Aref Energy Holding Company K.S.C. (Closed) [Formerly, Excellent Education Foundation Company K.S.C. (Closed)] and its Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AREF ENERGY HOLDING COMPANY K.S.C. (CLOSED) [FORMERLY, EXCELLENT EDUCATION FOUNDATION COMPANY K.S.C. (CLOSED)]

We have audited the accompanying consolidated financial statements of Aref Energy Holding Company K.S.C. (Closed) [Formerly, Excellent Education Foundation Company K.S.C. (Closed)] ("the company") and its subsidiaries (together, "the group") which comprises 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 then ended, and a summary of significant accounting policies and other explanatory notes.

The consolidated financial statements of the group as at 31 August 2007 were audited by another auditor whose report dated 29 October 2007, expressed an unqualified opinion.

Management's responsibility for the consolidated financial statements

The company's management 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 about whether the consolidated financial statements are free of 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.

ERNST & YOUNG

AL-HUMAIDI & PARTNERS
Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AREF ENERGY HOLDING COMPANY K.S.C. (CLOSED) [FORMERLY, EXCELLENT EDUCATION FOUNDATION 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 of 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 matters

Furthermore, in our opinion proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the board of directors of the company 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 the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the 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 company or on its financial position.

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

DR. SAUD AL HUMAIDI
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INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL

31 March 2009

Kuwait

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	***31 December 2008 KD***	*31 August 2007 KD*
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	5	**21,766,408**	-
Investment property	6	**5,051,446**	-
Intangible assets	7	**13,521,110**	-
Investment in associates	8	**5,674,051**	-
Financial assets available for sale	9	**3,404,244**	-
		49,417,259	-
CURRENT ASSETS			
Inventories		**6,580,928**	-
Financial assets at fair value through income statement	10	**32,400,000**	-
Accounts receivables and other assets	11	**21,879,652**	-
Bank balances, deposits and cash	12	**6,343,851**	-
		67,204,431	-
Assets relating to discontinued operation	13	**-**	8,675,706
		67,204,431	8,675,706
TOTAL ASSETS		**116,621,690**	8,675,706
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY			
Share capital	14	**75,000,000**	3,568,950
Share premium	15	**193,550**	193,550
Statutory reserve	15	**314,957**	314,957
Voluntary reserve	15	**314,957**	314,957
Foreign currency translation reserve		**(1,331,866)**	-
(Accumulated losses)/retained earnings		**(1,977,473)**	1,663,571
		72,514,125	6,055,985
Minority interests		**11,847,361**	-
TOTAL EQUITY		**84,361,486**	6,055,985
NON-CURRENT LIABILITIES			
Employees' end of service benefits		**225,226**	-
Murabaha payables	16	**504,209**	-
		729,435	-
CURRENT LIABILITIES			
Accounts payable and other liabilities	17	**15,607,139**	-
Murabaha payables	16	**15,923,630**	-
		31,530,769	-
Liabilities relating to discontinued operation	13	**-**	2,619,721
		31,530,769	2,619,721
TOTAL LIABILITIES		**32,260,204**	2,619,721
TOTAL EQUITY AND LIABILITIES		**116,621,690**	8,675,706

Ebrahim Al-Khuzam
Vice chairman

The attached notes 1 to 25 form part of the consolidated financial statements

Aref Energy Holding Company K.S.C. (Closed) [Formerly, Excellent Education Foundation Company K.S.C. (Closed)] and its Subsidiaries

CONSOLIDATED INCOME STATEMENT

For the period ended 31 December 2008

	Notes	*16 months ended 31 December 2008*	*Year ended 31 August 2007*
Continuing operations			
Contract revenue		**43,204,004**	-
Rental income from investment property		**309,042**	-
Revaluation gain on investment property	6	**552,793**	-
Share of results of associates	8	**(701,217)**	-
Unrealised gain on financial assets at fair value through income statement	10	**3,600,000**	-
Foreign exchange gain		**933,294**	-
Other income		**27,460**	-
Income		**47,925,376**	-
Contract cost		**39,402,784**	-
Finance cost		**766,976**	-
Impairment of intangible assets	7	**4,458,982**	-
Amortisation of intangible assets	7	**515,024**	-
Impairment of investment in an associate	8	**2,704,080**	-
Staff cost		**2,524,450**	-
General and administration expenses		**2,196,936**	-
Expenses		**52,569,232**	-
Loss from continuing operations		**(4,643,856)**	-
Profit from discontinued operations	13	**1,444,015**	1,098,834
(Loss)/profit before taxation and Board of Directors' remuneration		**(3,199,841)**	1,098,834
Taxation	19	**(299,287)**	(36,254)
Board of Directors' remuneration		-	(25,000)
(Loss)/profit for the period/year		**(3,499,128)**	1,037,580
Attributable to:			
Equity holders of the company		**(3,641,044)**	1,037,580
Minority interest		**141,916**	-
(Loss)/profit for the period/year		**(3,499,128)**	1,037,580
Basic and diluted (loss) / earnings per share attributable to equity holders of the company	20	**(7.5) fils**	9.1 fils
Basic and diluted (loss) / earnings per share from continuing operations attributable to equity holders of the company	20	**(10.5) fils**	-

The attached notes 1 to 25 form part of these consolidated financial statements

Aref Energy Holding Company K.S.C. (Closed) [Formerly, Excellent Education Foundation Company K.S.C. (Closed)] and its Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 31 December 2008

