Revised): Investment Property (effective for periods beginning on or after 1 January 2009).

#### *IAS 1 (Revised) Presentation of Financial Statements*

The standard separates owner and non-owner changes in equity. The consolidated statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The group is still evaluating whether it will have one or two statements.

#### *IFRS 8 Operating Segments*

IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. The group has not early adopted this amendment. The group is still evaluating the impact of application of IFRS 8 on the consolidated financial statements.

#### *IAS 23 (Revised) Borrowing costs*

This standard will require an entity to capitalise borrowing costs attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset and removes the option of expensing these borrowing costs in the consolidated income statement. The application of the revised IAS 23 will not impact the group's consolidated financial statements as the group currently capitalises bank borrowing costs.

#### *IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3 (Revised) and IAS 27 (Revised) will affect future acquisitions or loss of control and transactions with non-controlling interests.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended IASB Standards issued but not adopted (continued)***IAS 40 (Revised) Investment Property*

IAS 40 (Revised) allow property under construction which is within the scope of the investment property to be measured at cost if fair value cannot be measured reliably until such time as the fair value becomes reliably measurable or construction is completed (whichever comes earlier).

The above standards may be early applied. However, the group did not early adopt these standards as the application of these standards will be made when these standards become effective and are not expected to have significant impact on the consolidated financial statements of the group.

Other significant accounting policies used in the preparation of these consolidated financial statements are discussed in the following paragraphs:

**Basis of consolidation**

Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The consolidated financial statements comprise the financial statements of Munshaat Real Estate Projects Company K.S.C. (Closed) (the parent company) and its subsidiaries as detailed below:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Interest in equity</i>		<i>Principal activities</i>
		<i>2008</i>	<i>2007</i>	
Munshaat for Projects and Contracting Company W.L.L.	Kingdom of Saudi Arabia	100%	100%	Contracting and real estate activities
MAS Holding Company K.S.C. (Closed)	Kuwait	60%	-	Holding company
MAS International General Trading and Contracting Company W.L.L.	Kuwait	98%	60%	General trading and contracting activities
MAS Com for Media and advertising W.L.L.	Kuwait	100%	-	Media and advertising
MAS International for General Trading W.L.L.	Egypt	100%	100%	General trading and contracting activities
Korfez Uluslararası Turizm Ve Pazarlama Ticaret Ltd Sti W.L.L.	Turkey	100%	100%	Tourists and Haj & Umra services

During the period ended 31 December 2008, the group reorganised its shareholding in MAS International and General Trading W.L.L. (MAS). A holding company, MAS Holding Company K.S.C. (Closed) (Holdco) was formed and the group acquired 60% shares in Holdco for KD 600,000. Subsequently, 57% of the parent company's interest of 60% in MAS was transferred to Holdco and Holdco acquired a further 38% interest in MAS from a related party and goodwill of KD 2,875,238 (Note 10) has been recorded on the additional 38% interest acquired. As a result of the above transaction the group now holds 98% interest in MAS.

During the period ended 31 December 2008, the group established of a new subsidiary, MAS Com for Media and Advertising W.L.L. for a total consideration of KD 250,000.

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies for like transactions and other events in similar circumstances. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continues until the date that such control ceases.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of consolidation (Continued)**

Non-controlling interest represents the portion of profit and 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 equity attributable to the equity holders of the parent company. Acquisitions of non-controlling interest are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill.

**Revenue recognition**

Finance income is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the net balance outstanding.

Management fees, incentive fees, arrangement and advisory fees, and placement fees are recognised when earned upon performance of services envisaged under the service agreements.

Commission income is recognised upon completion of sales agreement.

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

Gain on sale of investment properties is recognised when the significant risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably.

**Zakat, KFAS and NLST**

Zakat, Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labour Support Tax (NLST) represent levies/taxes imposed on the parent company at the flat percentage of net profits less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent taxation/levy regulations no carry forward of losses is permitted and there are no significant differences between the tax /levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

**Tax/statutory levy**

**Rate**

Zakat	1.0% of net profit less permitted deductions
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions

**Property and equipment**

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

Depreciation is calculated on a straight line basis over the estimated useful lives of other assets as follows:

Furniture and fixtures	over 3 to 5 years
Equipment and computers	over 3 to 4 years

The carrying values of property 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, being the higher of their fair value less costs to sell and their values in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

### 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Business Combinations and Goodwill**

Goodwill acquired in a business combination 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 acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the 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 of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

#### **Investments in associates**

The group's investments in associates are accounted for under the equity method of accounting. These are entities over which the group exercises significant influence and which are neither subsidiaries nor joint ventures. Investments in associates are carried in the consolidated balance sheet at cost, plus post-acquisition changes in the group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the group's share of the results of its associates.

Unrealised profits and losses resulting from transactions between the group and its associates are eliminated to the extent of the group's interest in the associates.

After application of the equity method, the group determines whether it is necessary to recognise an additional impairment loss of the group's investment in its associates. The group determines at each balance date whether there is any objective evidence that the investment in associates is impaired. If this is the case the group calculates the amount of impairment as being the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

#### **Available for sale investments**

Available for sale investments are recognised and derecognised, on a trade date basis, when the group becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available for sale investments are initially recorded at cost (including transactions costs that are directly attributable to the acquisitions or issue) and subsequently measured at fair value, unless this cannot be reliably measured. Changes in fair value are reported as a separate component of equity.

An assessment is made at each balance sheet date to determine whether there is objective evidence that an investment may be impaired. If such evidence exists, any impairment loss (being the difference between cost and fair value, less any impairment loss previously recognised) is recognised in the consolidated income statement. In the case of equity and similar investments the investment is written down directly.

