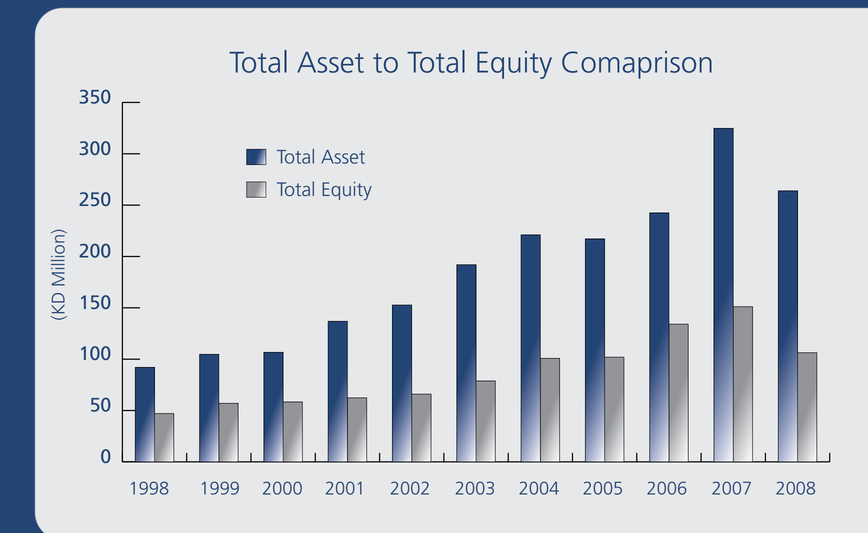
SALHIA

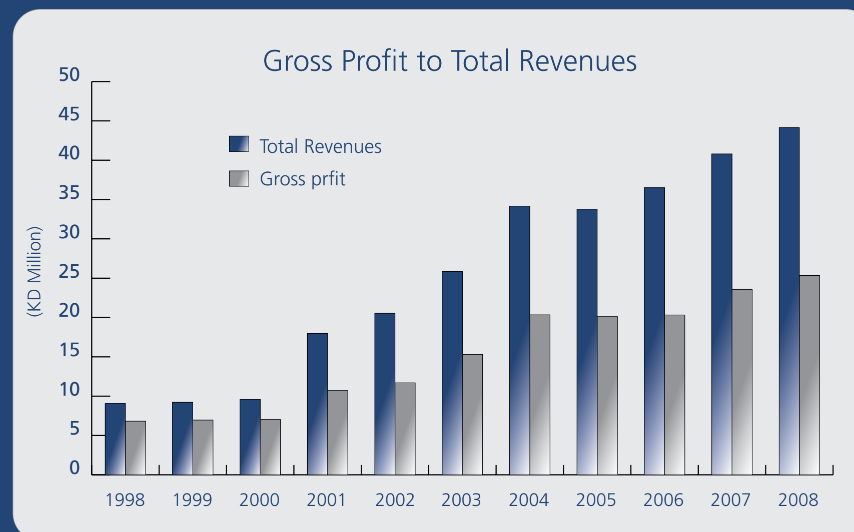
ANNUAL REPORT 2008

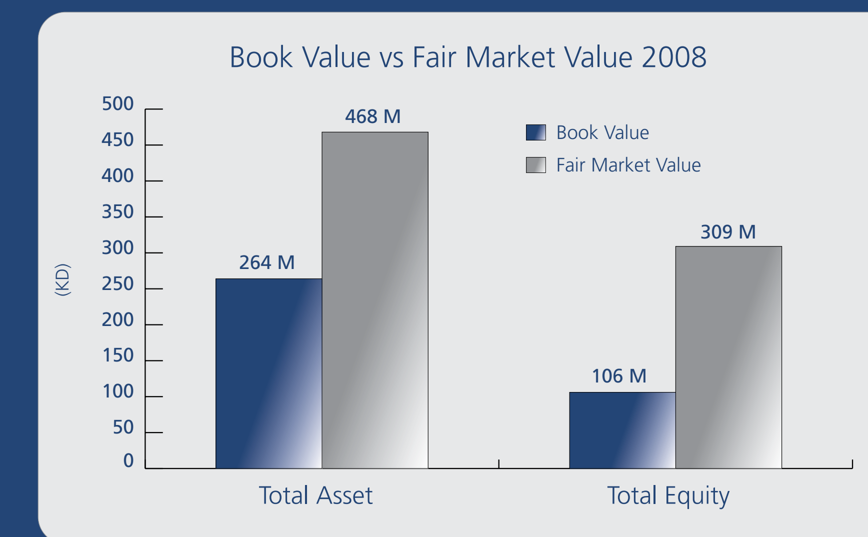
H.H Shaikh
Sabah Al-Ahmed-Al-Jaber Al Sabah
Amir of State of Kuwait

H.H Shaikh
Nawaf Al-Ahmed-Al-Jaber Al Sabah
Crown Prince

H.H Shaikh
Naser Mohammed Al Sabah
Prime Minister







- The fair market value for the company total asset as evaluated by independents professional evaluators in the GCC & Europe 468/M KD (264/M KD Book value).

- Total fair market value for the company Share holders Equity is estimated to be 309/M KD (106/M KD Book value).

Board Members	9
Chairman's Statement	10
Report of the board of Directors	14
Financial Highlights	23

Ghazi Fahad Alnafisi
Chairman and Managing Director

Salah Fahad Al-Marzouk
Vice Chairman

Anwar Abdulaziz Al - Usaimi
Deputy Managing Director

Ahmad Faisal Al-Zabin
Board Member
(Resigned on 13/10/2008)

Hassan Abdullah Al-Mousa
Board Member

Abdulaziz Saud Al-Babtain
Board Member

Abdulaziz Ghazi Alnafisi
Board Member

Abdul Latif Abdul Karim Al - Munayyes
Board Member
(Resigned on 15/04/2008)

Faisal Abdul Mohsen Al - Khatrash
Board Member

Marzouk Fajhan Al - Mutairi
Board Member

Youssef Essa Al - Othman
Board Member

Chairman's Statement

Dear Shareholders,

On behalf of myself, colleagues, members of the board of directors and the executive team at Salhia Real Estate Company, it gives me pleasure to extend to you our immense gratitude for sharing with us our journey, in which you were the supportive foundations for us. Throughout this journey, our work relied on advanced organizational mechanisms and professional corporate structure characterized by transparency and integrity. Therefore, the Company always aimed to produce genuine and unique real estate ideas that fulfill the requirements for sustainable long term growth.

As you are aware, we are going through a crisis which regretfully found a fertile land in our beloved country with an adverse impact that went far beyond rational limits. Due to lack of appropriate economic legislations and regulations, and political tension between both the Legislative and the Executive entities, the whole country is paralyzed. Thus, reflecting negatively on the national economy as well as the developments of mega projects. These adverse consequences had a noticeable impact on our company's financials. In the year 2008, losses amounted to K.D 35,494,609, representing a loss of 90 fils per share. As a policy, Salhia Real Estate again implemented the most conservative interpretations of professional accounting standards. The company therefore recorded provisional losses in the values of several investments.

We would like to reassure our shareholders that the Company continues to stand on solid grounds with gross annual operational revenue amounting to K.D 44,146,975 for the year 2008. In addition, the Company owns sound real estate assets valued K.D 264,009,548 with owners equity amounting to K.D 106,260,575. This reflects a book value per share of 269 fils. It is noted that all assets are recorded based on historical cost and this is shown in the financial statements for the year 2008.

It is worth mentioning that the actual market value of the Company's assets, which were valued by professional independent surveyors at the end of 2008, are larger than the previously mentioned amount and equals K.D 468,247,529, while the owner's equity amounts to K.D 309,416,752, increasing the book value per share to 782 Fils.

As you have always known us at Salhia for being dedicated to our work, we are capable of facing the current challenging economic crises. By continuing our conservative strategy that relies on sound business principles that has played a major role, with God's blessing, in the continuity of our Company's successful operation since its inception, the crises of Almanakh, the invasion, and lastly the current economic crisis that had nearly imploded both local and international financial institutions.

Even under the current economic crisis, the company managed to maintain an optimal occupancy rate of 100% in all of its properties. In addition, the company's hotel operations also produced high occupancy rates.

I would also like to take this opportunity to inform you that the Arraya Tower which was under construction last year, will commence actual operations in mid 2009. The tower has captured the attention of many prospective tenants interested in leasing suitable spaces due to the tower's latest information technology systems, along with luxurious architectural finishes. Consequentially, Salhia's management was able to let 82% of the tower to a range of local and international companies.

Salhia retained a 50% stake of Al-Asima Real Estate Company, which owns the Al-Asima project.

The site has a total area of 40,152 m², of which 21,400 m² is owned by the company and the remainder is state-owned. Development proposals were approved for a project compromising a business and hotel element and a 75-floor commercial and office tower. Site work began after securing all formal approvals, but was halted by notification from the Ministry of Finance pending execution of a utilization agreement. Salhia has worked hard with the Ministry of Finance and other concerned authorities to obtain approval to resume work.

The Company has been working diligently with the Ministry of Finance and other concerned authorities to clarify the nature of Al-Asima project and that it should not be subjected to B.O.T laws.

In tandem with the efforts stated above, Al-Aisma Real Estate Company has filed a lawsuit against the Ministry of Finance, demanding compensation for the substantial financial costs and moral damages inflicted on the interests of the shareholders of both Al-Asima Real Estate Company and Salhia Real Estate Company. As such, the Company appointed the largest three attorney offices in the State of Kuwait to assist in restoring its legitimate right.

With respect to the local non-real estate investments, Salhia formulates its investment plans to create a balance between risk and return. The Company set up a diversified investment portfolio by entering the local and Gulf markets. The portfolio's investments were focused on the leading shares that had shown excellent performances. However, due to the economic crisis, the performance indicator of Kuwait Stock Exchange and the Gulf market have been adversely affected. In compliance with Salhia's policy of transparency as well as taking precautionary measures to preserve the rights of shareholders, the Company recorded provisional losses in its investment values.

At the regional level, Salhia continued finalizing the preliminary works in the Bahrain Bay project and are expected to complete the design and commence construction by 2010. The project includes a tower and multi-storey car park with a 36,000 m2 of rentable office space, 7,900 m2 retail space, complemented by 891 car parking spaces.

Salhia also invested in the Sultanate of Oman. It acquired a 5% stake in the shares of Global Real Estate Investment Company (Glorei), head quartered in the Sultanate of Oman. The principle functions of the company is to invest in real estate, property development as well as land acquisitionas. Furthermore, Salhia Real Estate purchased six strategically located plots in several areas of the Sultanate.