	Notes	*16 months ended 31 December 2008 KD*	*Year ended 31 August 2007 KD*
OPERATING ACTIVITIES			
(Loss)/profit for the period/year		(3,499,128)	1,037,580
Adjustments for:			
Rental income from investment property		(309,042)	-
Revaluation gain on investment property		(552,793)	-
Share of results of associates		701,217	-
Unrealised gain on financial assets at fair value through income statement		(3,600,000)	-
Impairment of intangible assets		4,458,982	-
Impairment of investment in an associate		2,704,080	-
Amortisation of intangible assets		515,024	-
Depreciation		3,256,216	-
Loss on disposal of property and equipment		139,097	-
Provision for employees' end of service benefits		262,842	-
Finance costs		766,976	-
Profit from discontinued operations		(1,444,015)	-
		3,399,456	1,037,580
Working capital changes:			
Inventories		(1,651,649)	-
Accounts receivables and other assets		3,908,049	-
Assets relating to discontinued operation		-	(72,673)
Accounts payable and other liabilities		(69,062)	-
Liabilities relating to discontinued operation		-	249,915
Cash from operating activities		5,586,794	1,214,822
End of service benefits paid		(378,287)	-
Net cash from operating activities		5,208,507	1,214,822
INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired	3	(27,523,903)	-
Purchase of property and equipment	5	(2,083,901)	-
Rental income from investment property		309,042	-
Acquisition of intangible assets	7	(10,852,224)	-
Acquisition of an associate	8	(6,869,750)	-
Purchase of financial assets available for sale		(2,715,600)	-
Purchase of financial assets at fair value through income statement		(28,800,000)	-
Increase in restricted cash and cash equivalents		(953,767)	-
Proceeds from disposal of discontinued operation	13	7,371,647	-
Cash used in investing activities relating to discontinued operation	13	-	(1,686,453)
Net cash used in investing activities		(72,118,456)	(1,686,453)
FINANCING ACTIVITIES			
Issue of share capital	14	71,431,050	-
Finance costs paid		(766,976)	-
Net movement in murabaha payables		(2,821,060)	-
Net movement in amount due to parent company		94,093	-
Cash from financing activities relating to discontinued operation	13	-	1,009,533
Net cash from financing activities		67,937,107	1,009,533
Net increase in cash and cash equivalents		1,027,158	537,902
Net foreign exchange difference		(218,016)	-
Cash and cash equivalents at the beginning of the period/year		128,353	(409,549)
Cash and cash equivalents at the end of the period/year	12	937,495	128,353

The attached notes 1 to 25 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 31 December 2008

	Attributable to equity holders of the company							*Minority interest*	*Total*
	Share capital	*Share premium*	*Statutory reserve*	*Voluntary reserve*	*Foreign currency translation reserve*	*(Accumulated losses) / retained earnings*	*Sub-total*		
	KD	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*
Balance at 1 September 2007	3,568,950	193,550	314,957	314,957	-	1,663,571	6,055,985	-	6,055,985
Foreign currency translation adjustment	-	-	-	-	(1,331,866)	-	(1,331,866)	-	(1,331,866)
Total expense for the period recognised directly in equity	-	-	-	-	(1,331,866)	-	(1,331,866)	-	(1,331,866)
(Loss)/profit for the period	-	-	-	-	-	(3,641,044)	(3,641,044)	141,916	(3,499,128)
Total expense and income for the period	-	-	-	-	(1,331,866)	(3,641,044)	(4,972,910)	141,916	(4,830,994)
Issue of share capital (Note 14)	71,431,050	-	-	-	-	-	71,431,050	-	71,431,050
Minority interest arising on acquisition of subsidiaries (Note 3)	-	-	-	-	-	-	-	11,705,445	11,705,445
Balance at 31 December 2008	**75,000,000**	**193,550**	**314,957**	**314,957**	**(1,331,866)**	**(1,977,473)**	**72,514,125**	**11,847,361**	**84,361,486**
Balance at 1 September 2006	3,399,000	193,550	205,074	205,074	-	1,287,627	5,290,325	-	5,290,325
Profit for the year	-	-	-	-	-	1,037,580	1,037,580	-	1,037,580
Total income for the year	-	-	-	-	-	1,037,580	1,037,580	-	1,037,580
Issue of bonus shares	169,950	-	-	-	-	(169,950)	-	-	-
Cash dividends	-	-	-	-	-	(271,920)	(271,920)	-	(271,920)
Transfer to reserves	-	-	109,883	109,883	-	(219,766)	-	-	-
Balance at 31 August 2007	3,568,950	193,550	314,957	314,957	-	1,663,571	6,055,985	-	6,055,985

The attached notes 1 to 25 form part of these consolidated financial statements

1 ACTIVITIES

Aref Energy Holding Company K.S.C. (Closed) [Formerly, Excellent Education Foundation Company] ("the company") is a Kuwaiti shareholding company registered in Kuwait on 1 October 1996 and is listed on the Kuwait Stock Exchange. The registered office of the company is located at P.O. Box 21909, Safat 13080, Kuwait. The company carries out its activities as per Islamic Sharee'a.

On 15 August 2007, the Extraordinary General Assembly of the shareholders of the company approved the change of the name of the company from "Excellent Education Foundation Company K.S.C. (Closed)" to "Aref Energy Holding Company K.S.C. (Closed)" and approved the amendment to articles of association to include the following activities:

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

The articles of association were also amended to change the annual financial year end of the company from 31 August to 31 December. Accordingly, the consolidated financial statements have been prepared for the 16 month period from 1 September 2008 to 31 December 2008.

The consolidated financial statements of the company and its subsidiaries ("the group") for the period ended 31 December 2008 was authorised for issue by the company's board of directors on 31 March 2009. The annual general assembly of the shareholders of the company has the power to amend these consolidated financial statements after issuance.

The company is a subsidiary of Aref Investment Group S.A.K. (the "parent company"). The parent company is a subsidiary of Kuwait Finance House (the "ultimate parent company"). Both the parent company and the ultimate parent company are listed on the Kuwait Stock Exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is the functional currency of the company.

Due to non availability of comparative figures corresponding to the 16 months period ended 31 December 2008, comparatives for the year ended 31 August 2007 have been provided in the consolidated financial statements and accordingly these figures are not comparable. Since the group has disposed its education business during the period (Note 13), comparatives for 2008 have been presented only where considered relevant.

Measurement basis
The consolidated financial statements are prepared on a historical cost basis as modified for the revaluation at fair value of investment property, financial assets available for sale and financial assets at fair value through income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement basis (continued)

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except as follows:

During the period, the following IASB Standards and IFRIC Interpretations have been issued and adopted by the group:

- *International Financial Reporting Standard (IFRS) – IFRS 7 Financial Instruments: Disclosures*
  IFRS 7 *Financial Instruments: Disclosures* was issued by the IASB in August 2005, becoming effective for annual periods beginning on or after 1 January 2007.

  The standard requires additional disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the consolidated financial statements.

- *International Accounting Standard (IAS) - IAS 1 Presentation of Financial Statements (amended)*
  Amendments to IAS 1 Presentation of Financial Statements were issued by the IASB as Capital Disclosures in August 2005. They are required to be applied for annual periods beginning on or after 1 January 2007. These amendments require the group to make new disclosures to enable users of the financial statements to evaluate the group's objectives, policies and processes for managing capital.