#### **Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. The re-measurement at fair value is based on periodic external valuation by independent, registered, real estate assessors or by reference to recent transactions in similar properties. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the period in which they arise.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Leases**

##### *Leases where the group is a lessee*

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are reflected in the consolidated income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as expense on straight line basis over the lease term, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term

Certain property interests held for investment purposes by the group under an operating lease are classified as investment properties and accounted for as if they were in the nature of a finance leases. The fair value model is used for the assets recognised.

##### *Leases where the group is a lessor*

Leases where the group doesn't transfer substantially all the risks and benefits of ownership of the assets are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they have earned.

#### **Investments carried at fair value through income statement**

All investments are initially recognised at cost. After initial recognition, investments are re-measured at fair value. Unrealised gains and losses are included in the consolidated income statement.

#### **Wakala receivables**

Wakala receivables are financial assets originated by the group. These are stated at amortised cost including provision for impairment.

Wakala receivables comprise amounts invested with financial institutions for the onward deals by these institutions in various Islamic investment products.

#### **Accounts receivable**

Account receivables are stated at original invoice amount less a 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.

#### **Cash and cash equivalents**

Cash and cash equivalents are defined as bank balances, cash and short-term wakala investments.

Short-term wakala investments are financial assets originated by the group and represent deals with high credit quality local financial institutions with an original maturity of three months or less. These are stated at amortised cost and are subject to an insignificant risk of changes in value.

#### **Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. A financial assets or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the assets (an incurred 'loss event') and that loss event has an impact on the estimated future cash flow of the financial assets or group of the financial assets that can be reliably estimated. If such evidence exists, an impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:



### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment and uncollectibility of financial assets (continued)**

##### *Assets carried at amortised cost*

If there is objective evidence that impairment loss has occurred in the carrying amount of assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement.

In relation to gross receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off when they are assessed as uncollectible.

##### *Assets carried at cost*

For assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

##### *Available for sale financial investments*

If an available for sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in consolidated income statement.

#### **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 a cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the consolidated income statement. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Murabaha payables**

Murabaha payables represent the amount payables on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated at the gross amount of the payables, net of deferred profit payables. Profit payables is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

#### **Employees' end of service benefits**

The group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the group makes contributions to social security calculated as a percentage of the employees' salaries. The group's obligations are limited to these contributions, which are expensed when due.

#### **Wakala payables**

Wakala payables represent the amount payable on a deferred settlement basis for assets purchased under wakala arrangements. Wakala payables is stated at the gross amount of the payables, net of deferred profit payables. Profit payables is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

#### **Accounts payable and accruals**

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

#### **Recognition 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.

#### **Derecognition of financial assets and liabilities**

##### *Financial assets*

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 has either:
  - (a) 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.

##### *Financial liabilities*

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

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Offsetting of financial assets and liabilities**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the group intends to settle on a net basis. At the balance sheet date, the group has offset financial assets amounting to KD 10,086,762 (30: September 2007: KD 3,188,489) against corresponding financial liabilities of equivalent amount as the group has such enforceable right.

#### **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 entity 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.

#### **Foreign currencies**

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

Exchange differences arising from the parent company's investments in associated companies whose functional currencies are different from the parent company are taken to a separate reserve within the consolidated statement of changes in equity.

Assets and liabilities of foreign subsidiaries are translated into the parent company's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the period. Exchange differences arising on translation are taken directly to foreign currency translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated income statement.

#### **Fiduciary assets**

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

#### **Fair values**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and the fair value estimates.

Underlying the definitions of fair value is the presumption that the group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

#### **Investments**

For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, market value of a similar investment or expected discounted cash flows of the investment or is based on other valuations models. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value, if any.

The fair value of profit-bearing items is estimated based on discounted cash flows using profit rates for items with similar terms and risk characteristics.

The fair value of investment properties is based on periodic external valuation by independent, registered, real estate assessors or by reference to recent transactions in similar properties.



### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Fair values (continued)**

##### *Other financial assets and liabilities*

For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

#### **Islamic derivatives**

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

#### **Significant accounting judgments and estimates**

The preparation of the consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The group has used judgments and estimates principally in, but not limited to, the classification of investments and real estate property, the determination of impairment provisions and the valuation of unquoted investments and investment properties.

##### *Classification of investments*

Management decides on acquisition of investments whether they should be classified as available for sale investments or investments carried at fair value through income statement.

The management classifies investments as carried at fair value through income statement if they are acquired primarily for the purpose of short term profit making and the fair value of those investments can be reliably determined.

Classification of investments as fair value through income statement depends on how management monitor the performance of these investments when they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement.

All other investments are classified as available for sale.

##### *Classification of real estate property*

Management decides on acquisition of a real estate property whether it should be classified as trading, property held for development or investment property.

The management classifies real estate property as trading property if it is acquired principally for sale in the ordinary course of business.

The management classifies real estate property as property under development if it is acquired with the intention of development.

The management classifies real estate property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

##### *Impairment of investments*

The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

At the balance sheet date, gross available for sale investments were KD 13,152,942 (2007: KD 11,867,514), and impairment loss was KD 1,819,126 (2007: Nil)

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Significant accounting judgments and estimates (continued)

##### *Impairment of goodwill*

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management 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.

##### *Impairment of receivables*

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

At the balance sheet date, gross receivables were KD 9,249,171 (2007: KD 10,482,579), and the allowance for doubtful debts was KD 2,467,993 (2007: KD 990,817). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated income statement.