In the United Kingdom, Salhia's activities are run by a joint venture company, Key Property Investments Company (KPI). It has a diversified portfolio of income-producing assets and refurbishment and redevelopment opportunities. Within the current market conditions, managing cashflow remains of paramount importance and KPI are focusing on maintaining income and continuing sales programmes where appropriate. The company is now working on executing the project of redeveloping Farnborough City Centre, where the work on the first phase of development has already started and is expected to be completed before the end of 2009. Moreover, KPI has secured the necessary approvals to develop its property in Rugby, which will be sold following the demolishing of the old buildings.

With regards to Salhia International Investments, Ingleby concluded acquisition for the majority of a two-acre site in the Digbeth district of Birmingham, England's second biggest city. The proposed development is a mixed-use project comprising office tower, retail and residential elements.

Salhia's UK activities is also run by another joint venture, Drawbridge Securities. Its functions is to acquire options for land and enhance value through planning negotiations and consent. DSL is consolidating its existing projects, and the construction of Southampton office building has now been completed and most of the building is let.

In Germany Salhia's investments are run by Haddia Holding Company which provides nursing homes for senior citizens. The world wide economic crises did not have any considerable effect on this particular type of business. The occupancy rate has increased to good levels due to the distinguished reputation the company enjoys as well as the sophisticated and high standard of service it provides.

Dearest Shareholders,

Following the reported financial results of the Company for the year 2008, we would like to announce that we still have several prospective projects and promising opportunities that could enhance returns to our shareholders in the future. We assure you that we will continue our mission of identifying more investment opportunities and rewarding projects. We will also carry on utilizing our resources and know-how in order to enhance and achieve sustainable growth in the sectors we operate in.

In conclusion, I wish to express my appreciation and gratitude to all Shareholders of Salhia, its Board of Directors and employees. I pray to Allah for the sustained blessings safety and security for our beloved country, Kuwait, under our progressive leaders His Highness Sheikh Sabah Al-Ahmed Al-Sabah, the Amir of Kuwait, the Crown Prince His Highness Nawaf Al-Ahmed Al-Jaber Al-Sabah.

Ghazi Fahad Alnafisi
Chairman and Managing Director

Report of the Board of Directors

Local Investments

Salhia commercial complex

The Company's flagship development has maintained its position as one of Kuwait's most elegant shopping and office complexes for the last 30 years, complemented by the Sahab Tower, which rises 20 storeys as a dominant feature of the city' s skyline. The entire complex, established in 1978, is an outstanding example of impressive architecture designed and built with a modern vision that has maintained its enduring status as Kuwait's most luxurious shopping mall. To maintain the position as one of Kuwait's most elegant shopping and office complex, renovations of the ceilings of elevator lobbies at Ground, Mezzanine 1, and Mezzanine 2 were completed in 2008. Also, external lighting was added to enhance the façade of Salhia Complex. Due to this continuous development, Salhia Real Estate has reserved its commercial complex 's valuable position, since its inception in 1978, with an achievement of 100% occupancy for the fifteenth consecutive year.

Salhia Plaza

Completed in 2007, Salhia Plaza has rapidly become an integral component of Salhia Commercial Centre. The Plaza came into being on completion of the Salhia underground Car Park, where the spacious area above provided a perfect strip for cafés and restaurants. Extensive landscaping and outdoor plants set the tone to establish Salhia Plaza as popular meeting place for families and friends alike.

Arraya Commercial Centre

Arraya Commercial Centre is a luxurious Salhia development comprising a contemporary mall, a luxurious four-star hotel, offices, conference centre and multi-storey car park. The three-storey shopping mall is tenanted by famous international retailers offering the finest brands of jewelry, clothing, accessories and beauty products, complemented by fine restaurants and cafés for a stylish dining and shopping experience. During 2008 new international brands and restaurants opened. Another highlight of this year was holding of various social and cultural events that serviced and attracted many visitors to the centre. As a result, Arraya Commercial Centre has a 100% occupancy of both retail and commercial offices for the fifth consecutive year.

The Arraya Car Park accommodates 1,400 vehicles over six floors, serving visitors to the Arraya Commercial Centre and the surrounding commercial area.

Sahab Tower

Opened in 1997, Sahab Tower is Salhia' s 20-storey office tower with three floors of retail space. It is occupied by local and international companies that enjoy the benefits of a prime city-centre location and the facilities offered by the neighboring Salhia Commercial Complex and Salhia Plaza, as well as amazing views over Kuwait City.

In prospect to the continuous development plan that Salhia Real Estate is implementing to all its properties, external lighting was added to enhance the façade of Sahab Tower.

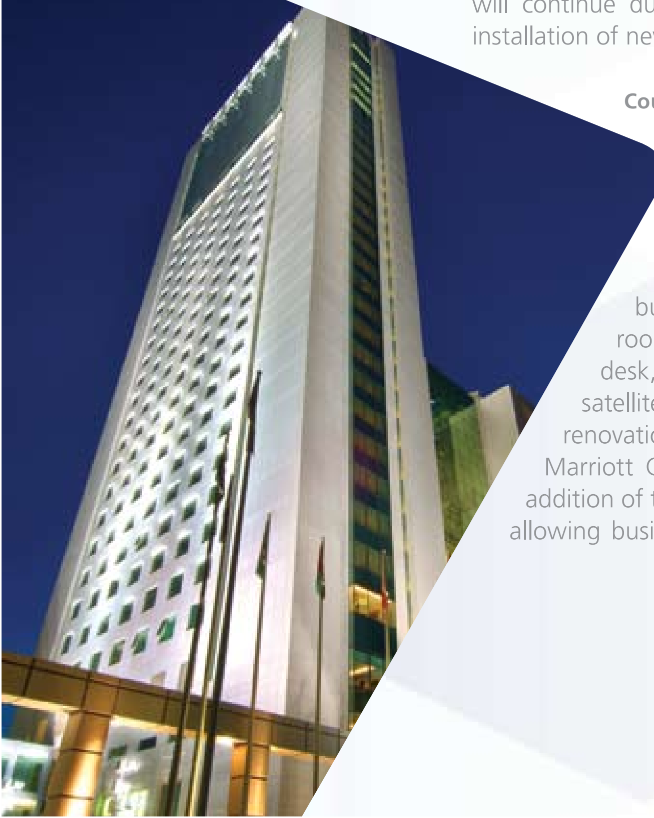
Salhia continues to ensure that high standard and efficient services are provided to their tenants resulting in a 100% occupancy rate for the tenth consecutive year.

JW Marriott Hotel

In partnership with Kuwait Marriott Hotels, Salhia has developed the JW Marriott and Marriott Courtyard hotels, providing top-class accommodation and conference facilities.

In 2008 JW Marriott Kuwait City was awarded Best Business Hotel for 2008 by Business Traveler Magazine. Located in the heart of the city and connected to the prestigious Salhia Shopping Complex enabling its guests to be within walking distance to the commercial districts, ministries and banks.

During 2008 JW Marriott did some minor renovations to all rooms and the Amiri suites of the hotel. The JW Marriott continued drainage upgrades that started in 2007. Renovations will continue during 2009, and will include the installation of new external lighting.



Courtyard Marriott Hotel

The Courtyard Marriott is recognized as one of the finest business hotels in Kuwait, conveniently located near embassies and the financial and business districts. Spacious guest rooms are equipped with a work desk, high-speed internet connection, satellite TV, mini-bar and safe. Major renovations were completed at the Marriott Courtyard during 2008, with the addition of the Club Lounge on the 15th floor allowing business travelers to relax and work.

In addition, a new café in the ground floor lobby was opened.

Arraya Tower II Project

At 300 meters high, the Arraya Tower will be one of Kuwait's tallest buildings when completed in the second quarter of 2009, with 60 floors serviced by 16 elevators. The open plan design with no intervening columns will allow for very flexible office layouts, with floor areas ranging from 520 m² to 740 m². Total project cost is estimated to be KD 32 million.

During 2008 remaining contracts for the construction elements were awarded. The entire building is designed to incorporate the latest information technology systems, along with luxurious architectural finishes.

By mid 2008, Salhia Real Estate was successful in letting 82% of the tower attaining a range of local and international companies.

Al-Asima Project

Salhia retained a 50% stake of Al-Asima Real Estate Company, which owns the Al-Asima project.

The site has a total area of 40,152 m², of which 21,400 m² is owned by the company and the remainder is state owned. Development proposals were approved for a project compromising a business and hotel section and a 75-floor commercial and office tower. Site work began after securing all formal approvals, but was halted by notification from the Ministry of Finance pending execution of a leasing agreement. Salhia has worked hard with the Ministry of Finance and other concerned authorities to obtain approval to resume work.

The Company has been working diligently with the Ministry of Finance and the other concerned authorities to clarify the nature of Al-Asima project and that it should not be subjected to B.O.T laws and projects categorization.

In tandem with the efforts stated above, Al-Aisma Real Estate Company have filed a lawsuit against the Ministry of Finance, demanding it to compensate the company the substantial financial costs and moral damages inflicted on the interests of the shareholders of both Al-Asima Real Estate Company and Salhia. As such, the Company appointed the largest three attorney offices in the State of Kuwait to assist it in restoring its legitimate right.

Local Investments - Non Real Estate

Salhia formulates its investment plans to create a balance between risk and return. The Company set up a diversified investment portfolio by entering the local and Gulf markets. The portfolio's investments were focused on the leading shares that had excellent performances. However, due to the economic crisis the performance indicator of Kuwait Stock Exchange and the Gulf market have been adversely affected. The Kuwait Stock Exchange has lost 38% of its value in 2008, while other Gulf markets shed between 30%-75%. Consequentially, the Company's investment portfolio totaling to 38 million K.D have declined 55% during the year.

As a policy, Salhia again implemented the most conservative interpretation of the latest professional accounting standards. The Company therefore recorded provisional losses in investments value of 21 million K.D in order to protect itself from severe price fluctuation during the year 2009.

International Investments

United Kingdom

KPI Properties

The world wide banking crisis has had a significant impact on the UK property market, affecting all aspects of the Real Estate sector. Lack of confidence and available funds has resulted in banks largely withdrawing from the lending market. The resultant lack of transactions has led to a fall in values across all sectors.

Whilst this readjustment in the market is now presenting an increasing number of buying opportunities, lenders remain cautious and reduced debt ratios and increased debt margins require more equity in every transaction.