- Amendment to IAS 39: Financial Instruments (Recognition and Measurement)
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11: IFRS 2 - Group and Treasury Share Transactions;
- IFRIC 12: Service Concession Arrangements; and
- IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of amendments to IAS 39, IFRIC 10,11,12 and 14 did not have material impact on the consolidated financial statements of the group.

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

- IAS 1: Presentation of Financial Statements (Revised) (effective 1 January 2009)
- Amendment to IAS 16: Property, plant and equipment (effective 1 January 2009)
- IAS 23: Borrowing cost (Revised) (effective 1 January 2009)
- Amendment to IAS 27: Consolidated and separate financial statements (effective 1 July 2009)
- Amendment to IAS 28: Investment in associates (effective 1 January 2009)
- Amendment to IAS 32: Financial instruments: Presentation (effective 1 January 2009)
- Amendment to IAS 36: Impairment of assets (effective 1 January 2009)
- Amendment to IAS 38: Intangible assets (effective 1 January 2009)
- Amendment to IAS 39: Financial instruments: recognition and measurement (effective 1 January 2009)
- Amendment to IAS 40: Investment property (effective 1 January 2009)
- Amendments to IFRS 2: Share based payment - Vesting Conditions and Cancellations (effective 1 January 2009)
- IFRS 3: Business Combinations (Revised) (effective 1 July 2009)
- Amendment to IFRS 5: Non current assets held for sale and discontinued operations (effective 1 July 2009)
- IFRS 8: Operating Segments (effective 1 January 2009)
- IFRIC Interpretation 13: Customer Loyalty Program (effective 1 July 2008)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement basis (continued)

- IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective 1 October 2009)

Following are the major changes:

IAS 1 (Amended):
The revised standard introduces changes to the presentation of financial statements and does not affect the recognition, measurement or disclosure of specific transactions. The standard will not affect the financial position or results of the group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the group. Other changes to the standard are not expected to have material impact on the consolidated financial statements of the group.

IAS 27 and IFRS 3 (Revised):
Amendments to IAS 27 require 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. IFRS 3 Business Combinations revised issued by the IASB board in January 2008 which will be effective for financial years beginning on or after 1 July 2009. The standard introduces changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported result. The new standard may require changes in the way the group discloses information about its goodwill recognised during acquisition.

IFRS 8:
IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. The new standard intends to disclose segment information in line with information provided to the top management.

Adoption of other Standards and Interpretations will not have any material effect on the financial performance, position or the consolidated financial statements of the group. Additional disclosures will be made in the consolidated financial statements when these standard and interpretation becomes effective.

A summary of the significant accounting policies used in preparation and presentation of the consolidated financial are set out below:

Principles of consolidation
The consolidated financial statements include the accounts of the company and its subsidiaries (together, "the group"). The financial statements of the subsidiaries are prepared for the same reporting period as the company, using consistent accounting policies. The financial statements of the subsidiary companies are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All material inter-group balances and transactions, including inter-group profits and unrealised profits and losses are eliminated on consolidation.

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

Minority 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 company. Acquisitions of minority interest is accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill. Disposals to minority interests result in gains and losses for the group that are recorded in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

The principal subsidiaries of the group are as follows:

Name	*Place of Incorporation*	*Ownership % 2008*	*Ownership % 2007*	*Principal activities*
Mad Science for Kids entertainment – Dahi Layli Nizal Al-Fadly and Partner-Limited Partnership	Kuwait	-	100	Education business
Khalifa Daij Al Dabbous and Brothers Company - W.L.L. ("KDDB").	Kuwait	**79**	-	General trading and contracting
Higleig Petroleum Services & Investment Company Ltd. ("Higleig")	Sudan	**64.25**	-	Contracting
Intelligent Drilling Services Company ("IDS")	Oman	**51**	-	Drilling service contracting

Business combinations and goodwill

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of an acquisition over the group's share of the acquiree's fair value of the net identifiable assets as at the date of the acquisition. Following initial recognition, goodwill is measured at cost less impairment losses. Any excess, at the date of acquisition, of the group's share in the acquiree's fair value of the net identifiable assets over the cost of the acquisition is recognised in the consolidated income statement.

Goodwill is allocated to each of the group's cash-generating units or groups of cash generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit, to which goodwill relates. The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generation unit retained.

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

Interest in a joint venture

The group has an interest in a jointly controlled asset. A jointly controlled asset involves joint control and offers joint ownership by the group and other venturers of assets contributed to or acquired for the purpose of joint venture, without the formation of a corporation, partnership or other entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in a joint venture (continued)
The group accounts for its share of the jointly controlled assets, its share of any liabilities jointly incurred, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets (other than goodwill and exploration assets) are carried at cost less any accumulated amortisation that is recognised on a straight line basis over their useful lives and any accumulated impairment losses. Internally generated intangible assets excluding capitalised developmental costs are not capitalized and expenditure is reflected in consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either definite or indefinite. Intangible assets with definite lives are amortised over their useful economic lives and assessed and adjusted for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but are tested annually for impairment and adjusted for the same, if any.

Exploration expenditure
The successful efforts method of accounting is used for oil and gas exploration and development costs. Under this method, initial acquisition costs of oil and gas properties and costs of drilling and equipping exploration wells are capitalised when incurred under 'exploration assets' and if subsequently determined to be unsuccessful, are charged against income as 'exploration expense'. All other exploration expenses, including geological and geophysical exploration costs i.e. costs prior to acquisition of legal right to explore are expensed in the period in which they are incurred as 'exploration expense'.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. If hydrocarbons are not found, the exploration expenditure is charged against income as 'exploration expense'. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as 'exploration assets'. All exploration assets are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the carrying value is written off. When proved reserves of oil and gas are determined and development is sanctioned after the technical feasibility and commercial viability of extracting oil and gas are demonstrable, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognised.

Development costs on the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of developmental wells, including unsuccessful development or delineation wells, is capitalized within 'oil and gas properties'.

Investment property
Investment property is initially measured 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 that is determined based on valuation performed by independent valuers using valuation methods consistent with the nature and usage of the investment property. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated income statement.

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property and equipment as follows:

Buildings	12 to 14 years
Furniture and fixtures	2 to 7 years
Equipment	4 to 10 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

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 value in use.

Expenditure incurred to replace a component of an item of property, plant 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, plant and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

Impairment of non-financial assets
The group conducts internal reviews annually or more frequently if events or changes in circumstances indicate that, the values intangible assets and property plant and equipment are impaired. If any indication of impairment exists an estimates of the asset's recoverable amount is calculated. An asset's recoverable is determined as the higher of an asset's cash-generating unit's fair value less costs to sell or 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.