##### *Valuation of unquoted investments*

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

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

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

##### *Valuation of investment properties*

For investment properties, fair value is determined by independent, registered, real estate assessors or by reference to recent transactions in similar properties.

### 4 MANAGEMENT FEES

These represent fees relating to the management of real estate projects in the Kingdom of Saudi Arabia. Included in this amount is a balance from of the previous year amounting to KD 11,215,647 representing cost of lease rights relating to three floors in one of the properties that reverted back to the parent company as settlement of management fees in accordance with the Private Placement Offering of the project (Note 13).

### 5 GAIN ON SALE OF INVESTMENT PROPERTIES

Included in gain on sale of investment properties is an amount of KD 5,725,799 resulting from a part sale of lease rights in a real estate project in the Kingdom of Saudi Arabia to a related party (Note 24) for a total consideration of KD 12,980,000. Prior year, gain of KD 11,343,572 resulted from the sale of two towers in the Kingdom of Saudi Arabia.

### 6 ARRANGEMENT AND ADVISORY FEE INCOME

Arrangement and advisory fee income include an amount of KD 4,058,505 (30 September 2007: Nil) which represents income from the arrangement of selling lease rights of a tower located in the Kingdom of Saudi Arabia on behalf of a related party (Note 24).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**7 PROFIT FOR THE PERIOD / YEAR**

The profit for the period / year is stated after charging:

	<i>15 months ended 31 December 2008 KD</i>	<i>12 months ended 30 September 2007 KD</i>
Staff costs	<u>2,368,152</u>	<u>1,904,805</u>

**8 BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share are calculated by dividing the profit for the period / year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period / year, as follows:

	<i>15 months ended 31 December 2008</i>	<i>12 months ended 30 September 2007</i>
Profit for the period / year attributable to the equity holders of the parent company (KD)	<u>9,675,209</u>	<u>27,216,571</u>
Weighted average number of ordinary shares outstanding during the period / year (shares)	<u>322,000,000</u>	<u>322,000,000</u>
Basic and diluted earnings per share	<u>30.05 fils</u>	<u>84.52 fils</u>

Basic and diluted earnings per share for the previous year presented have been restated to reflect the bonus shares issued on 4 February 2008 (Note 18).

**9 PROPERTY AND EQUIPMENT**

	<i>Furniture and fixtures KD</i>	<i>Equipment and computers KD</i>	<i>Total KD</i>
Cost			
At 1 October 2007	472,521	253,718	726,239
Additions	138,847	166,971	305,818
At 31 December 2008	<u>611,368</u>	<u>420,689</u>	<u>1,032,057</u>
Depreciation			
At 1 October 2007	198,218	150,285	348,503
Charge for the period	132,426	125,173	257,599
At 31 December 2008	<u>330,644</u>	<u>275,458</u>	<u>606,102</u>
Net carrying amount			
At 31 December 2008	<u>280,724</u>	<u>145,231</u>	<u>425,955</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**9 PROPERTY AND EQUIPMENT (Continued)**

	<i>Furniture and fixtures KD</i>	<i>Equipment and computers KD</i>	<i>Total KD</i>
Cost			
At 1 October 2006	63,060	74,148	137,208
Balance arising from acquisition of a subsidiary	280,233	123,344	403,577
Additions	129,228	56,226	185,454
At 30 September 2007	<u>472,521</u>	<u>253,718</u>	<u>726,239</u>
Depreciation			
At 1 October 2006	20,899	50,415	71,314
Balance arising from consolidation of a subsidiary	101,965	53,429	155,394
Charge for the year	75,354	46,441	121,795
At 30 September 2007	<u>198,218</u>	<u>150,285</u>	<u>348,503</u>
Net carrying amount			
At 30 September 2007	<u>274,303</u>	<u>103,433</u>	<u>377,736</u>

**10 ACQUISITION OF A SUBSIDIARY**

As stated in Note 3, the acquisition of MAS International for General Trading and Contracting W.L.L. resulted in recognising a goodwill of KD 2,875,238 by the group.

The carrying value of assets acquired and liabilities assumed at the date of the initial acquisition were as follows:

	<i>KD</i>
Cash and bank balances	4,542,624
Goodwill	1,175,210
Available for sale investments	21,000
Assets held for sale	3,982,485
Accounts receivable and prepayments	16,259,547
Furniture and equipment	301,748
Accounts payable and accrued expenses	(24,997,080)
Employees' end of service benefits	(76,037)
Total net assets	<u>1,209,497</u>
Less: Share of non-controlling interest	<u>(749,888)</u>
Fair value of net assets acquired	459,609
Purchase consideration	<u>3,334,847</u>
Goodwill	<u>2,875,238</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**10 ACQUISITION OF A SUBSIDIARY (continued)**

Movements in goodwill during the period / year were as follows:

	<b>31 December 2008</b>	<b>30 September 2007</b>
Opening balance	<b>622,416</b>	-
Goodwill resulted from the acquisition of MAS International for General Trading and Contracting W.L.L.	-	622,416
Decrease resulted from the transfer of 57% of MAS by the parent company to MAS Holding Company K.S.C. (Note 3)	<b>(622,416)</b>	-
Goodwill resulted from the acquisition of an additional 38% interest in MAS International for General Trading and Contracting W.L.L. (Note 3)	<b>2,875,238</b>	-
Ending balance	<b><u>2,875,238</u></b>	<b><u>622,416</u></b>

**11 INVESTMENT IN ASSOCIATES**

	<i>Country of incorporation</i>	<i>Percentage of ownership</i>		<b>31 December 2008 KD</b>	<b>30 September 2007 KD</b>
		<b>2008</b>	<b>2007</b>		
Qitaf GCC Real Estate Fund (Qitaf)	Kuwait	<b>28.4%</b>	25.9%	<b>3,185,586</b>	3,473,258
Amanah Asset Management Company Inc.	Malaysia	-	50%	-	254,786
Athman Al Khaligya Company W.L.L.	Kuwait	<b>32.6%</b>	-	<b>3,229,500</b>	-
				<b><u>6,415,086</u></b>	<b><u>3,728,044</u></b>

In March 2008, a shareholder in Qitaf GCC Real Estate Fund withdrew from the fund resulting a decrease in the investors' funds which consequently increased the group's share to 28.4 %. This has resulted in a deemed disposal loss of KD 47,815 which is included in the consolidated income statement.