KPI is a UK joint venture between Salhia and St Modwen Properties PLC. It has a diversified portfolio of income-producing investments, refurbishment and redevelopment opportunities.

Within the current market conditions, managing cashflow remains of paramount importance and KPI are focusing on maintaining income and continuing sales programmes where appropriate.

Future plans for the £1.5 billion regeneration programme in Elephant and Castle, Central London, by London Borough of Southwark and Lendlease, the Council's selected partner, has been delayed. KPI's intention is to remain closely involved with the project, a significant mixed use scheme comprising retail, leisure, offices and residential, as it represents an exciting redevelopment opportunity within the wider regeneration area.

Acquired by KPI in 1997, Farnborough Town Centre currently includes 31,000 m2 of retail, office and residential accommodation along with parking spaces for 750 cars. After obtaining planning permission, construction work commenced during 2008 with the first phase of development, including the new Sainsbury's and Travelodge, is due to complete before the end of 2009 and the remainder retail and residential elements by mid 2010. Subsequent phases include an 8 screen multiplex cinema, associated restaurants and approximately 1,000 m² of offices.

Refurbishment proposals for both the existing Kingsmead Shopping Centre and multi-storey car park in Farnborough are progressing with work expected to start on site towards the end of 2009.

KPI continues to asset manage the remainder of the portfolio with letting, potential development activity and sales as appropriate.

Salhia International Investments Ltd.

Beorma Quarter - Birmingham

Salhia concluded acquisition for the majority of a two-acre site in the Digbeth district of Birmingham, England's second biggest city. The area is known for its historical nature and is also one of Europe's leading business focal points. The project is situated close to Selfridge's city-centre store and is a mixed-use project comprising office tower, retail and residential elements. The company has submitted a planning application in January 2009 with a 16 week consideration period and 12 week judicial review. Due to the economic crisis and the Company's conservative accounting policy a provisional loss of the land value was taken in the amount of 2,700,000 K.D.

Earlier this year Birmingham City Council members, including the Leader of the Council, visited Salhia Real Estate Company head office and were given a tour around the company's numerous local developments. Birmingham City Council showed great enthusiasm and support for the scheme and hoped that Salhia would continue investing in future regeneration opportunities in the city.

Drawbridge Securities Ltd

Salhia established Drawbridge Securities to acquire options for land and enhance value through planning negotiations and consent. During 2008 the UK Property Market has been severely affected by the world banking crisis. As a result, liquidity in the UK Banking market has reduced to a minimum, affecting corporate and personal banking sectors. Hence, reducing prices for property and an almost total withdrawal from any new lending into the property market.

DSL is consolidating on existing projects, the construction of Southampton office building has been completed and most of the building is let.

The Peterborough project continues to grow in scale and potential. Gazeley (UK) Ltd (owned by Dubai World), partner on the project, have renamed it Magna Park, their brand name for their most significant distribution warehouse parks. They have publically confirmed that they intend to submit a formal planning application for up to 4 million sq ft (370,000 sq m) in 2009. On receipt of planning, DS (Peterborough) Ltd will receive the first stage payment due, with a balancing payment to follow.

DSL will continue to source and consider suitable planning and development opportunities and present these to the Board for consideration.

Germany

Haddia Holding

Salhia increased its share in Haddia in 2008 from 89.72 % to 90.98 %. Haddia owns through its subsidiary, SAREC GmbH 18, high quality nursing care properties located in different districts of Northern Germany. The properties include 13 nursing homes, 4 senior residences and one office building. All properties have long-term leases with one of the largest private operators of nursing homes in Germany, DANA GmbH. DANA GmbH operates a total of circa 1600 beds and apartments and has approximately 900 employees. Having distinguished properties and service quality, the occupancy rate of Haddia continuously increased reaching 87% at the end of 2008 and an average occupancy rate for the whole year of 85%. Another highlight of this year is due to the company's continuous effort to reduce its bank loan, it was reduced from €91.3 million in 2007 to €86.2 million in 2008.
The world wide economic crises did not have any considerable effect on this particular type of business. Even though the market values of real estate generally declined there was no need for any provision to be taken on the properties of Haddia Group.

Bahrain

A land sale agreement was signed in 2007 for a site in the Bahrain Bay development, where an office tower and multi-storey car park will be built at a project cost of KD 43 million. The office tower will have 36,000 m2 of rentable office space, 7,900 m2 retail space, complemented by 891 car parking spaces. The design of the project was appointed to Skidmore, Owings, and Merrill (architecture, engineering and urban planning consultancy) and are expected to complete the design and commence construction by 2010.

Oman

The real estate market in Oman is considered amongst the most important sectors contributing towards growth of the gross domestic product (GDP), where it marked 4.1% of the collective contributing sectors. Similar to the rest of the GCC countries, the real estate sector is divided into three parts namely residential, investment and commercial.

Due to Oman's economic growth as a result of its geographic location and the increase of oil prices, Salhia invested an amount of K.D 1,759,720 in the Sultanate of Oman which equals to 5% in the shares of Global Real Estate Investment Company (GLOREI) headquartered in Oman. The principle function of the company is investing in the real estate and construction domain as well as land acquisition.

Furthermore, Salhia purchased six lands, namely in Suwihira, Luqaiba commercial quarter, Liwa port, Umaq, and Qirba. The total area of these lands is 134,665 m^2 with a total value of K.D 4,806,933. The company is undertaking best used studies on this land holdings.

Salhia Real Estate took into account a provisional loss of circa K.D 1,000,000 due to the decrease in land values in Oman.

International

Investments – Non Real Estate

By all accounts, 2008 was an extremely volatile year that has witnessed substantial retracement in most, if not all, asset prices. Real volatility in prices has increased to three times its historical average levels. Commodities and in particular Oil prices have shed over 75% from its peak prices in 2008. Also, equity indices in developed economies have dropped around 50% in 2008 alone. Further, the near imploding of the global financial sector continued throughout the year and also into 2009.

In early 2007, Salhia entered into an investment program to diversify away some core risks in its assets holdings, both in its asset-class and geographical spread. Also, the program was tailored to generate cash flows of over 18%-20% return on equity that would support the company's development pipeline. The total committed amount was US$250 million, split between US$100million in equity and US$150 million in debt. Roughly 75% of that portfolio was invested in developed economies (i.e. USA, Western Europe and Japan) with the remainder going into emerging economies, such as; China, Korea, Brazil, Turkey, Russia, Mexico and Malaysia.

Further, the nature of these investments was predominantly structured products (in bonds, equities and commodities) that had conditional capital protection. The thesis in structuring the portfolio was to benefit from the forecasted global economic growth and hence circa 75% of it was allocated to indices and not single stocks per se. During the year, a significant portion was redeemed due to the maturities of these investments and there proceeds were used to mainly deleverage the portfolio. At the end of the year, the portfolio's total size before any mark to market treatment came to circa US$150 million (US$110 million in equity and US$40 million in debt). Moreover, the maturities of these investments are varied but the majority of it will redeem in late 2010. The provision that was accounted for at the end of 2008 is 50% from the total amount or US$75 million.

Information Technology

Salhia utilizes sophisticated IT systems to accommodate all aspects of its business and development needs by incorporating highly qualified personnel and equipping them with the latest technology.

In the first quarter of 2008, Salhia completed the full fiber connectivity of all Kuwait business locations, providing high level technology services to Salhia customers. Also, both hardware and applications used by all Salhia departments were upgraded allowing Salhia to have more efficient and effective systems.

During 2008 the deployment plan for new equipment in the new Arraya Tower is in process, providing technology services that accommodate all customer's needs.

Human Resources

Management of human resources is considered amongst the most vital administrative functions at any organization. It focuses on the human element, arguably the most valuable asset of an organization and also for the important bearing it has on productivity. Salhia has put in place a well thought of strategy that relies on the participation of both employees and senior management in achieving the company's vision and goals. Each employees responsibility is determined by their capability and level of expertise, which are continuously enhanced through further training and development.

Financial Highlights

Independent Auditor's Report	24
Consolidated income statement	26
Consolidated balance sheet	27
Consolidated cash flow statement	28
Consolidated statement of changes in equity	30
Notes to the consolidated financial statements	32

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED)

We have audited the accompanying consolidated financial statements of Salhia Real Estate Company K.S.C. (Closed) (the "parent company") and Subsidiaries (collectively 'the group'), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The parent 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 controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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.

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

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

ALI A. AL-HASAWI
LICENSE NO.30-A
RODL MIDDLE EAST
BURGAN – INTERNATIONAL
ACCOUNTANTS

18 March 2009
Kuwait

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2008

	Notes	2008 KD	2007 KD
Revenues		**44,146,975**	40,802,911
Operating costs		**(18,799,472)**	(17,225,126)
Gross profit		**25,347,503**	23,577,785
Share in joint venture's results	10	**2,544,012**	755,382
Share of associate's results	16	**(2,031,962)**	(447,996)
General and administrative expenses		**(5,884,649)**	(7,385,664)
Depreciation	11&12	**(5,180,805)**	(5,201,549)
Sales and marketing expenses		**(1,023,621)**	(978,591)
Investment income	3	**8,606,288**	6,129,855
Gain on sale of properties	4	**-**	26,780,863
Foreign exchange (loss) gain		**(704,612)**	2,364,837
Interest income		**175,447**	781,140
Other income		**391,768**	157,909
Impairment loss on available for sale investments	9	**(47,894,714)**	(4,861,886)
Impairment loss of real estate properties	11&12	**(3,673,427)**	-
Finance costs		**(7,158,296)**	(7,500,382)
(Loss) profit before tax		**(36,487,068)**	34,171,703
Foreign tax		**(47,629)**	(1,715,775)
(LOSS) PROFIT BEFORE CONTRIBUTION TO KFAS, NLST, ZAKAT AND DIRECTORS' FEES		**(36,534,697)**	32,455,928
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**-**	(290,167)
National Labour Support tax (NLST)		**-**	(789,129)
Zakat		**-**	(19,703)
Directors' fees		**-**	(165,000)
(LOSS) PROFIT FOR THE YEAR		**(36,534,697)**	31,191,929
Attributable to:			
(Loss) profit attributable to equity holders of the parent company		**(35,494,609)**	30,976,727
(Loss) profit attributable to non-controlling interests		**(1,040,088)**	215,202
		(36,534,697)	31,191,929
Basic and diluted (loss) earnings per share attributable to equity holders of the parent company	6	**(90) fils**	81 fils