If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the consolidated income statement so as to reduce the carrying amount (i.e. the higher of fair value less costs to sell and value in use).

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the 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 profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amounts.

Investment in associates
The group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The group recognises in the consolidated income statement its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate arising from changes in the associate's equity that have not been recognised in the associate's income statement. The group's share of those changes is recognised directly in equity.

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

Unrealised gains on transactions with an associate are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The reporting dates of the associates and the group are identical and in case of different reporting date of an associate, which are not more than three months, from that of the group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the group's consolidated financial statements. The associate's accounting policies conform to those used by the group for like transactions and events in similar circumstances.

Financial instruments

Financial assets
Financial assets within the scope of IAS 39 are classified as "financial assets at fair value through income statement", "financial assets available for sale" and "loans and receivables". The group determines the classification of financial assets at initial recognition, where allowed and appropriate, re-evaluates this designation at each financial year end.

Financial assets are initially recognised at fair value plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognised on trade date, i.e., the date that the company commits to sell or purchase.

Financial assets at fair value through income statement
Financial assets at fair value through income statement includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy.

Financial assets at fair value through income statement are carried in the consolidated balance sheet at fair value with gains and losses recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. The company's loans and receivables include accounts receivables and other assets. Gains and losses are recognised in consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as "Financial liabilities other than at fair value through profit or loss". Financial liabilities are stated at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognized.

The group classifies its financial liabilities other than at fair value through profit or loss as "accounts payable and other liabilities" and "murabaha payables".

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

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet, if and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise assets and settle liabilities simultaneously.

Fair value
The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to the quoted market prices bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include, using recent arm's length market transactions; reference to current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. The change in fair value is not recognised for financial assets available for sale that are carried at cost.

Amortised cost
Loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets
The group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial re-organization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets available-for-sale
For financial assets available for sale, the group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment 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 interest rate and the loss is recorded in the consolidated income statement.

The group first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date.

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 recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derecognition

Financial assets
A financial asset (in whole or in part) is derecognised either when:

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new 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 specified in the contract is discharged, cancelled or expired.

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

Disposal groups classified as discontinued operations
Disposal groups classified as discontinued operations are measured at the lower of carrying amount and the fair value less costs to sell and are classified as such if their carrying values will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition. Management must be committed to sale, which should be expected to qualify for recognition as a completed sale within one year from the date of the classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from continuing operations to the level of profit after taxes in the consolidated income statement, even when the group retains a non-controlling interest in the subsidiary after sale.

Property and equipment and intangible assets once classified as held for sale are not depreciated/amortised.

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

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity and for non-monetary assets whose change in fair value are recognised in the consolidated income statement are recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

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

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segment operating in other economic environments.

The primary segment reporting format is determined to be geographical segments as the group's risks and returns are affected predominantly by the differences in economic environments in which it operates. Secondary information is reported based on products or services provided. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employees' end of service benefits

Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment. The group also contributes to the government defined contribution plan for its Kuwaiti employees in accordance with the legal requirements in Kuwait.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Revenue recognition

Construction contracts

Revenue and profits from long-term contracts are calculated in accordance with the percentage of completion method of accounting. Such contracts generally extend for periods in excess of one year. Under this method the amount of revenue and profit from construction contracts is measured by reference to the percentage of actual costs incurred to date to the estimated total costs for each contract applied to the estimated contract profit, and reduced by the proportion of profit previously recognised. Profit is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. During the early stages of a contract, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable; hence no profit is recognised. Claims and variation orders are only included in the determination of contract profit when negotiations have reached an advanced stage such that it is probable they will be approved by contract owners and can be reliably measured. Anticipated losses on contracts are recognised in full as soon as they become foreseen.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the term of the lease.

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

Taxation on overseas subsidiaries
Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

Significant accounting judgements, estimates and assumptions

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

Classification of investments
Judgments are made in the classification of financial instruments based on management's intention at acquisition.

Impairment of available for sale equity financial assets
The group treats available for sale equity financial assets 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. In addition the group evaluates other factors such as the share price volatility.

Impairment of exploration assets
Capitalised exploration assets are expensed unless a) proved reserves are booked, or b) i) they have found commercially producible quantities of reserves and ii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is underway or firmly planned for the near future or other activities are being undertaken to sufficiently progress the assessing of the reserves and the economic and operating viability of the project. In making decisions about whether to continue to capitalise exploration expenses, it is necessary to make judgements about the satisfaction of each of these conditions. If there is a change in one of these judgements in the subsequent period, then the related capitalised exploration expenses would be expensed during that period, resulting in a charge to the consolidated income statement.

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

Impairment of goodwill
The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows (note 7).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty and assumptions (continued)

Impairment losses on accounts receivables
The group reviews its problem accounts receivables on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

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

Estimation of oil and gas reserves
Oil and gas reserves are an important element in testing for impairment of exploration assets and changes with regard to the estimates will affect the standardised measure of discounted cash flows.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of date the estimate is made. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as discounted cash flows) that are based on proved reserves are also subject to change.

Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development, drilling and production activities or from changes in economic factors, including product prices, contract terms and developmental plans. In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted.

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

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

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

3 ACQUISITION OF SUBSIDIARIES

During the period, the company has acquired the following subsidiaries from related parties (Note 18):

Name	*Date of Acquisition*	*Place of Incorporation*	*Voting shares acquired (%)*	*Principal activities*
Khalifa Daij Al Dabbous and Brothers Company - W.L.L. ("KDDB").	8 October 2007	Kuwait	79	General trading and contracting
Higleig Petroleum Services & Investment Co. Ltd. ("Higleig")	20 April 2008	Sudan	64.25	Contracting
Intelligent Drilling Services Co. ("IDS")	22 April 2008	Oman	51	Drilling service contracting

The subsidiaries acquired have been consolidated from the date of exercise of control. The acquisitions have been accounted for using the purchase method of accounting, as per International Financial Reporting Standards (IFRS) 3: Business Combinations. During the period, the group finalised purchase price allocation ("PPA") of the above subsidiaries and the fair value of assets and liabilities (which approximate the carrying values), the goodwill and intangible assets (contract backlog) arising as at the date of acquisition are as follows:

	KDDB KD	*Higleig KD*	*IDS KD*	*Total KD*
Assets				
Property and equipment	1,230,000	21,446,013	1,145,874	**23,821,887**
Investment property	-	4,596,439	-	**4,596,439**
Intangible assets	-	1,319,193	-	**1,319,193**
Investment in associates	-	2,301,269	-	**2,301,269**
Financial assets available for sale	-	712,671	-	**712,671**
Inventories	-	4,929,279	-	**4,929,279**
Accounts receivable and other assets	-	25,037,747	749,955	**25,787,702**
Cash and cash equivalents	-	699,750	5,169	**704,919**
Restricted bank balances and deposits	-	4,346,091	106,498	**4,452,589**
	1,230,000	**65,388,452**	**2,007,496**	**68,625,948**
Liabilities and minority interest				
End of service benefit	-	327,933	12,738	**340,671**
Accounts payable and other liabilities	-	15,055,010	388,973	**15,443,983**
Murabaha payables	-	18,268,471	980,428	**19,248,899**
Minority interest	258,300	11,140,720	306,425	**11,705,445**
	258,300	**44,792,134**	**1,688,564**	**46,738,998**
Net assets acquired	971,700	20,596,318	318,932	**21,886,950**
Goodwill arising on acquisition	3,178,300	2,607,504	556,068	**6,341,872**
Cost of acquisition	**4,150,000**	**23,203,822**	**875,000**	**28,228,822**
Less: Cash and cash equivalents	-	(699,750)	(5,169)	**(704,919)**
Net cash outflow on acquisition	**4,150,000**	**22,504,072**	**869,831**	**27,523,903**

3 ACQUISITION OF SUBSIDIARIES (continued)

Goodwill comprises the value of control premium paid to acquire the subsidiaries and benefit of expected synergies from revenue growth, future market developments and customer relationships which are not separable and therefore do not meet the criteria for recognition as intangible assets under IAS 38 Intangible assets.

As a result of the acquisition of subsidiaries, the consolidated income statement of the group for the 16 months ended 31 December 2008 includes the following income and expenses of the subsidiaries from the date of acquisition to the balance sheet date:

	KDDB *KD*	*Higleig* *KD*	*IDS* *KD*	***Total*** ***KD***
Contract revenue	-	42,784,913	419,090	**43,204,003**
Contract cost	-	(39,074,996)	(327,788)	**(39,402,784)**
Gross profit	-	3,709,917	91,302	**3,801,219**
Rental income from investment property	-	309,043	-	**309,043**
Revaluation gain on investment property	-	552,793	-	**552,793**
Share of results of associates	-	(210,684)	-	**(210,684)**
Impairment of intangible assets	-	(724,604)	-	**(724,604)**
Foreign exchange gain	-	701,010	-	**701,010**
Other income	-	-	24,495	**24,495**
Staff cost	-	(1,724,833)	-	**(1,724,833)**
General and administration expenses	-	(1,307,818)	(200,993)	**(1,508,811)**
Operating profit/(loss)	-	1,304,824	(85,196)	**1,219,628**
Finance costs	-	(470,893)	(15,251)	**(486,144)**
PROFIT (LOSS)FOR THE PERIOD	-	**833,931**	**(100,447)**	**733,484**

Had the acquisition of subsidiaries taken place at the beginning of the period, total revenues of the group for the period would have been higher by KD 33,628 thousand and the profit attributable to the equity holders of the company would have higher by KD 1,279 thousand.

4 INTERESTS IN A JOINT VENTURE

The company (the "non operator") entered into a joint venture agreement with GeoSouthern Energy Corporation (the "operator") and Weber Energy Corporation (the "non operator") on 30 August 2007 to jointly share, in proportion to agreed participating interest the income, expenses and risks associated in relation to activities for exploration and discovery of oil and gas reserves in United States of America. The company has acquired participating interest in the joint venture to the extent of 50%.

Summarised financial statement information for the group's share of jointly controlled asset is as follows:

	31 December 2008 ***KD***
Non current assets (Note 7)	**9,873,449**
Current assets	**283,733**
Capital commitments (Note 23)	**1,996,793**

5 PROPERTY AND EQUIPMENT

	Land *KD*	*Buildings* *KD*	*Furniture and fixtures* *KD*	*Equipment* *KD*	*Work in progress* *KD*	*Total* *KD*
Cost						
Additions	-	331	101,243	1,897,348	84,979	2,083,901
Acquisition of subsidiaries (Note 3)	1,230,000	879,681	101,134	21,611,072	-	23,821,887
Disposals	-	-	-	(353,172)	-	(353,172)
Foreign currency translation adjustment	-	(32,158)	(2,470)	(709,438)	-	(744,066)
At 31 December 2008	**1,230,000**	**847,854**	**199,907**	**22,445,810**	**84,979**	**24,808,550**
Depreciation						
Depreciation charge for the period	-	71,295	25,152	3,159,769	-	3,256,216
Disposals	-	-	-	(214,074)	-	(214,074)
At 31 December 2008	-	**71,295**	**25,152**	**2,945,695**	-	**3,042,142**
Net carrying value	**1,230,000**	**776,559**	**174,755**	**19,500,115**	**84,979**	**21,766,408**

Equipment with a net carrying value of KD 6,692,473 is mortgaged as security against the repayment of the murabaha payables (Note 16).

Depreciation charge for the period is allocated as follows:

	31 December 2008 ***KD***
Contract costs	**3,159,769**
General and administration expenses	**96,447**
	3,256,216

6 INVESTMENT PROPERTY

	31 December 2008 ***KD***
Acquisition of a subsidiary (Note 3)	**4,596,439**
Revaluation gain on investment property	**552,793**
Foreign currency translation adjustment	**(97,786)**
	5,051,446

Investment property is stated at fair value, which has been determined based on the valuation performed as at 31 December 2008 by an accredited independent valuer who is an industry specialist in valuing this type of investment property.

7 INTANGIBLE ASSETS

	Goodwill *KD*	*Exploration assets* *KD*	*Other intangible assets* *KD*	*Total* *KD*
Cost				
Additions	-	9,873,449	978,775	10,852,224
Acquisition of a subsidiary (Note 3)	6,341,872	742,787	576,406	7,661,065
Impairment loss	(3,734,368)	(724,614)	-	(4,458,982)
Amortisation charge	-	-	(515,024)	(515,024)
Foreign currency translation adjustment	-	(18,173)	-	(18,173)
At 31 December 2008	**2,607,504**	**9,873,449**	**1,040,157**	**13,521,110**

Other intangible assets have finite useful lives.