During the six months ended 31 March 2008, the group sold its investment in Amanah Asset Management Company Inc. to a related party, International Leasing and Investment Company K.S.C. (Closed) and realised a gain amounting to KD 360,139 (Note 24).

During the three months ended 30 June 2008, the parent company participated in the establishment of a new entity, Athman Al Khaligya Company W.L.L., by acquiring 32.6% of the shares for KD 3,229,500. The group didn't book any share of results of the respective company for the period ended 31 December 2008. In the opinion of the management, there were no significant events or transactions occurred from the acquisition date up to 31 December 2008.

The following table illustrates summarised information of the group's investment in associates:

	<b>31 December 2008 KD</b>	<b>30 September 2007 KD</b>
Share of associates' balance sheets:		
Assets	<b>9,079,178</b>	7,015,227
Liabilities	<b>(2,664,092)</b>	(3,287,183)
Net assets	<b><u>6,415,086</u></b>	<b><u>3,728,044</u></b>
Share of associates' revenues and results:		
Revenues	<b>74,557</b>	-
Results	<b><u>(117,957)</u></b>	<b><u>(386,590)</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

## 12 AVAILABLE FOR SALE INVESTMENTS

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Unquoted securities	8,158,474	8,349,785
Unquoted real estate funds	2,998,436	3,085,000
Unquoted real estate portfolios	176,906	432,729
	<u>11,333,816</u>	<u>11,867,514</u>

A portion of unquoted securities and real estate funds amounting to KD 1,111,500 (2007: KD 3,190,851) are carried at cost due to the non availability of reliable measures of their fair values.

Management has performed preliminary review of its investments to assess whether impairment has occurred in the value of these investments due to the impact of the global financial crisis. Based on specific information and in light of the global financial crisis, management has taken impairment loss of KD 1,819,126 for the unquoted securities and the unquoted real estate funds (30 September 2007: Nil). Management is not aware of any circumstances that would indicate any further impairment in the value of these investments at the balance sheet date.

## 13 INVESTMENT PROPERTIES

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Opening balance	59,368,110	83,081,544
Additions	128,287,341	18,032,535
Change in fair values	13,167,054	12,330,030
Disposals	(8,144,941)	(53,714,327)
Foreign exchange differences	-	(361,672)
Closing balance	<u>192,677,564</u>	<u>59,368,110</u>

In accordance with the Private Placement Offering of one of the projects managed by the parent company in the Kingdom of Saudi Arabia, lease rights of three floors amounting to KD 11,215,647 reverted back during the previous year to the parent company as management fees (Note 4).

Investment in property include capitalised borrowing costs of KD 466,056 (2007: Nil).

During the current period, the group has acquired lease rights of KD 119,295,374 from its related party. The group paid KD 35,462,607 and offset an amount of KD 58,101,763 against receivables. The remaining amount included in (Note 24) will be paid in instalments within 5 years.

The change in fair values for the current period relates to properties located in the Kingdom of Saudia Arabia and Kuwait and are based on external valuations by independent valuers.

Freehold land with a carrying value of KD 13,847,137 (2007: Nil) are mortgaged against certain murbaha payables (Note 20).

Investment properties income included in the consolidated income statement contains the following:

	<i>15 months ended 31 December 2008 KD</i>	<i>12 months ended 30 September 2007 KD</i>
Changes in fair values	13,167,054	12,330,030
Net rental income	2,766,350	48,331
	<u>15,933,404</u>	<u>12,378,361</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

## 14 INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
<i>Held for trading:</i>		
Quoted securities	<u>807,785</u>	<u>3,197,128</u>

## 15 WAKALA RECEIVABLES

Wakala receivables were settled during the period. The average profit rate attributable to wakala receivables was not specified by the contractual parties; actual income earned up to 30 September 2007 was KD 1,320,011 for which a full provision was taken in the current period.

## 16 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Receivable from sale of investment properties	2,711,251	4,326,610
Advances to contractors	658,445	1,383,985
Accrued income	1,032,097	1,575,108
Prepaid expenses	596,145	185,112
Staff receivable	25,489	25,670
Other receivables	3,012,341	3,564,374
	<u>8,035,768</u>	<u>11,060,859</u>

An amount of KD 1,463,429 (30 September 2007: KD 1,383,985) represents advance payments in respect of the acquisitions of new investments.

At 31 December 2008, receivables at nominal value of KD 2,467,993 (30 September 2007: KD 990,817) were fully impaired.