The Attached Notes 1 to 29 form part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	Notes	2008 KD	2007 KD
ASSETS			
Cash and bank balances	7	**6,472,316**	4,459,505
Fixed deposits	7	**1,162,900**	5,886,303
Inventories		**366,565**	350,717
Accounts receivable and other assets	8	**6,387,309**	43,026,740
Available for sale investments	9	**71,829,726**	102,672,764
Investment in associate	16	**-**	-
Investment in joint venture	10	**10,956,432**	14,407,638
Investment properties	11	**39,030,846**	35,985,414
Property and equipment	12	**127,803,454**	117,907,102
TOTAL ASSETS		**264,009,548**	324,696,183
LIABILITIES, DEFERRED GAIN AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institution	13	**44,964,253**	62,276,228
Accounts payable and other liabilities	14	**18,662,082**	19,848,731
Bank loans	15	**82,586,066**	80,735,805
TOTAL LIABILITIES		**146,212,401**	162,860,764
DEFERRED GAIN	16	**11,536,572**	9,504,610
EQUITY			
Share capital	17	**39,837,848**	36,216,226
Share premium		**27,524,906**	27,524,906
Treasury shares	18	**(1,072,354)**	(7,093,274)
Treasury shares reserve		**1,807,235**	1,033,002
Statutory reserve	19	**18,259,091**	18,259,091
Voluntary reserve	19	**18,259,091**	18,259,091
General reserve		**4,250,000**	4,250,000
Foreign currency translation reserve		**(2,131,003)**	3,758,396
Cumulative changes in fair value		**3,135,277**	(4,302,706)
Employee share options plan reserve	21	**227,549**	-
(Accumulated losses) retained earnings		**(3,806,930)**	53,217,737
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		**106,290,710**	151,122,469
Non-controlling interests		**(30,135)**	1,208,340
TOTAL EQUITY		**106,260,575**	152,330,809
TOTAL LIABILITIES, DEFERRED GAIN AND TOTAL EQUITY		**264,009,548**	324,696,183

Ghazi Fahad Alnafisi
Chairman and Managing Director

Salah Fahad Almarzouk
Vice Chairman

The Attached Notes 1 to 29 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2008

	Note	2008 KD	2007 KD
OPERATING ACTIVITIES			
(Loss) profit for the year		**(36,534,697)**	32,455,928
Adjustments for:			
Share in joint venture's results net of related tax		**(2,544,012)**	255,457
Share in associate's results		**2,031,962**	447,996
Depreciation		**5,180,805**	5,201,549
Provision for employees' terminal benefits		**702,133**	1,057,335
Investment income		**(8,606,288)**	(6,129,855)
Gain on sale of properties		**-**	(26,780,863)
Foreign exchange loss (gain)		**704,612**	(2,364,837)
Interest income		**(175,447)**	(781,140)
Finance costs		**7,158,296**	7,500,382
Provision for impairment of available for sale investments		**47,894,714**	4,861,886
Provision for impairment of real estate properties		**3,673,427**	-
		19,485,505	15,723,838
Changes in operating assets and liabilities			
Inventories		**(15,848)**	111,591
Accounts receivable and other assets		**2,629,431**	(641,497)
Accounts payable and other liabilities		**(1,712,648)**	5,910,168
Cash from operations		**20,386,440**	21,104,100
Employees' terminal benefits paid		**(223,987)**	(221,693)
KFAS paid		**(290,167)**	(457,657)
Provision for National Labour Support Tax paid		**(789,129)**	(1,265,823)
Directors' fees paid		**(165,000)**	(165,000)
Zakat paid		**(19,703)**	-
Net cash from operating activities		**18,898,454**	18,993,927

The Attached Notes 1 to 29 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED 31 DECEMBER 2008

	Note	2008 KD	2007 KD
INVESTING ACTIVITIES			
Purchase of available for sale investments		**(43,954,050)**	(118,348,410)
Proceeds from sale of investments		**34,894,274**	49,803,432
Additions to investment properties and property and equipment		**(24,509,891)**	(19,355,890)
Proceeds from sale of investment properties and property and equipment		**34,569,256**	12,549,179
Investment income received		**8,599,754**	2,451,136
Dividend received from joint venture		**1,948,000**	3,158,967
Interest income received		**175,447**	781,140
Net cash from (used in) investing activities		**11,722,790**	(68,960,446)
FINANCING ACTIVITIES			
Sale of treasury shares		**6,795,153**	2,385,082
Proceeds from loans obtained		**23,011,125**	17,577,790
Loans repaid		**(20,763,078)**	(15,440,001)
Loans from financial institution (paid) received		**(25,080,733)**	34,906,006
Finance costs paid		**(7,154,625)**	(6,894,845)
Dividends paid		**(17,908,436)**	(15,124,829)
Net cash from (used in) financing activities		**(41,100,594)**	17,409,203
DECREASE IN CASH AND CASH EQUIVALENTS		**(10,479,350)**	(32,557,316)
Cash and cash equivalents at the beginning of the year		**(14,791,831)**	17,765,485
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	**(25,271,181)**	(14,791,831)

The Attached Notes 1 to 29 form part of these consolidated financial statements

SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital KD	Share premium KD	Treasury shares KD	Treasury shares reserve KD	Statutory reserve KD	Voluntary reserve KD	General reserve KD
At 1 January 2008	36,216,226	27,524,906	(7,093,274)	1,033,002	18,259,091	18,259,091	4,250,000
Net movement in cumulative change in fair values	-	-	-	-	-	-	-
Realised on sale of available for sale investments	-	-	-	-	-	-	-
Impairment losses transferred to the consolidated income statement	-	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-
Total income (expense) recognised directly in equity	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-	-
Total recognised income (expense) for the year	-	-	-	-	-	-	-
Issue of bonus shares (Note 20)	3,621,622	-	-	-	-	-	-
Cash dividends paid (Note 20)	-	-	-	-	-	-	-
Sale of treasury shares	-	-	6,020,920	774,233	-	-	-
Employees' share based payment (Note 21)	-	-	-	-	-	-	-
At 31 December 2008	**39,837,848**	**27,524,906**	**(1,072,354)**	**1,807,235**	**18,259,091**	**18,259,091**	**4,250,000**

	Share capital KD	Share premium KD	Treasury shares KD	Treasury shares reserve KD	Statutory reserve KD	Voluntary reserve KD	General reserve KD
At 1 January 2007	31,492,370	27,524,906	(9,439,596)	994,242	15,035,055	15,035,055	4,250,000
Net movement in cumulative change in fair values	-	-	-	-	-	-	-
Realised on sale of available for sale investments	-	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-
Net income (expense) recognised directly in equity	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-
Total recognised income (expense) for the year	-	-	-	-	-	-	-
Issue of bonus shares (Note 20)	4,723,856	-	-	-	-	-	-
Cash dividend distributed (Note 20)	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	2,346,322	38,760	-	-	-
Transfer to reserves	-	-	-	-	3,224,036	3,224,036	-
At 31 December 2007	**36,216,226**	**27,524,906**	**(7,093,274)**	**1,033,002**	**18,259,091**	**18,259,091**	**4,250,000**

The Attached Notes 1 to 29 form part of these consolidated financial statements

SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2008

	Foreign currency translation reserve KD	Cumulative change in fair values KD	Employee share options reserve KD	(Accumulated losses) retained earnings KD	Subtotal KD	Non-controlling interests KD	Total equity KD
At 1 January 2008	3,758,396	(4,302,706)	-	53,217,737	151,122,469	1,208,340	152,330,809
Net movement in cumulative change in fair values	-	53,612,973	-	-	53,612,973	-	53,612,973
Realised on sale of available for sale investments	-	(6,534)	-	-	(6,534)	-	(6,534)
Impairment losses transferred to the consolidated income statement	-	(46,168,456)	-	-	(46,168,456)	-	(46,168,456)
Foreign currency translation adjustments	(5,889,399)	-	-	-	(5,889,399)	(198,387)	(6,087,786)
Total income (expense) recognised directly in equity	(5,889,399)	7,437,983	-	-	1,548,584	(198,387)	1,350,197
Loss for the year	-	-	-	(35,494,609)	(35,494,609)	(1,040,088)	(36,534,697)
Total recognised income (expense) for the year	(5,889,399)	7,437,983	-	(35,494,609)	(33,946,025)	(1,238,475)	(35,184,500)
Issue of bonus shares (Note 20)	-	-	-	(3,621,622)	-	-	-
Cash dividends paid (Note 20)	-	-	-	(17,908,436)	(17,908,436)	-	(17,908,436)
Sale of treasury shares	-	-	-	-	6,795,153	-	6,795,153
Employees' share based payment (Note 21)	-	-	227,549	-	227,549	-	227,549
At 31 December 2008	**(2,131,003)**	**3,135,277**	**227,549**	**(3,806,930)**	**106,290,710**	**(30,135)**	**106,260,575**

	Foreign currency translation reserve KD	Cumulative change in fair values KD	Employee share options reserve KD	(Accumulated losses) retained earnings KD	Subtotal KD	Non-controlling interests KD	Total equity KD
At 1 January 2007	3,376,005	(2,695,527)	-	48,537,767	134,110,277	925,662	135,035,939
Net movement in cumulative change in fair values	-	2,071,540	-	-	2,071,540	-	2,071,540
Realised on sale of available for sale investments	-	(3,678,719)	-	-	(3,678,719)	-	(3,678,719)
Foreign currency translation adjustments	382,391	-	-	-	382,391	67,476	449,867
Net income (expense) recognised directly in equity	382,391	(1,607,179)	-	-	(1,224,788)	67,476	(1,157,312)
Profit for the year	-	-	-	30,976,727	30,976,727	215,202	31,191,929
Total recognised income (expense) for the year	382,391	(1,607,179)	-	30,976,727	29,751,939	282,678	30,034,617
Issue of bonus shares (Note 20)	-	-	-	(4,723,856)	-	-	-
Cash dividend distributed (Note 20)	-	-	-	(15,124,829)	(15,124,829)	-	(15,124,829)
Purchase of treasury shares	-	-	-	-	2,385,082	-	2,385,082
Transfer to reserves	-	-	-	(6,448,072)	-	-	-
At 31 December 2007	**3,758,396**	**(4,302,706)**	**-**	**53,217,737**	**151,122,469**	**1,208,340**	**152,330,809**

The Attached Notes 1 to 29 form part of these consolidated financial statements

1 CORPORATE INFORMATION

The consolidated financial statements of Salhia Real Estate Company K.S.C. (Closed) (the "parent company") and Subsidiaries (collectively "the group") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the parent company's Board of Directors on 18 March 2009. The general assembly of the shareholders of the parent company has the power to amend these consolidated financial statements after issuance.