Balance in exploration assets represent the group's share in jointly controlled assets (Note 4).

At 31 December 2008, intangible assets were assessed for impairment which resulted in the recognition of impairment loss in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the group's cash generating units (as disclosed in Note 21 segment information) that are expected to benefit from the synergies of the combination. The carrying values of the cash generating have been reduced to their recoverable amount resulting in recognition of impairment loss. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used based on available fair value indicators.

8 INVESTMENT IN ASSOCIATES

	31 December 2008 ***KD***
Arising on acquisition of subsidiary (note 3)	**2,301,269**
Additions	**6,869,750**
Share of results	**(701,217)**
Impairment loss	**(2,704,080)**
Foreign currency translation adjustment	**(91,671)**
	5,674,051

At 31 December 2008, carrying value of investments in associates were assessed for impairment which resulted in the recognition of impairment loss amounting to KD 2,704,080 in the consolidated income statement.

8 INVESTMENT IN ASSOCIATES (continued)

Summarised financial information of the associates is as follows:

	31 December 2008 KD
Share of associates' balance sheet:	
Total assets	6,855,207
Total liabilities	4,249,913
Net assets	2,605,294
Share of associates' revenue and profit:	
Revenue	2,011,999
Loss for the period	(701,217)

Name of company	*Principal Activities*	*Country of incorporation*	*Effective interest 31 December 2008*	*Carrying value 31 December 2008*
Synfuels International, Inc.	Oil and gas technology and services	U.S.A.	25%	3,667,788
Al Dindir Petroleum International Company Limited	Oil and gas technology and services	Sudan	45%	2,006,263
				5,674,051

9 FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2008 KD
Quoted equity securities	680,759
Unquoted equity securities	2,723,485
Total	3,404,244

Unquoted equities securities are carried at cost, less impairment if any, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these financial assets. However, there are no indications of impairment in value of the investments.

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	31 December 2008 KD
Designated at fair value through income statement	
Unquoted equity securities	**32,400,000**

During the period, the group acquired 18% equity interest in Kuwait Energy Company K.S.C.C. ("Kuwait Energy") from related parties (note 18). Kuwait Energy is incorporated in Kuwait and not listed in any recognised stock exchange. The group recognised unrealised gain amounting to KD 3,600,000 in the consolidated income statement on Kuwait Energy shares based on a recent market transaction.

11 ACCOUNTS RECEIVABLES AND OTHER ASSETS

	31 December 2008 KD
Amounts due from customers under construction contracts	**16,762,619**
Other receivables	**3,862,605**
Amount due from related parties (Note 18)	**1,254,428**
	21,879,652

Amounts due from customers under construction contracts includes retentions held by customers for contract work amounting to KD 5,537,263.

12 CASH AND CASH EQUIVALENTS

	31 December 2008 KD	*31 August 2007 KD*
Bank balances, deposits and cash	**6,343,851**	139,244
Bank overdraft	-	(10,891)
Less: restricted bank balances and deposits	**(5,406,356)**	-
Cash and cash equivalents	**937,495**	128,353

Restricted bank balances and deposits represent margin deposits that are held as security against letter of credit and letter of guarantees granted by a related party (Note 18 and 23).

13 DISCONTINUED OPERATION

On 1 September 2007, the company sold the education business and its related assets, liabilities and contingent liabilities to an unrelated party for a total consideration of KD 7,500,000 realising a gain of KD 1,444,015. The education business has been classified and accounted for at 31 August 2007 as a disposal group and disclosed as a discontinued operation as per International Financial Reporting Standard 5: Non current Assets held for sale and discontinued operations.

13 DISCONTINUED OPERATION (continued)

The assets and liabilities of the discontinued operations were as follows:

	31 August 2007 and 1 September 2007 *KD*
Assets related to discontinued operation	
Property and equipment	2,459,189
Intangible asset	225,000
Goodwill	84,113
Investment in an associate	2,104,382
Financial assets available for sale	1,826,521
Financial assets at fair value through income statement	1,535,134
Inventory	35,630
Accounts receivable and prepayments	266,493
Bank balances and cash	139,244
Total assets	**8,675,706**
Liabilities related to discontinued operation	
Bank overdraft	10,891
Employees' end of service benefits	83,003
Murabaha payable	1,852,385
Accounts payable and accruals	542,317
Due to related parties	131,125
Total liabilities	**2,619,721**
Net assets disposed	**6,055,985**
Realized gain on disposal of discontinued operation	1,444,015
Total sale consideration received	**7,500,000**
Less: Cash and cash equivalents (Note 12)	(128,353)
Proceeds from disposal of discontinued operation	**7,371,647**

The profit from discontinued operations is analysed below:

	16 months ended 31 December 2008 ***KD***	*Year ended 31 August 2007* *KD*
Revenue		
Tuition fees	-	4,611,413
Realised gain on disposal of discontinued operation	1,444,015	-
Unrealised gain on financial assets at fair value through income statement	-	168,968
Share of results of an associate	-	122,985
Other income	-	24,133
Total revenue	**1,444,015**	4,927,499
Expenses		
Staff costs	-	2,736,281
General and administrative expenses	-	1,003,882
Finance cost	-	88,502
Total expenses	-	3,828,665
Profit from discontinued operations	**1,444,015**	1,098,834

13 DISCONTINUED OPERATION (continued)

Transactions with related parties are as follows:

	Parent / ultimate parent company KD	*Other related parties KD*	***31 December 2008 KD***	*31 August 2007 KD*
Consolidated balance sheet				
Bank balances	-	-	-	86,672
Bank overdraft	-	-	-	10,891
Amount due to parent company	-	-	-	100,000
Amount due to other related parties	-	-	-	31,125
Other transactions				
Purchase of financial assets available for sale	-	-	-	1,061,280

Key management compensation	***16 months ended 31 December 2008 KD***	*Year ended 31 August 2007 KD*
Short term benefits	-	59,766
End of service benefits	-	3,367
	-	63,133

At 31 August 2007, the group had contingent liabilities in respect of bank guarantee and other obligations amounting to KD 303,896.