Movements in the allowance for impairment of receivables were as follows:

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Opening balance	990,817	450,617
Charge for the period / year	2,269,958	540,200
Provision for doubtful debts no longer required	(792,782)	-
Ending balance	<u>2,467,993</u>	<u>990,817</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

## 16 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

The analysis of unimpaired receivables is as follows:

	<i>Total KD</i>	<i>Neither past due nor impaired KD</i>	<i>Past due but not impaired</i>				
			<i>&lt; 30 days KD</i>	<i>30 – 60 days KD</i>	<i>60 – 90 days KD</i>	<i>90 – 120 days KD</i>	<i>More than 120 days KD</i>
31 December 2008	6,781,178	1,904,143	1,032,097	1,355,625	677,813	406,688	1,404,812
30 September 2007	9,491,762	2,658,728	1,575,108	2,163,305	1,081,563	649,081	1,363,977

It is not the group's policy to obtain collateral over receivables and the vast majority is, therefore unsecured.

## 17 CASH AND CASH EQUIVALENTS

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Cash on hand and at banks	13,772,013	3,554,720
Wakala investments	2,572,800	-
	<u>16,344,813</u>	<u>3,554,720</u>

Wakala investments represent deposits with local financial institutions and matured within three months from date of placement. The profit rate on wakala investments is 6% per annum (30 September 2007: Nil).

## 18 SHARE CAPITAL

	<i>2008 KD</i>	<i>2007 KD</i>
Authorised, issued and paid up capital consists of 322,000,000 (30 September 2007: 280,000,000) shares of 100 fils (30 September 2007: 100 fils) each	<u>32,200,000</u>	<u>28,000,000</u>

The annual general meeting / extraordinary general meeting of the shareholders held on 4 February 2008 approved an increase in the authorised capital from KD 28 million to KD 32.2 million by issue of 42 million (30 September 2007: 80 million) bonus shares. The shareholders have also approved cash dividends of 10 fils (30 September 2007: 30 fils) per share totalling KD 2.8 million (30 September 2007: KD 6 million).

## 19 RESERVES

As required by Kuwait Law of Commercial Companies and the parent company's articles of association, 10% of the profit for the period / year before Zakat, KFAS, NLST and board of directors' remuneration has been transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital.

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

As required by the parent company's articles of association, a percentage of the profit for the period / year attributable to the parent company before Zakat, KFAS, NLST and board of directors' remuneration should be transferred to general reserve based on the proposal of the board of directors of the parent company. During the current period / year the board of directors proposed to transfer 5% (30 September 2007: 5%) of the net profit for the period / year attributable to the parent company before Zakat, KFAS, NLST and board of directors' remuneration to the general reserve which is subject to the approval of the annual general assembly of the parent company shareholders'.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**19 RESERVES (Continued)**

The extraordinary general assembly meeting may upon an approval by the board of directors of the parent company increase the percentage as it deems appropriate, and may resolve to discontinue such annual transfers, if proposed by the board of directors of the parent company.

**20 MURABAHA PAYABLES**

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Gross amount	62,231,069	59,455,521
Less: Deferred profit payable	(1,236,377)	(2,537,539)
	<u>60,994,692</u>	<u>56,917,982</u>
	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Current portion	22,252,620	25,645,815
Non-current portion	38,742,072	31,272,167
	<u>60,994,692</u>	<u>56,917,982</u>

The average profit payable rate attributable to murabaha payables is 8.5% (30 September 2007: 8.2%) per annum.

Murabaha payables amounting to KD 14,463,567 (30 September 2007: KD 26,375,751) are with related parties (Note 24).

Murabaha payables of the group carrying value of KD 6,636,232 (2007: Nil) are secured by certain investment properties with carrying value of 13,847,137 (Note 13).

**21 OBLIGATIONS UNDER FINANCE LEASES**

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Lease obligations	27,191,442	33,669,716
Less: Current portion	(25,583,920)	(32,090,180)
Long term obligations under finance leases	<u>1,607,522</u>	<u>1,579,536</u>

Obligations under finance leases relate to projects at Al-Madina Al-Monawara and Makka Al-Mokarama and represent the future instalments due for the net present value of minimum lease payments for property interests acquired under finance lease which are being treated as investment properties and being accounted for as a finance lease. The instalments due within twelve months from the balance sheet date are shown under current liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**21 OBLIGATIONS UNDER FINANCE LEASES (continued)**

The minimum lease payments by year are as follows:

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
2008	-	7,186,375
2009	25,643,975	13,112,312
2010	72,700	13,149,938
Thereafter	3,198,800	3,273,375
Total minimum lease payments	28,915,475	36,722,000
Less: Estimated lease amount representing finance charges relating to future year:	(1,724,033)	(3,052,284)
Present value of minimum finance lease rental payments	27,191,442	33,669,716
Current portion of lease obligations	(25,583,920)	(32,090,180)
Non-current portion of lease obligations	1,607,522	1,579,536

**22 WAKALA PAYABLES**

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Gross amount	-	7,126,651
Less: deferred profit payable	-	(291,239)
	-	6,835,412

Wakala payables represented wakala contracts with local financial institutions which matured and settled during the period. The effective profit payable rate attributable to those contracts was 6.25% per annum.

**23 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
Payables to contractors through investment properties	27,565,102	29,925,346
Accrued expenses	804,227	2,197,094
Unearned revenue	9,369,386	7,167,164
Advances from customers	3,245,501	1,420,834
Other payables	2,276,561	3,934,880
	43,260,777	44,645,318

Included in payables to contractors through investment properties and unearned revenue is an amount of KD 17,491,375 (30 September 2007: KD 17,309,800) which will be due after one year from the balance sheet date and accordingly it is classified as non-current accounts payables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**24 RELATED PARTY TRANSACTIONS**

Related parties represent associates, major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the group's management.