The group comprises Salhia Real Estate Company K.S.C. (Closed) and its subsidiaries set out in Note 22.

The parent company is a Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. The group's main activities comprise dealing in various real estate activities, in particular the owning and renting out of commercial property, including hotel accommodation in Kuwait and the operation of care homes in Germany. Surplus funds are invested in real estate and securities portfolios managed by specialist investment managers.

The parent company's registered address is Salhia Complex, Fahad Al Salem Street, P.O. Box 23413 Safat 13095 Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been presented in Kuwaiti Dinars and are prepared under the historical cost convention except for the measurement at fair value of available for sale investments.

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

Early adoption of revised International Financial Reporting Standards

During the year, the group elected to early adopt the following new applicable and amended IFRS in advance of their effective date which is initially for annual periods beginning on or after1 July 2009:
- *IFRS 3 Business Combinations (as revised in 2008); and*
- *IAS 27 Consolidated and Separate Financial Statements (as revised in 2008).*

IFRS 3 Business Combinations (as revised in 2008)
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 3 Business Combinations (as revised in 2008) (continued)
The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised 2008) are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with "IFRS 5 Non-current Assets Held for Sale and Discontinued Operations", which are measured at fair value less costs to sell.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the group receives complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

IAS 27 Consolidated and Separate Financial Statements (as revised in 2008).
IAS 27 (revised 2008) has been applied prospectively in accordance with the relevant transitional provisions. The revised standard has resulted in a change in accounting policy regarding increases or decreases in the group's ownership interests in its subsidiaries. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in existing subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in the consolidated statement of income. Under IAS 27 (revised 2008), these treatments are no longer acceptable. All increases or decreases in such interests are dealt within equity, with no impact on goodwill or the consolidated income statement. Also in prior years, losses applicable to the non-controlling interests in a consolidated subsidiary in excess of the non-controlling interest in the subsidiary's equity were allocated against the majority interest except to the extent that the non-controlling interests has a binding obligation and is able to make an additional investment to cover the losses. Under IAS 27 (revised 2008), profit is attributed to the owners of the parent company and to the non-controlling interests in the ratio of their respective shareholdings even if this results in the non-controlling interests having a deficit balance.

Goodwill
Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the entity over the net fair value of the identifiable net assets recognised.

If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least annually. Any impairment loss is recognised immediately in the consolidated income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The impact of the adoption of the above standards has been to allocate KD 992,468 of share of losses to non-controlling interests which would otherwise have been absorbed by the parent company.

International Accounting Standards Board (IASB) Standards and interpretations issued but not yet adopted:
The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the group:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

International Accounting Standards Board (IASB) Standards and interpretations issued but not yet adopted: (continued)

IFRS 8 Operating Segments
The application of IFRS 8, which will be effective for the annual periods beginning on or after 1 January 2009, will result in disclosure of information to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

IAS 1 Presentation of Financial Statements (Revised)
The application of IAS 1 (Revised), which will be effective for the annual periods beginning on or after 1 January 2009, will impact the presentation of financial statements to enhance the usefulness of the information presented.

IAS 23 Borrowing Cost (Revised)
The application of IAS 23 (Revised), which will be effective for the annual periods beginning on or after 1 January 2009, will require an entity to capitalise borrowing costs attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset and removes the option of expensing these borrowing costs in the consolidated income statement. The application of the revised IAS 23 will not impact the group's financial statements as the group currently capitalises bank borrowing costs.

• Improvements to IFRs
The IASB has issued Improvements for International Financial Reporting Standards in May 2008. Most of these amendments will become effective in annual periods beginning on or after 1 January 2009. Management expects the following amendments to be relevant to the group's accounting policies:
- Amendments to IAS 23 Borrowing Costs
The amendment clarifies the definition of borrowing costs by reference to the effective interest method. This definition will be applied for reporting periods beginning on or after 1 January 2009, however management does not expect the effect to have a significant impact on the consolidated financial statements.

Further, minor amendments are made to several other standards; however, these amendments are not expected to have a material impact on the consolidated financial statements. Those standards are as follows:
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 1 Presentation of Financial Statements*
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors*
- *IAS 10 Events after the Reporting Period*
- *IAS 16 Property, Plant and Equipment*
- *IAS 18 Revenue*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 28 Investment in Associates*
- *IAS 34 Interim Financial Reporting*
- *IAS 36 Impairment of Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*

• IFRIC 15 Agreements for construction of real estate (effective for annual periods beginning on or after 1 January 2009)
The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

International Accounting Standards Board (IASB) Standards and interpretations issued but not yet adopted: (continued)

Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the group's current and previous year's operations as all revenue transactions during these years were accounted for under IAS 18 and not IAS 11.

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

The new and revised IFRS and interpretations that are not yet effective and not relevant for the group's operations are:
• Amendments to IFRS 2 Share-based Payments (effective for annual periods beginning on or after 1 January 2009).
• IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009).
• IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 January 2009).
• Amendments that are part of the annual improvements project published in May 2008 (not addressed above):
  – IAS 19 Employee Benefits
  – IAS 20 Accounting for Government Grants and Disclosures of Government Assistance
  – IAS 29 Financial Reporting in Hyperinflationary Economies
  – IAS 31 Interest in Joint ventures
  – IAS 38 Intangible Assets
  – IAS 41 Agriculture
• IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).
• IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).
• IFRIC 17 Distribution of Non Cash Asset to owner (effective for annual periods beginning on or after 11 July 2009).
• The following amendment to standards and interpretations are mandatory for reporting periods beginning on or after 1 January 2008 but they are not relevant to the group's operations:
• Amendments to IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures, relating to reclassification of financial assets (effective from 1 July 2008).

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

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2007 except for the new accounting policies adopted in respect of IFRS 2 *"Share Based Payment Transactions" and "property under development"*, discussed below. The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2008 and the financial statements of its subsidiaries prepared of that date or to a date not earlier than three months of the parent company's year end.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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 intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Certain subsidiaries use accounting policies other than those adopted by the parent company in the consolidated financial statements for certain transactions and assets. Appropriate adjustments are made to their financial statements when used in preparing the consolidated financial statements to bring these in line with group accounting policies.

Non-controlling interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent company's shareholders' equity. Acquisition of non-controlling interests is accounted for using the parent company extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognised directly in the consolidated income statement in the year of acquisition.

Income recognition

- Rental income from investment properties is recognised on an accrual basis.
- Interest income is recognised on a time apportionment basis taking into account the outstanding balance and applicable interest rate.
- Hotel and care home income represent the invoiced value of services provided during the year.
- Dividend income is recognised when the group's right to receive payment is established.
- Gain on sale of property is recognised when the sale has been consummated and the contracts have been signed, the significant risks and rewards of ownership have passed to the buyers and the group has no continuing involvement in the property.
- Gain on sale of investments is recognised on a trade date basis.

Finance costs

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

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances, and fixed deposits with contractual maturities of three months or less net of due to banks contractually due within three months.

Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument.
A financial asset (or where applicable a part of a financial asset or a part of group of financial assets) is de-recognised either:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and derecognition of financial assets and liabilities (continued)

- when the rights to receive cash flows from the asset have expired;

- the group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

- the group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Trade and settlement date accounting

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

Available for sale investments

After initial recognition at cost, being the fair value of the consideration given including acquisition charges associated with the investment, available for sale investments are remeasured at fair value, unless fair value cannot be reliably measured.

Changes in fair value are reported in the cumulative changes in fair values reserve within equity until the investment is either sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the changes in fair value as previously reported are removed from equity and are included in the consolidated income statement within investment income.

Fair values

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

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

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

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

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

Impairment and uncollectibility of financial assets

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

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

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

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

Inventories

Inventories of food and beverages are valued at the lower of cost and net realisable value after making due allowance for any expired or slow-moving items. Cost is determined by the first-in, first-out method.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on sale.

Inventories of operating supplies are valued at cost less due allowance for any obsolete or slow-moving items. Cost is determined on a weighted average basis.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any impairment. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Investment in joint venture

The group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

The investment in joint venture is accounted for under the equity method of accounting using the latest audited financial statements. Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognise

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in joint venture (continued)

the group's share of profits or losses and other changes in equity of the joint venture. Distributions received from joint venture reduce the carrying amount of the investment.

The joint venture's financial statements are prepared either to the parent company's reporting date or to a date not earlier than three months of the parent company's reporting date using consistent accounting policies. Where practicable, adjustments are made to the joint venture entity's audited financial statements to bring them in line with group accounting policies.

An assessment of the investment in joint venture is performed when there is an indication that the investment has been impaired or the impairment losses recognised in prior years no longer exists.

Investment in associate

An associate is an entity over which the group exerts significant influence. Investment in associates is accounted for under the equity method of accounting.

Under the equity method, the investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of the associate's equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. 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 effectively commenced until the date that it effectively ceases. Distributions received from the 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. The group's share of those changes is recognised directly in equity; fair value reserve or foreign currency translation reserve as appropriate.

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

The associate's financial statements are prepared to the parent company's reporting date or of a date not earlier than three months of the parent company's reporting date. Where practicable, adjustments are made to the associate's audited financial statements to bring them in line with group accounting policies.

Investment properties

Investment properties are recorded at depreciated cost less impairment in value. Freehold land is not depreciated. Buildings are depreciated using the straight line method over their estimated useful lives which vary between 10 to 50 years.
The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, properties are written down to their recoverable amount.
Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Property and equipment

Property and equipment are stated at depreciated cost less impairment in value. Freehold land is not depreciated. Depreciation is provided on a straight line basis at rates calculated to write-off the cost of each asset over its expected useful life as follows:

• Buildings and related immovable equipment	10 to 50 years
• Furniture and equipment	10 years
• Motor vehicles	5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)
The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

The useful economic lives of property and equipment are reviewed at each financial year and revised for significant change where necessary.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. After such reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

Taxation
Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the group operates.

Treasury shares
The parent company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares. The issuance of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Share based payment transactions
The group operates an equity-settled, share-based employee share options plan (ESOP). Under the terms of the plan, share options are granted to eligible employees and are exercisable at the end of the vesting period. The fair value of the options is recognised as an expense over the vesting period with corresponding effect in equity. The fair value of the options is determined using the Black-Scholes option pricing model.

The proceeds received from the exercise of the share options are credited to share capital (nominal value) and share premium when the options are exercised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
A provision is recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Foreign currency translation
The consolidated financial statements are presented in Kuwaiti Dinars, which is the parent company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements (continued)

Classification of real estate (continued)
The group classifies property as property under development if it is acquired with the intention of development. Properties under development are classified under capital work in progress within property, plant and equipment.