14 SHARE CAPITAL

	Authorised		*Issued and fully paid*	
	31 December 2008 KD	*31 August 2007 KD*	***31 December 2008 KD***	*31 August 2007 KD*
Shares of 100 fils each at beginning of period/year	**10,500,000**	3,399,000	**3,568,950**	3,399,000
Bonus issue	-	169,950	-	169,950
Rights issue	**64,500,000**	6,931,050	**71,431,050**	-
Shares of 100 fils each at end of the period/year	**75,000,000**	10,500,000	**75,000,000**	3,568,950

On 15 August 2007, the Extraordinary General Assembly of the shareholders of the company approved the increase of authorised share capital from KD 3,568,950 to KD 10,500,000 by issue of 69,931,050 shares of cash at 100 fils each. These shares were issued and fully paid up during the period.

On 21 February 2008, the Extraordinary General Assembly of the shareholders of the company approved the increase of authorised and issued share capital from KD 10,500,000 to KD 75,000,000 by issue of 645,000,000 shares of cash at 100 fils each. These shares were fully paid up during the period.

15 RESERVES

Share premium
The share premium account is not available for distribution.

Statutory reserve
In accordance with the Commercial Companies Law and the company's Articles of Association, no transfer has been made to statutory reserve, since losses have been incurred during the period.

Distribution of the 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 this amount.

Voluntary reserve
In accordance with the company's Articles of Association, no transfer has been made to voluntary reserve, since losses have been incurred during the period. There are no restrictions on distribution from voluntary reserve.

16 MURABAHA PAYABLES

Murabaha payables represents the value of assets purchased on a deferred settlement basis.

Of the murabaha payables, facilities amounting to KD 13,273,393 relating to a subsidiary are secured against plant and equipment amounting to KD 6,692,473 (Note 5) and against inventories of KD 6,580,928.

17 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	31 December 2008 KD
Trade payable under construction contracts	**10,002,877**
Amount due to related parties (Note 18)	**255,980**
Other payables	**5,348,282**
	15,607,139

Advances received from customers for contract work included in trade payable under construction contracts amounted to KD 901,662.

18 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates, directors and key management personnel of the group and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by the group's management. Transactions with related parties are as follows:

18 RELATED PARTY TRANSACTIONS (continued)

	Ultimate parent/parent company KD	*Other related parties KD*	***16 months ended 31 December 2008 KD***
Consolidated balance sheet			
Bank balances	358,977	5,403,235	**5,762,212**
Accounts receivables and other assets	-	1,254,428	**1,254,428**
Murabaha payables	1,190,875	11,016,208	**12,207,083**
Accounts payable and other liabilities	94,093	161,887	**255,980**

As at 31 December 2008, the group had outstanding letter of credit and letter of guarantee facilities obtained from a related party amounting to KD 11,704,610 (Note 23).

Accounts receivables/payables from/to related parties are unsecured, free of finance charges and are receivable/payable on demand.

	Parent / ultimate parent company KD	*Other related parties KD*	***16 months ended 31 December 2008 KD***
Consolidated income statement			
Contract costs	-	111,685	**111,685**
General and administration expenses	-	7,900	**7,900**
Murabaha finance cost	280,832	243,790	**524,622**
Other transactions			
Acquisition of intangible assets	-	978,775	**978,775**
Purchase of financial assets at fair value through income statement	16,000	28,784,000	**28,800,000**
Acquisition of subsidiaries (Note 3)	875,000	27,353,822	**28,228,822**

Related parties balances and transactions pertaining to discontinued operations are disclosed in Note 13.

Key management compensation

Remuneration paid or accrued in relation to "key management" (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers) as follows:

	16 months ended 31 December 2008 KD
Short term benefits	**588,646**
End of service benefits	**36,669**
	625,315

19 TAXATION

	Continuing operations		*Discontinued operations*		*Total*	
	16 months ended 31 December 2008 KD	*Year ended 31 August 2007 KD*	***16 months ended 31 December 2008 KD***	*Year ended 31 August 2007 KD*	***16 months ended 31 December 2008 KD***	*Year ended 31 August 2007 KD*
National labour support tax	-	-	-	8,783	-	8,783
Contribution to Kuwait Foundation for the Advancement of Sciences	-	-	-	27,471	-	27,471
Zakat	-	-	-	-	-	-
Taxation on overseas subsidiary	**299,287**	-	-	-	**299,287**	-
	299,287	-	-	36,254	**299,287**	36,254

20 BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Basic and diluted (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the company for the period by the weighted average number of shares outstanding during the period, as follows:

	16 months ended 31 December 2008	*Year ended 31 August 2007*
(Loss)/profit for the period attributable to equity holders of the company (KD)	**(3,641,044)**	1,037,580
Weighted average number of shares outstanding during the period	**484,897,086**	114,302,939
Basic and diluted (loss)/earnings per share	**(7.5) fils**	9.1 fils

Basic and diluted earnings per share from continuing operations

	16 months ended 31 December 2008	*Year ended 31 August 2007*
Loss for the period attributable to equity holders of the company (KD)	**(5,085,059)**	-
Weighted average number of shares outstanding during the period	**484,897,086**	-
Basic and diluted loss per share	**(10.5) fils**	-

Earnings per share for the prior periods have been recomputed based on weighted average number of shares that were adjusted for bonus element following the rights issue (Note 14).

21 SEGMENTAL INFORMATION

Primary segment information

The group operates mainly in the following geographic markets; a) Kuwait and b) Middle East and North Africa. The following table shows the distribution of the group's segment revenues, segment results, segment assets, segment liabilities and other segment information by geographical segment:

16 months ended 31 December 2008	*Kuwait* KD	*Middle east & North Africa* KD	*Others* KD	*Total* KD
Revenue				
Segment revenues	3,835,241	44,791,352	-	**48,626,593**
Results				
Segment results	332,382	(17,608)	(2,813,398)	**(2,498,624)**
Share of results of associates	-	(210,684)	(490,533)	**(701,217)**
Taxation	-	(299,287)	-	**(299,287)**
Profit (loss) for the period	332,382	(527,579)	(3,303,931)	**(3,499,128)**
Assets and liabilities				
Segment assets	34,203,043	65,717,957	11,026,639	**110,947,639**
Investment in associates	-	2,006,263	3,667,788	**5,674,051**
Total assets	34,203,043	67,724,220	14,694,427	**116,621,690**
Segment liabilities	1,616,330	30,643,874	-	**32,260,204**
Other segmental information:				
Capital expenditure:				
Intangible assets	-	978,775	9,873,449	**10,852,224**
Property and equipment	85,767	1,998,134	-	**2,083,901**
Depreciation	23,017	3,233,199	-	**3,256,216**
Impairment of intangible assets	3,178,300	1,280,682	-	**4,458,982**
Amortisation of intangible assets	-	405,706	109,318	**515,024**
Impairment of associates	-	-	2,704,080	**2,704,080**
Provision for end of service benefits	52,784	210,058	-	**262,842**

Segment assets of Middle East and North Africa segment include goodwill of KD 2,607,504 (Note 7).