Transactions with related parties included in the consolidated income statement are as follows:

	<i>Associates</i>	<i>Major</i>	<i>Other related</i>	<i>15 months</i>	<i>12 months</i>
	<i>KD</i>	<i>shareholders</i>	<i>parties</i>	<i>ended</i>	<i>ended</i>
		<i>KD</i>	<i>KD</i>	<i>31 December</i>	<i>30 September</i>
				<i>2008</i>	<i>2007</i>
				<i>KD</i>	<i>KD</i>
Management fees	-	-	1,596,859	1,596,859	1,335,255
Arrangement fees and advisory fees	-	-			
income	-	-	4,058,505	4,058,505	-
Placement fees	-	-	1,300,000	1,300,000	242,285
Gain on sale of investment in an	-				
associate	-	360,139	-	360,139	-
Gain on sale of investment properties	-	-	5,725,799	5,725,799	11,343,572
Realised gain on sale of investments	-				
carried at fair value through	-	-	-	-	236,960
income statement	-	-	-	-	
Gain on sale of available for sale	-				
investments	-	-	-	-	43,253
Finance income	-	111,868	-	111,868	136,888
Underwriting fees	-	-	(2,064,093)	(2,064,093)	-
Other income	-	-	239,973	239,973	(458,209)
Provision for doubtful debts	-	-	(379,615)	(379,615)	-
Finance costs	-	(1,811,801)	-	(1,811,801)	(2,545,248)

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

24 RELATED PARTY TRANSACTIONS (continued)

Balances with related parties included in the consolidated balance sheet are as follows:

	Major shareholders KD	Other related parties KD	31 December 2008 KD	30 September 2007 KD
Wakala receivable	-	-	-	4,250,000
Cash and cash equivalents	-	275,842	275,842	1,491,931
Amounts due from related parties (Current and non-current)	-	38,532,616	38,532,616	117,687,414
Amount due to related parties (Current and non-current)	37,048,736	3,889,078	40,937,814	10,663,542
Murabaha payables	14,463,567	-	14,463,567	26,375,751

Amounts due from (to) related parties are disclosed on the face of the consolidated balance sheet and are free of profit.

Included in amounts due from related parties is an amount of KD 28,990,974 (30 September 2007: KD 110,244,530) which represents receivables from sale of investment properties to related parties. In addition, amounts due from related parties of the previous year include an amount of KD 15,941,295 resulted from sale of lease rights on behalf of a related party.

Included in amounts due to related parties is an amount of KD 34,010,536 (30 September 2007: Nil) resulted from acquisition of lease rights.

The non-current portion of amounts due from related parties is discounted at an effective discount rate of 8%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**24 RELATED PARTY TRANSACTIONS (continued)****Compensation of key management personnel**

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

	<i>15 months ended 31 December 2008 KD</i>	<i>12 months ended 30 September 2007 KD</i>
Short-term benefits	245,250	174,200
Employees' end of service benefits	5,211	4,499
	<u>250,461</u>	<u>178,699</u>

**25 SEGMENTAL INFORMATION***Primary segment information*

For management purposes the group is organised into three major business segments. The principal activities and services under these segments are as follows:

Investment : Managing investments.

Real estate : Purchase, sale, development and renting of properties.

Islamic financing : Providing a range of Islamic products to corporate customers.

<b>31 December 2008</b>	<i>Investment KD</i>	<i>Real estate KD</i>	<i>Islamic financing KD</i>	<i>Others KD</i>	<i>Total KD</i>
<b>ASSETS</b>					
Property and equipment	-	-	-	425,955	425,955
Goodwill	2,875,238	-	-	-	2,875,238
Investment in associates	6,415,086	-	-	-	6,415,086
Available for sale investments	11,333,816	-	-	-	11,333,816
Investment properties	-	192,677,564	-	-	192,677,564
Amount due from related parties	-	38,532,616	-	-	38,532,616
Investments carried at fair value through income statement	807,785	-	-	-	807,785
Accounts receivable and prepayments	1,278,472	2,337,101	106,530	4,313,665	8,035,768
Cash and cash equivalents	1,567,819	7,373,541	2,572,800	4,830,653	16,344,813
<b>TOTAL ASSETS</b>	<u>24,278,216</u>	<u>240,920,822</u>	<u>2,679,330</u>	<u>9,570,273</u>	<u>277,448,641</u>
<b>EQUITY AND LIABILITIES</b>					
Equity	-	-	-	104,977,063	104,977,063
Murabaha payables	-	-	60,994,692	-	60,994,692
Obligations under finance leases	-	27,191,442	-	-	27,191,442
Amounts due to related parties	-	36,727,840	-	4,209,974	40,937,814
Employees' end of service benefits	-	-	-	86,853	86,853
Accounts payable and accruals	7,446,428	29,207,663	4,653,110	1,953,576	43,260,777
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>7,446,428</u>	<u>93,126,945</u>	<u>65,647,802</u>	<u>111,227,466</u>	<u>277,448,641</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