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

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held for trading, at fair value through income statement, or available for sale.
All investments are classified as available for sale.

Impairment of investments
The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

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

Estimation uncertainty

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

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
• recent arm's length market transactions;
• current fair value of another instrument that is substantially the same;
• an earnings multiple or industry specific earnings multiple;
• the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
• other valuation models.

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

3 INVESTMENT INCOME

	2008 KD	2007 KD
Gain on sale of investments	**6,534**	3,678,719
Dividend income	**2,500,719**	2,451,136
Interest income from managed portfolio	**6,099,035**	-
	8,606,288	6,129,855

4 GAIN ON SALE OF PROPERTIES

During the prior year, the parent company disposed of real estate with a carrying value of KD 10,495,077 and recorded a gain of KD 25,143,122. The sale consideration was collected in full during the year 2008.

In addition, during the prior year, the group's United Kingdom based subsidiary disposed of a real estate property with a carrying of KD 10,816,229 and recorded a gain of KD 1,633,168.

5 NET GAIN OR LOSS ON FINANCIAL ASSETS

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

	2008 KD	2007 KD
Loans and receivables:		
Cash and bank balances and fixed deposits	**173,367**	781,140
Available for sale investments:		
Recognised in equity	**7,444,517**	2,071,540
Recycled from equity to consolidated statement of income	**6,534**	3,678,719
Recognised directly in consolidated statement of income	**8,599,754**	2,451,136
Impairment loss	**(47,894,714)**	(4,861,886)
	(31,670,542)	4,120,649
Net (loss)gain recognised in the consolidated income statement	**(39,115,059)**	2,049,109
Net gain recognised in the consolidated statement of changes in equity	**7,444,517**	2,071,540
	(31,670,542)	4,120,649

6 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic and diluted (losses) earnings per share attributable to equity holders of the parent company is computed by dividing the (loss) profit for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares).

	2008	2007
(Loss) Profit for the year attributable to equity holders of the parent company (KD)	**(35,494,609)**	30,976,727
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	**394,506,844**	383,924,960
Basic and diluted (losses) earnings per share attributable to equity holders of the parent company	**(90) fils**	81 fils

The comparative earnings per share have been restated due to issuance of bonus shares during the year (see note 20).

The dilutive effect on earning per share of the 842,775 share options granted during the year is negligible

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated cash flows statement include the following balance sheet amounts:

	2008 KD	*2007 KD*
Cash and bank balances	**6,472,316**	4,459,505
Fixed deposits	**1,162,900**	5,886,303
Due to banks contractually due within three months (Note 13)	**(32,906,397)**	(25,137,639)
Cash and cash equivalents	**(25,271,181)**	(14,791,831)

Bank balances represent non-interest bearing current bank accounts held with local commercial banks.

Fixed deposits are placed with a high credit quality local bank yielding an effective interest rate of 1.5% to 3% (2007: 5.25% to 6.25%) per annum and mature within three months of the placement date.

8 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2008 KD	*2007 KD*
Hotel guests and care home residents receivables	**2,082,282**	1,785,120
Rent receivable	**165,168**	199,685
Due from related parties (Note 23)	**1,684,460**	2,049,337
Staff receivables (Note 23)	**507,472**	655,366
Deposits and prepaid expenses	**1,028,504**	2,602,706
Advance payments to contractors	**307,605**	1,064,734
Other receivables	**611,818**	654,326
Receivable from sale of real estate properties (Note 4)	**-**	34,015,466
	6,387,309	43,026,740

As at 31 December 2008 and 31 December 2007, the group did not have significant receivables that were impaired.

Hotel guests and care home residents receivables are non-interest yielding and are generally on 30-90 days terms.

Movement in the provision for impairment of hotel guests and care home residents receivables were as follows:

	2008 KD	*2007 KD*
At 1 January	**91,475**	62,648
Charge for the year	**7,000**	28,827
Provision written off	**(19,315)**	-
At 31 December	**79,160**	91,475

8 ACCOUNTS RECEIVABLE AND OTHER ASSETS (continued)

As at 31 December, the analysis of hotel guests and care home residents receivables that were past due but not impaired is as follows:

		Past due but not impaired					
	Neither past due nor impaired KD	*< 30 days KD*	*30 to 60 days KD*	*60 to 90 days KD*	*90 to 120 days KD*	*> 120 days KD*	*Total KD*
2008	140,837	481,518	437,321	263,391	62,554	696,661	2,082,282
2007	500,571	502,549	299,412	102,499	28,461	351,628	1,785,120

Hotel guests and care home residents receivables include amounts denominated in the following major currencies:

	2008 KD	*2007 KD*
Kuwaiti Dinar	**1,859,429**	1,078,925
EURO	**222,853**	706,195
	2,082,282	1,785,120

9 AVAILABLE FOR SALE INVESTMENTS

	2008 KD	*2007 KD*
Managed portfolios	**97,012,126**	88,533,850
Managed funds	**298,450**	362,917
Unquoted securities	**30,280,606**	22,165,389
	127,591,182	111,062,156
Less: Provision for impairment	**(55,761,456)**	(8,389,392)
	71,829,726	102,672,764

	2008 KD	*2007 KD*
Local	**21,789,032**	29,481,799
Foreign	**50,040,694**	73,190,965
	71,829,726	102,672,764

Managed portfolios represent local and foreign equity instruments and are carried at market bid prices and fair values as reported by the portfolio managers. During the year, an impairment loss of KD 21,096,728 and KD 25,594,378 was recorded on local and foreign equity investments respectively.

Managed portfolios include an investment portfolio with a carrying value of KD 24,623,801 managed by a foreign financial institution which was partly funded by a short-term facility amounting to KD 12,057,856 obtained through the same foreign financial institution. The facility is secured by the investment portfolio (see note 13).

Managed funds amounting to KD 225,542 (2007: KD 362,917) are carried at cost since the fair values could not be reliably measured by the fund managers.

9 AVAILABLE FOR SALE INVESTMENTS (continued)

Unquoted securities amounting to KD 12,234,022 (2007: KD 22,165,389) are carried at cost less impairment since fair values cannot be reliably measured and the investment managers have been unable to indicate any estimates of the range within which fair values might lie. Management is not aware of any further indications of impairment in respect of these investments.

Unquoted securities amounting to KD 4,866,786 (2007: KD 3,625,111) are carried at cost. The cost of these securities is determined to be the fair value as these investments were purchased during the year.

Unquoted securities include an investment with a carrying value of KD 13,838,831 for which the group recorded a revaluation gain of KD 7,360,064 based on fair value information obtained from the investee company.

10 INVESTMENT IN JOINT VENTURE

This represent the group's 50% (2007: 50%) interest in a United Kingdom based joint venture entity, Key Property Investments, engaged in real estate leasing and development.

	2008 KD	2007 KD
Carrying amount of the investment in the joint venture:		
At 1 January	**14,407,638**	18,575,195
Dividend received	**(1,948,000)**	(3,158,967)
Share in the joint venture's results	**2,544,012**	755,382
Share in the joint venture's tax	**-**	(1,010,839)
Foreign currency translation adjustment	**(4,047,218)**	(753,133)
At 31 December	**10,956,432**	14,407,638
Share of joint venture entity's balance sheet:		
Current assets	**4,559,370**	9,762,318
Long-term assets	**43,013,776**	51,194,480
Current liabilities	**(2,932,714)**	(1,333,795)
Long-term liabilities	**(33,684,000)**	(45,215,365)
Net assets	**10,956,432**	14,407,638
Share of joint venture entity's revenue and profit (loss):		
Revenues	**8,791,620**	22,757,358
Profit (loss) after tax	**2,544,012**	(255,457)

11 INVESTMENT PROPERTIES

	Freehold land KD	*Buildings KD*	*Total KD*
Balance at 1 January 2008	16,024,943	19,960,471	**35,985,414**
Depreciation for the year	-	(633,831)	**(633,831)**
Additions	4,738,420	-	**4,738,420**
Impairment loss for the year	(1,059,157)	-	**(1,059,157)**
Balance at 31 December 2008	**19,704,206**	**19,326,640**	**39,030,846**
Cost	20,763,363	31,605,322	**52,368,685**
Accumulated depreciation	-	(12,278,682)	**(12,278,682)**
Accumulated impairment loss	(1,059,157)	-	**(1,059,157)**
Balance at 31 December 2008	**19,704,206**	**19,326,640**	**39,030,846**

Freehold land and buildings with a carrying value of KD 12,073,708 (2007: KD 12,213,115) are mortgaged against certain bank loans (see note 15).

Investment properties with a carrying value of KD 3,679,263 are held by a nominee.

The impairment loss relates to investment properties situated in the Sultanate of Oman and is based on a valuation obtained from an independent real estate assessor.

The fair value of the investment properties amounted to KD 196,255,181 at the balance sheet date (2007: KD 215,157,284) based on independent third party valuations provided by professionally qualified valuers using acceptable methods of calculation such as sales comparison and income capitalisation.

12 PROPERTY AND EQUIPMENT

	Freehold land KD	Buildings KD	Furniture and equipment KD	Motor vehicles KD	Capital work in progress KD	Total KD
Balance at 1 January 2008	11,782,644	75,980,339	11,731,781	131,997	18,280,341	117,907,102
Additions	-	21,300	780,076	35,454	13,333,229	14,170,059
Addition on establishment of a subsidiary	-	-	-	-	5,601,412	5,601,412
Disposals	-	-	(25,260)	(3,828)	(530,168)	(559,256)
Transfers from capital work in progress and investment properties	-	-	16,610	-	(16,610)	-
Depreciation charge for the year	-	(2,203,251)	(2,294,652)	(49,071)	-	(4,546,974)
Impairment loss for the year	-	-	-	-	(2,614,270)	(2,614,270)
Foreign currency translation adjustment	(188,422)	(1,334,911)	23,857	-	(655,143)	(2,154,619)
Balance at 31 December 2008	**11,594,222**	**72,463,477**	**10,232,412**	**114,552**	**33,398,791**	**127,803,454**
Cost	11,594,222	95,023,738	28,989,717	395,407	35,495,641	171,498,725
Accumulated depreciation	-	(22,560,261)	(18,757,305)	(280,855)	-	(41,598,421)
Accumulated Impairment loss	-	-	-	-	(2,096,850)	(2,096,850)
Net carrying amount at 31 December 2008	**11,594,222**	**72,463,477**	**10,232,412**	**114,552**	**33,398,791**	**127,803,454**

Freehold land and buildings with a carrying value of KD 43,616,591 (2007: KD 31,612,981) are mortgaged against certain loans (Note 15).