Secondary segment information

The following table present revenue and profit and certain assets and liability information regarding the company's business segments:

16 months ended 31 December 2008	*Energy* KD	*Others* KD	*Total* KD
Revenue			
Segment revenues	45,864,743	2,761,850	**48,626,593**
Assets and liabilities			
Segment assets	106,471,053	10,150,637	**116,621,690**
Other segmental information:			
Capital expenditure:			
Intangible assets	10,852,224	-	**10,852,224**
Property and equipment	1,998,134	85,767	**2,083,901**

Segment assets of the energy segment include of goodwill of KD 2,607,504 (Note 7).

22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances, deposits and cash, accounts receivables, financial assets at fair value through income statement and financial assets available for sale.

Financial liabilities consist of murabaha payable, accounts payable and other liabilities.

The fair value of financial instruments, with the exception of certain financial assets available for sale (unquoted equity securities) which are carried at cost (Note 9) are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

23 CAPITAL COMMITMENTS AND CONTINGENCIES

	31 December 2008 KD
Capital expenditure commitments	
Financial assets	
Financial assets available for sale	6,665,940
Others	
Property, plant and equipment	955,247
Exploration assets (Note 4)	1,996,793
	9,617,980

At the balance sheet date, the group had contingent liabilities in respect of outstanding letters of credit and letters of guarantees granted by a related party amounting to KD 11,704,610 from which it is anticipated that no material liabilities will arise (Note 18). These letters of credit and letter of guarantees are secured against bank balances and deposits (Note 12).

24 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 profit rate risk, foreign currency risk, equity price risk and prepayment risk. 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.

24.1 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. Financial assets subject to credit risk consist principally of bank balances and accounts receivables.

The group's bank balances are placed with high credit rating financial institutions. Accounts receivables are presented net of allowance for credit losses. The group manages credit risk by setting limits for individual customers and groups of customers and for geographical and industry segments. The group also monitors credit exposures and continually assesses the creditworthiness of counterparties.

24 RISK MANAGEMENT (continued)

24.1 CREDIT RISK (continued)

Gross maximum exposure to credit risk

The group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The group bears credit risk on bank balances and accounts receivables.

The group seeks to limit its credit risk with respect to banks by only dealing with reputable banks, and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables on an ongoing basis and by avoiding undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of business dealings. The five largest customers accounted for 95% (Government/government controlled entities: 52%) of the outstanding trade receivables at 31 December 2008.

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

	31 December 2008 KD
Bank balances and deposits	**6,334,385**
Accounts receivables and other assets	**21,879,652**
Gross maximum credit risk exposure	**28,214,037**

The exposures set above are based on carrying amounts as reported in the consolidated balance sheet.

Risk concentration of the maximum exposure to credit risk

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

The group's credit bearing assets can be analysed by the geographical regions and industry wise sector as follows:

	31 December 2008 KD
Geographic region:	
Kuwait	**794,025**
Middle East and North Africa	**27,420,012**
	28,214,037
Industry sector:	
Banks and financial institutions	**6,334,385**
Construction and real estate	**20,318,703**
Other	**1,560,949**
	28,214,037

24 RISK MANAGEMENT (continued)

24.1 CREDIT RISK (continued)

Credit quality of financial assets that are neither past due nor impaired

Before accepting any new customer, the group uses internal and external sources of information to assess the credit quality of potential customers and defines credit limits by customer. Customer credit quality and limits are reviewed on an on going basis. The group manages the credit quality by conducting business with high credit worthy customers, related parties and government/government controlled entities and by regularly monitoring and reviewing outstanding receivables. It is not the practice of the group to obtain collateral over receivables.

Analysis of past due but not impaired

The group had past due but not impaired financial assets amounting to KD 2,804,690 (KD 2,644,600 due from government/government controlled entities) as at 31 December 2008.

Analysis of impaired

The group did not have any material impaired financial assets as at December 31, 2008.

24.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The group manages this risk by active cash flow management and undrawn limits with banks and financial institutions and generation of funds from its operations.

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

31 December 2008	*On demand KD*	*Less than 1 year KD*	*More than 1 year KD*	*Total KD*
Murabaha payable	-	16,437,005	504,209	**16,941,214**
Accounts payable and other liabilities	255,980	15,351,159	-	**15,607,139**
	255,980	31,788,164	504,209	**32,548,353**
Capital commitments	-	2,675,690	6,942,290	**9,617,980**

24.3 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.

24.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates of Islamic financial instruments will affect future profitability of the group. Profit rate risk is managed by the treasury department of the company. The group is not significantly exposed to profit rate risk as a result of mismatches of profit rate repricing of assets and liabilities since it does not own significant floating rate Islamic financial assets and Islamic financial liabilities that could have a material impact on the group's profit before taxes and Board of Directors' remuneration.

24 RISK MANAGEMENT (continued)

24.3 MARKET RISK (continued)

24.3.2 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 an on going basis to ensure positions are maintained within established limits.

The effect on profit before tax 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 as at 31 December 2008:

	Change in currency rate by 3%	
	Effect on equity KD	*Effect on profit before taxes and Board of directors' remuneration KD*
United State Dollar	**13,802**	**314,898**
Sudanese pounds	**913,068**	**-**

Sensitivity to currency rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

24.3.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the group's investment portfolio. The group manages the risk by focusing on the long term holding of equity assets, keeping its exposure at an acceptable level and by continuously monitoring the markets.

The effect on equity (as a result of a change in the fair value of financial assets available for sale at 31 December 2008) due to a 3% change in regional market indices, with all other variables held constant is KD 20,423.

24.3.4 Prepayment risk

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.

25 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.

For the period ended 31 December 2008, the group adopted a policy for capital management and 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, issue new shares or borrow from Islamic financial institutions.

The group monitors capital using a gearing ratio, which is total debt divided by total equity. The group's policy is to keep the borrowings less than share holder's equity. The group includes within total debt, profit bearing murabaha payables and accrued profit thereon. Capital includes equity attributable to the equity holders of the company.

	31 December 2008 KD
Total debt - profit bearing murabaha payables	**16,427,839**
Equity attributable to the equity holders of the company	**72,514,125**
Gearing ratio	**23%**