## 25 SEGMENTAL INFORMATION (continued)

## Primary segment information (continued)

30 September 2007	Investment KD	Real estate KD	Islamic financing KD	Others KD	Total KD
<b>ASSETS</b>					
Property and equipment	-	-	-	377,736	377,736
Goodwill	662,416	-	-	-	662,416
Investment in associates	3,728,044	-	-	-	3,728,044
Available for sale investments	11,867,514	-	-	-	11,867,514
Investment properties	-	59,368,110	-	-	59,368,110
Amounts due from related parties	6,240,350	110,902,782	-	544,282	117,687,414
Investments carried at fair value through income statement	3,197,128	-	-	-	3,197,128
Wakala receivables	-	-	40,585,691	-	40,585,691
Accounts receivable and prepayments	1,262,902	8,087,163	1,468,641	242,153	11,060,859
Cash and cash equivalents	-	-	-	3,554,720	3,554,720
<b>TOTAL ASSETS</b>	<b>26,958,354</b>	<b>178,358,055</b>	<b>42,054,332</b>	<b>4,718,891</b>	<b>252,089,632</b>
<b>EQUITY AND LIABILITIES</b>					
Equity	-	-	-	99,236,648	99,236,648
Murabaha payables	-	-	56,917,982	-	56,917,982
Obligations under finance leases	-	33,669,716	-	-	33,669,716
Employees' end of service benefits	-	-	-	121,014	121,014
Wakala payables	-	-	6,835,412	-	6,835,412
Accounts payable and accruals	-	41,453,220	-	3,192,098	44,645,318
Amounts due to related parties	293,992	10,369,550	-	-	10,663,542
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>293,992</b>	<b>85,492,486</b>	<b>63,753,394</b>	<b>102,549,760</b>	<b>252,089,632</b>
<b>15 months ended 31 December 2008</b>					
Segment (deficit) revenue	(2,629,727)	33,005,922	2,009,983	2,326,333	34,712,511
Segment results	(2,629,727)	21,214,571	(7,503,719)	(629,225)	10,451,900
Unallocated expenses					(400,567)
					<b>10,051,333</b>
<b>12 months ended 30 September 2007</b>					
Segment (deficit) revenue	(575,580)	38,790,984	3,071,844	458,209	41,745,457
Segment results	(575,580)	31,976,551	(4,077,395)	377,714	27,701,290
Unallocated expenses					(310,241)
					<b>27,391,049</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

## 25 SEGMENTAL INFORMATION (continued)

## Secondary segment information

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

	<i>Net revenue</i>		<i>Unallocated expenses</i>		<i>Results</i>	
	<i>15 months ended</i>	<i>12 months ended</i>	<i>15 months ended</i>	<i>12 months ended</i>	<i>15 months ended</i>	<i>12 months ended</i>
	<i>31 December</i>	<i>30 September</i>	<i>31 December</i>	<i>30 September</i>	<i>31 December</i>	<i>30 September</i>
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Geographical areas:						
Kuwait	(21,852,582)	6,481,428	(400,567)	(310,241)	(22,253,149)	6,171,187
Turkey	(529,081)	-	-	-	(529,081)	-
GCC	32,833,563	21,219,862	-	-	32,833,563	21,219,862
	<u>10,451,900</u>	<u>27,701,290</u>	<u>(400,567)</u>	<u>(310,241)</u>	<u>10,051,333</u>	<u>27,391,049</u>

	<i>Assets</i>		<i>Liabilities</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Geographical areas:				
Kuwait	97,375,458	209,635,956	141,740,901	118,538,349
Turkey	1,587,229	265,069	3,245,499	33,968,692
GCC countries	178,485,954	42,188,607	27,485,178	345,943
	<u>277,448,641</u>	<u>252,089,632</u>	<u>172,471,578</u>	<u>152,852,984</u>

## 26 ISLAMIC DERIVATIVES

*Derivatives held for trading*

Derivatives used for hedging purposes but which do not meet the qualifying criteria for hedge accounting are classified as 'Derivatives held for trading'. The group deals in the following derivative instruments to manage the profit rate risk:

*Profit rate swaps (Tabdeel)*

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

At 31 December 2008, the group held tabdeel contract.

	<i>Notional amount</i>	<i>Negative fair value</i>	<i>Notional amounts by term to maturity</i>	
			<i>Within 1 year</i>	<i>1 - 3 years</i>
	<i>Total</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<b>31 December 2008</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>
<i>Derivatives held for trading:</i>				
Tabdeel	<u>13,810,000</u>	<u>(74,435)</u>	<u>5,524,000</u>	<u>8,286,000</u>

In prior year, the group didn't have any open positions or derivatives.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**27 FIDUCIARY ASSETS**

The aggregate value of assets under management at 31 December 2008 amounted to KD 48.3 million (30 September 2007: KD 50 million). The total management fees earned by the group in fiduciary capacity at 31 December 2008 amounted to KD 1,596,859 (30 September 2007: KD 1,335,255)

**28 COMMITMENTS AND CONTINGENCIES**

At 31 December 2008, the group had commitments in respect of construction cost amounting to KD 6,381,605 (30 September 2007: KD 12,233,650).

At 31 December 2008, the group had contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 547,950 (30 September 2007: Nil).

**29 RISK MANAGEMENT**

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

***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. Management of the parent company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The maximum credit risk is limited to amounts appearing on the consolidated balance sheet.

The group has policies and procedures in place to limit the amount of credit exposure to any counter party.

Impaired and past due but not impaired financial assets of the group at 31 December 2008 and 30 September 2007 are disclosed in note 16.