Buildings with a carrying value of KD 7,234,880 (2007: KD 7,710,997) constructed on lands leased from the State of Kuwait.

The impairment loss relates to properties under development held by a United Kingdom based subsidiary and is based on a valuation obtained from an independent real estate assessor.

SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2008

13 DUE TO BANKS AND FINANCIAL INSTITUTION

	2008 KD	2007 KD
Due to banks (Note 7)	**32,906,397**	25,137,639
Due to a financial institution	**12,057,856**	37,138,589
	44,964,253	62,276,228

Due to banks represent bank overdraft subject to effective interest rate ranging from 5.75% to 6.25% per annum (2007: 7.75% to 8.25 per annum).

Due to a financial institution represents a short-term facility obtained during the prior year from a foreign financial institution to fund investments purchased through the same foreign financial institution (see note 9). The facility is secured by the investment portfolio with a carrying value of KD 24,623,801 managed by the foreign financial institution. Under the terms of the facility agreement, repayments of the facility are funded by the proceeds from sale of investments in the portfolio.

14 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2008 KD	2007 KD
Accounts payable	**5,837,518**	3,350,538
Retentions payable	**1,569,453**	1,267,491
Accrued expenses	**2,276,116**	2,965,581
Deposits from tenants, hotel and care home guests	**521,884**	541,701
Rents received in advance	**1,378,523**	618,301
Employees' terminal benefits	**3,302,788**	2,824,641
Provisions	**143,944**	131,119
Kuwait Foundation for the Advancement of Sciences	-	290,167
National Labour Support Tax	-	789,129
Zakat	-	19,703
Directors fees	-	165,000
Other payables	**2,477,569**	2,289,448
Due on purchase of investment property	**1,154,287**	4,595,912
	18,662,082	19,848,731

15 BANK LOANS

Bank loans are denominated in the following currencies:

	2008 KD	2007 KD
Kuwaiti Dinars	**31,054,236**	25,434,392
Euro	**33,591,800**	36,793,921
Japanese Yen	**3,377,000**	2,695,000
US Dollars	**14,563,030**	15,812,492
	82,586,066	80,735,805

The loans are contractually due for repayment as follows:

	2008 KD	2007 KD
Instalments payable within one year	**29,462,462**	31,971,915
Instalments payable within one year to two years	**11,723,812**	9,646,463
Instalments payable within two years to three years	**5,241,922**	8,244,595
Instalments payable within three years to four years	**5,346,827**	2,348,467
Instalments payable after four years	**30,811,043**	28,524,365
	82,586,066	80,735,805

The loans are repayable in equal periodic installments over variable periods of time with maturities extending to 31 December 2014.

The Kuwaiti Dinar loans carry variable interest rates, which range from 1% to 2.25% per annum (2007: 1% to 2.25% per annum) over the Central Bank of Kuwait discount rate. The interest rate on these loans reprices when the Central Bank of Kuwait discount rate changes. The foreign currency loans carry both variable and fixed interest rates which range from 1.5% to 2.5% per annum (2007: 1.5% to 1.75% per annum) over LIBOR. The variable interest rate loans are repriced every 3 to 6 months.

Bank loans of the group with a carrying value of KD 24,181,236 (2007: KD 18,345,000) are secured by investment properties with a carrying value of KD 12,073,706 (2007: KD 12,213,115) and freehold land and buildings with a carrying value of KD 43,616,591 (2007: KD 31,612,981) owned by the group. Loans amounting to KD 33,591,800 (2007: KD 36,793,921) have been obtained by subsidiaries under the terms of which lenders have no recourse to the parent company in the event of default.

16 INVESTMENT IN ASSOCIATE / DEFERRED GAIN

	2008 KD	2007 KD
Investment in associate	**40,000,000**	40,000,000
Elimination of gain on sale of real estate asset	**(49,056,614)**	(49,056,614)
Share of associate's results adjustment	**(2,479,958)**	(447,996)
Deferred gain	**(11,536,572)**	(9,504,610)
Opening balance	**(9,504,610)**	(9,056,614)
Share of associate's results for the year	**(2,031,962)**	(447,996)
Deferred gain	**(11,536,572)**	(9,504,610)

The investment in associate represents the group's 50% equity interest in Al Asima Real Estate Company K.S.C. whose principal activity is real estate development.

During the year 2006, the parent company sold a real estate asset with a carrying value of KD 16,536,771 to its associate resulting in a gain of KD 98,113,228 of which the parent company recorded KD 49,056,614 after eliminating the share of the gain attributable to its interest in the associate's equity. The excess of the gain over the carrying value of the associate has been accounted for as a deferred gain. Deferred gain will be offset against future increases in the carrying value of the associate until the deferred gain is fully utilised.

	2008 KD	2007 KD
Share of associate's balance sheet:		
Assets	**62,275,634**	61,751,242
Liabilities	**(24,307,596)**	(22,199,238)
Net assets	**37,968,038**	39,552,004
Adjustment to properties under development	**(49,504,610)**	(49,056,614)
Net assets after adjustment	**(11,536,572)**	(9,504,610)

17 SHARE CAPITAL

As at 31 December 2008, the parent company's authorised, issued and fully paid share capital consist of 398,378,478 shares of 100 fils each (2007: 362,162,253 shares of 100 fils each).

18 TREASURY SHARES

At 31 December 2008, the parent company held 3,380,000 of its own shares (2007: 13,123,519), equivalent to 0.85% (2007: 1.9%) of the total issued share capital at that date. The market value of these shares at the balance sheet date was KD 730,080 (2007: KD 6,824,230). Reserves of the parent company equivalent to the cost of the treasury shares have been ear-marked as non distributable.

19 STATUTORY AND VOLUNTARY RESERVES

As required by the Commercial Companies Law and the parent company's articles of association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and directors fees is to be transferred to statutory reserve. No transfer is required in the year losses are made. The parent company may resolve to discontinue such annual transfers when the reserve equals or exceeds 50% of paid-up share capital. Distribution of this 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 accumulated profits are not sufficient for the payment of a dividend of that amount.

As required by the parent company's articles of association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and directors fees is to be transferred to voluntary reserve. Such transfer may discontinue by a resolution at the General Assembly. No transfer is required in the year losses are made.

20 DISTRIBUTED CASH DIVIDENDS/ BONUS SHARES

At the annual general assembly of the shareholders of the parent company held on 14 April 2008, the shareholders approved the distribution of cash dividends of 50 fils (2007: 50 fils) per share amounting to KD 17,908,437 (2007: KD 15,124,830) and bonus shares of 10% (2007: 15%) of paid up capital as at 31 December 2007 amounting to KD 3,621,622 (2007: KD 4,723,856) for the year ended 31 December 2007.

21 EMPLOYEE SHARE OPTIONS PLAN

At the annual general assembly of the shareholders of the parent company held on 14 April 2008, the shareholders approved the issuance of 842,775 shares at a nominal value of 100 fils per share and premium of 170 fils per share under an employee share options plans. Following the approval, the parent company's board of directors and executives granted 842,775 equity-settled share options to its eligible employees vesting on 15 December 2008.

At the end of the vesting period the employees of the parent company did not exercise the share options yet.

22 SUBSIDIARIES

Details of subsidiaries are set out below:

Name of the company	*Percentage of ownership*		*Country of incorporation*	*Reporting date*	*Principal activity*
	2008	*2007*			
Haddia Holding GMBH	90.63%	89.72%	Germany	31 December 2008	Holding company
SAREC GMBH	90.63%	89.72%	Germany	31 December 2008	Leasing of properties
Dana GMBH	90.63%	89.72%	Germany	31 December 2008	Care home operator
Dana ambulante GMBH	90.63%	89.72%	Germany	31 December 2008	Care home service provider
Gredo GMBH	90.63%	89.72%	Germany	31 December 2008	Care home catering service provider
Drawbridge Securities Limited	50.00%	50.00%	United Kingdom	30 November 2008	Property development
Ingelby Limited	50.00%	0%	United Kingdom	30 September 2008	Property development
Bunyan Al-Salhia Project Management Company W.L.L.	100%	100%	Kuwait	31 December 2008	Project management

23 RELATED PARTY TRANSACTIONS

Related parties represent the major shareholders, associate and joint venture entities, directors and key management personnel of the group, and companies which are controlled by them or over which they have significant influence. Pricing policies and terms of these transactions are approved by the parent company's management.

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

	Associate KD	*Major shareholders KD*	*Other related parties KD*	***Total 2008 KD***	*Total 2007 KD*
Management income	**150,000**	-	-	**150,000**	150,000

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

	Associate KD	*Major shareholders KD*	*Other related parties KD*	***Total 2008 KD***	*Total 2007 KD*
Amounts due from related parties	**1,677,151**	**7,308**	-	**1,684,459**	2,049,337
Staff receivables	-	**357,611**	**149,861**	**507,472**	655,366

Compensation of key management personnel

The remuneration of key management personnel of the group during the year were as follows:

	2008 KD	*2007 KD*
Short-term benefits	**656,263**	2,022,246
Employees' end of service benefits	**1,848,103**	1,454,334
	2,504,366	3,476,580

24 SEGMENTAL INFORMATION

Primary segment information

The group is organised into functional divisions to manage its various lines of business. For the purposes of primary segment reporting, the parent company's management has grouped the group's products and services into the following business segments:

- Real estate operations: Consist of development and leasing of property.
- Hotel operations: Consist of the hotel hospitality services provided through JW Marriott Hotel – Kuwait, Courtyard Marriott Hotel-Kuwait and Arraya Ball Room - Kuwait.
- Care home operations: Consist of care home activities provided by subsidiary companies.