The group's assets, before taking into account any collateral held or credit enhancements can be analysed by the industry sector as follows:

	<i>31 December 2008 KD</i>	<i>30 September 2007 KD</i>
<i>Industry sector:</i>		
Banks and financial institutions	37,776,738	63,595,513
Construction and real estate	193,103,519	59,745,846
Others	46,568,384	128,748,273
	<u>277,448,641</u>	<u>252,089,632</u>

***Liquidity risk***

Liquidity risk is the risk that the group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**29 RISK MANAGEMENT (continued)****Liquidity risk (continued)**

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

<b>31 December 2008</b>	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>LIABILITIES</b>					
Obligations under finance leases	-	13,617,142	13,690,811	1,607,522	28,915,475
Murabaha payables	1,311,169	1,282,156	20,895,672	38,742,072	62,231,069
Accounts payable and accruals	5,225,612	9,144,821	11,398,969	17,491,375	43,260,777
Amounts due to related parties	508,845	712,383	814,153	38,902,433	40,937,814
<b>TOTAL LIABILITIES</b>	<b>7,045,626</b>	<b>24,756,502</b>	<b>46,799,605</b>	<b>96,743,402</b>	<b>175,345,135</b>
<b>Commitments</b>	<b>-</b>	<b>1,865,059</b>	<b>1,865,059</b>	<b>2,651,487</b>	<b>6,381,605</b>
<b>30 September 2007</b>	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>LIABILITIES</b>					
Murabaha payables	5,845,531	10,666,215	11,671,608	31,272,167	59,455,521
Obligations under finance leases	-	17,533,582	17,608,882	1,579,536	36,722,000
Wakala payables	4,055,987	-	3,070,664	-	7,126,651
Accounts payable and accruals	3,163,432	12,605,867	11,566,219	17,309,800	44,645,318
Amounts due to related parties	-	1,109,896	9,553,646	-	10,663,542
<b>TOTAL LIABILITIES</b>	<b>13,064,950</b>	<b>41,915,560</b>	<b>53,471,019</b>	<b>50,161,503</b>	<b>158,613,032</b>
<b>Commitments</b>	<b>1,905,059</b>	<b>1,905,059</b>	<b>1,905,059</b>	<b>6,518,473</b>	<b>12,233,650</b>

**Market risk**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets 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.

**Profit rate risk**

Interest rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The group is not exposed to profit rate risk as all its Islamic financial instruments are at fixed profit rates.

**Currency risk**

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

The management monitors the positions on a daily basis to ensure positions are maintained within established limits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

## 29 RISK MANAGEMENT (continued)

*Market risk (continued)**Currency risk (continued)*

The effect on profit before Zakat, KFAS, NLST, and board of directors' remuneration (due to change in the fair value of monetary assets and liabilities) and on equity, as a result of change in currency rate, with all other variables held constant is shown below:

		<i>Effect on profit before zakat, KFAS, NLST And board of directors' remuneration</i>			<i>Effect on equity</i>	
		<i>15 months ended</i>	<i>12 months ended</i>	<i>Change in</i>	<i>31 December</i>	<i>30 September</i>
<i>Change in</i>	<i>currency</i>	<i>31 December</i>	<i>30 September</i>	<i>currency</i>	<i>2008</i>	<i>2007</i>
<i>rate in %</i>		<i>2008</i>	<i>2007</i>	<i>rate in %</i>	<i>2008</i>	<i>2007</i>
		<i>KD</i>	<i>KD</i>		<i>KD</i>	<i>KD</i>
United State Dollar	+5	500,082	5,603,762	+5	126,940	666,182
Saudi Riyals	+5	(2,892,298)	(2,072,535)	+5	384,038	418,116

*Equity price risk*

Equity price risk arises from the change in fair values of equity investments. The group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of available for sale investments) and group's profit before Zakat, KFAS, NLST and board of directors' remuneration (as a result of a change in the fair value of investments carried at fair value through income statement) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

		<i>2008</i>			<i>2007</i>	
		<i>Effect on profit before Zakat, KFAS, NLST and board of directors'' remuneration</i>	<i>Effect on equity</i>	<i>Change in</i>	<i>Effect on profit before Zakat, KFAS, NLST and board of directors'' remuneration</i>	<i>Effect on equity</i>
<i>Market indices</i>	<i>Change in equity price %</i>	<i>KD</i>	<i>KD</i>	<i>price %</i>	<i>KD</i>	<i>KD</i>
Kuwait	+5	-	139,279	+5	247,008	-

*Operational risk*

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**30 CAPITAL MANAGEMENT**

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 30 September 2007.

The group monitors capital using a leverage ratio, which is net debt divided by total capital. The group's policy is to keep the leverage ratio less than 100%. The group includes within net debt, murabaha payables, Obligation under finance leases, wakala payable, accounts payables and accruals, amounts due to related parties less cash and cash equivalents. Total capital represents equity attributable to the parent company less cumulative changes in fair values.

	<i>2008</i> <i>KD</i>	<i>2007</i> <i>KD</i>
Murabaha payables	60,994,692	56,917,982
Obligations under finance leases	27,191,442	33,669,716
Wakala payables	-	6,835,412
Accounts payable and accruals	43,260,777	44,645,318
Amounts due to related parties	40,937,814	10,663,542
Less: cash and cash equivalents	(16,344,813)	(3,554,720)
<b>Net debt</b>	<b>156,039,912</b>	<b>149,177,250</b>
<b>Total capital</b>	<b>104,144,209</b>	<b>97,514,711</b>
<b>Leverage ratio (%)</b>	<b>150%</b>	<b>153%</b>

**31 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of investments, wakala and other receivables, cash and cash equivalents. Financial liabilities consist of murabaha payables, obligations under finance leases, wakala and other payables.

The fair values of financial instruments, with the exception of certain available for sale investments carried at cost (Note 12), are not materially different from their carrying values at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**32 SUBSEQUENT EVENTS**

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments carried at fair value through income statement (including trading securities) or available for sale investments.

Subsequent to the balance sheet date, as a result of the volatility in the local equity market, there has been a decline in the fair values of quoted investments held by the group.

The decline in stock market indices subsequent to the balance sheet date up to 11 March 2009 and its approximate impact on the group, was as follows:

	<i>Effect on consolidated income statement KD</i>	<i>Effect on equity KD</i>
Investments carried at fair value through income statement	<b>59,521</b>	<b>59,521</b>