24 SEGMENTAL INFORMATION (continued)

The following is the detail of the above segments, which constitutes the primary segment information:

	31 December 2008			
	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD
Segment revenue	13,179,986	15,991,247	14,975,742	44,146,975
Segment operating costs	(2,489,868)	(5,439,789)	(10,869,815)	(18,799,472)
Segment results	10,690,118	10,551,458	4,105,927	25,347,503
Share of associate's results	(2,031,962)	-	-	(2,031,962)
Share in joint venture's results	2,544,012	-	-	2,544,012
Depreciation	(1,927,410)	(1,983,616)	(1,269,779)	(5,180,805)
Impairment loss of properties	(3,673,427)	-	-	(3,673,427)
Other operating expenses	(3,653,303)	(2,639,602)	(1,319,977)	(7,612,882)
Foreign tax	57,913	-	(105,542)	(47,629)
Profit from operations	2,005,941	5,928,240	1,410,629	9,344,810
Interest income				175,447
Finance costs				(7,158,296)
Investment income				8,606,288
Impairment loss of available for sale investments				(47,894,714)
Other non-operating income				391,768
(Loss) profit before contribution to KFAS, NLST, Zakat and Directors' fees				(36,534,697)
Other non-operating expenses				-
Loss (Profit) for the year				(36,534,697)
Other information:				
Segment assets	201,460,406	4,491,286	47,101,424	253,053,116
Investment in joint venture	10,956,432	-	-	10,956,432
Total assets	212,416,838	4,491,286	47,101,424	264,009,548
Segment liabilities	108,391,749	2,700,542	35,120,101	146,212,401
Capital expenditure	18,717,668	-	190,810	18,908,478

24 SEGMENTAL INFORMATION (continued)

The following is the detail of the above segments, which constitutes the primary segment information:

	31 December 2007			
	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD
Segment revenue	11,743,069	14,317,743	14,742,099	40,802,911
Segment operating costs	(1,898,717)	(5,132,385)	(10,194,024)	(17,225,126)
Segment results	9,844,352	9,185,358	4,548,075	23,577,785
Share of associate's results	(447,996)	-	-	(447,996)
Share in joint venture's results	755,382	-	-	755,382
Depreciation	(1,986,506)	(1,940,867)	(1,274,176)	(5,201,549)
Impairment loss of properties	-	-	-	-
Other operating expenses	(4,222,198)	(2,400,292)	(1,741,765)	(8,364,255)
Foreign tax	(1,010,838)	(387,816)	(317,121)	(1,715,775)
Profit from operations	2,932,196	4,456,383	1,215,013	8,603,592
Interest income				781,140
Finance costs				(7,500,382)
Investment income				6,129,855
Impairment loss of available for sale investments				(4,861,886)
Other non-operating income				29,303,609
(Loss) profit before contribution to KFAS, NLST, Zakat and Directors' fees				32,455,928
Other non-operating expenses				(1,263,999)
Loss (Profit) for the year				31,191,929
Other information:				
Segment assets	252,270,645	4,082,442	53,935,458	310,288,545
Investment in joint venture	14,407,638	-	-	14,407,638
Total assets	266,678,283	4,082,442	53,935,458	324,696,183
Segment liabilities	119,816,957	4,082,442	38,961,365	162,860,764
Capital expenditure	19,221,192	-	134,701	19,355,893

24 SEGMENTAL INFORMATION (continued)

Secondary segment information

The group operates in two geographic markets: Kuwait and GCC and Europe. The following table shows the distribution of the group's segment revenues, assets and capital expenditure.

	31 December 2008			31 December 2007		
	Kuwait and GCC KD	Europe KD	Total KD	Kuwait and GCC KD	Europe KD	Total KD
Revenue	**28,583,821**	**15,563,154**	**44,146,975**	26,060,812	14,742,099	40,802,911
Assets	**213,279,140**	**50,730,408**	**264,009,548**	272,020,284	52,675,899	324,696,183
Capital expenditure	**18,615,596**	**292,882**	**18,908,478**	18,844,808	511,085	19,355,893

25 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's principal financial liabilities comprise non-derivatives financial instruments such as bank loans, due to banks and financial institutions and account payables. The main purpose of these financial liabilities is to fund the group's operations. The group has various financial assets such as accounts receivable, cash and bank balances and short-term deposits, which arise directly from its operations.

The group does not use derivative financial instruments.

The main risk arising from the group's financial instruments are credit risk, cash flow interest rate risk, foreign currency risk, liquidity risk and equity price risk.

The parent company's board of directors and executive committee are ultimately responsible for overall risk management including setting, reviewing and agreeing policies for managing each of these risks which are summarised below.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group manages credit risk by setting limits for individual counter-parties, and groups of counter-parties and for geographical and industry segments. The group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the group obtains security where appropriate and limits the duration of exposures.

25 RISK MANAGEMENT (continued)

Credit risk (continued)

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

	2008 KD	2007 KD
Bank balances	**4,886,843**	4,459,505
Fixed deposits	**1,162,900**	5,886,303
Accounts receivable (Note 8)	**2,082,282**	1,785,120
Total exposure of credit risk	**8,132,025**	12,130,928

The credit risk exposure for bank balances and fixed deposits is not considered to be significant because the counterparties are reputable, financially sound financial institutions.

The group trades only with recognised, creditworthy third parties. It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant. The maximum exposure to a single counter party is KD 931,135 (2007: KD 637,589). There are no significant concentrations of credit risk within the group.

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk with respect to its bank balances, fixed deposit, due to banks and financial institution, and bank loans which are both at fixed floating interest rates. The risk is managed by the group by maintaining an appropriate mix between floating rate and fixed rate borrowings.

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

25 RISK MANAGEMENT (continued)

Interest rate risk (continued)

The following table illustrates the sensitivity of the profit for the year to reasonable possible change of interest rate in terms of basis points with effect from the beginning of the year. The calculation is based on the group's financial instruments held at each balance *sheet date*. All other variables are held constant. There is no impact on group's equity.

	Increase/decrease in basis points	*Effect on profit before KFAS, NLST, Zakat and Directors' fees KD*
2008		
Kuwaiti Dinar	**25**	**(1,204,266)**
Kuwaiti Dinar	**-50**	**2,408,532**
Euro	**25**	**(839,795)**
Euro	**-25**	**839,795**
US Dollar	**50**	**(1,331,044)**
US Dollar	**-75**	**1,996,566**
GBP	**50**	**(39,500)**
GBP	**-25**	**19,750**
2007		
Kuwaiti Dinar	+25	(1,097,687)
Kuwaiti Dinar	-50	2,195,375
Euro	+25	(920,708)
Euro	-25	920,708
US Dollar	+25	(395,312)
US Dollar	-75	1,185,937
GBP	+25	-
GBP	-25	-

Foreign currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency risk is managed on the basis of limits determined by the parent company's board of directors and executive committee and a continuous assessment of the groups' open positions. The group, where possible, matches currency exposures inherent in certain assets with liabilities in the same currency or correlated currency.

Currency risk principally arises from the group's exposure to investments in overseas markets and borrowings in foreign currency. The group is exposed to changes rates of US Dollar, Japanese Yen, Euro and Great Britain Pounds. To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored. The group does not hedge foreign currency exposures.

SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2008

25 RISK MANAGEMENT (continued)

Foreign currency risk (continued)

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

	2008 KD Equivalent	*2007 KD Equivalent*
US Dollar	**14,161,965**	17,014,434
Japanese Yen	**(3,373,362)**	(2,695,000)
Euro	**1,027,128**	1,058,119
Pound Sterling	**2,255,236**	5,996,067

The effect on profit and equity as a result of change in currency rate which is attributed to changes in the fair value of monetary assets and liabilities, with all other variables held constant is shown below:

	2008			*2007*		
currency	***Change in currency rate in %***	***Effect on profit KD***	***Effect on equity KD***	*Change in currency rate in %*	*Effect on profit KD*	*Effect on equity KD*
US Dollar	3%	(789,957)	1,214,815	(5.5%)	2,535,344	(3,524,022)
Japanese Yen	-	(809,607)	-	-	-	-
Euro	1%	31	10,240	7%	63,351	1,087,085
Pound Sterling	(30%)	(616,421)	(60,150)	(4%)	(133,987)	(2,592,951)

Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the parent company's board of directors has diversified funding sources and manages assets with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable investments.

25 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the group's financial liabilities at 31 December 2008 and 31 December 2007 based on contractual undiscounted payments:

Year ended 31 December 2008	Within 3 months KD	3 to 6 months KD	6 to 12 months KD	Over one year KD	Total KD
Due to banks and financial institution	44,969,307	-	-	-	44,969,307
Accounts payable and accruals	5,054,041	2,839,953	1,181,321	9,586,767	18,662,082
Bank loans	2,281,780	2,273,716	26,331,405	55,782,448	86,669,349
TOTAL LIABILITIES	**52,305,128**	**5,113,669**	**27,512,726**	**65,369,215**	**150,300,738**

Year ended 31 December 2007	Within 3 months KD	3 to 6 months KD	6 to 12 months KD	Over one year KD	Total KD
Due to banks and financial institution	51,962,976	5,111,089	5,832,500	-	62,906,565
Accounts payable and accruals	996,031	3,622,800	7,544,001	7,685,899	19,848,731
Bank loans	7,579,036	1,938,956	1,924,056	81,853,350	93,295,398
TOTAL LIABILITIES	60,538,043	10,672,845	15,300,557	89,539,249	176,050,694

25 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

Financial liabilities	Within 3 months KD	3 to 12 months KD	1 to 5 years KD	Total KD
2008				
Contingent liabilities	16,183	20,197,471	120,991	20,334,644
Commitments	1,000,000	6,597,600	-	7,597,600
Total	**1,016,183**	**26,795,071**	**120,991**	**27,932,244**

	Within 3 months KD	3 to 12 months KD	1 to 5 years KD	Total KD
2007				
Contingent liabilities	-	20,469,340	-	20,469,340
Commitments	3,000,000	9,000,000	4,254,738	16,254,738
Total	3,000,000	29,469,340	4,254,738	36,724,078

Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the parent company through diversification of investments in terms of geographical distribution and industry concentration. The group's quoted investments include securities listed on the Kuwait Stock Exchange and a portfolio of foreign investments (managed by a foreign financial institution) sensitive to recognised international indices such as the Tokyo index.

The effect on equity (as a result of a change in the fair value of available for sale investments at 31 December 2008) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2008		2007	
Market indices	Change in equity price %	Effect on equity KD	Change in equity price %	Effect on equity KD
Kuwait	+/-5	1,124,231	+/-5	1,313,924
International	+/-5	73,984	+/-5	3,068,240

There is no impact on the consolidated income statement as all investments are classified as available for sale.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

In the ordinary course of business the group uses non-derivative financial instruments. The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The carrying values of variable rate short-term and long-term loans approximates their fair values because of the short- term repricing of interest rates. Fixed rate long term loans approximate their fair values because prevalent interest rates for similar loans are not significantly different from contractual rates. In the opinion of the parent company's management, carrying values of all other financial instruments are not significantly different from fair values except as noted in Note 9.

27 CAPITAL MANAGEMENT

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

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may review the dividend payment to shareholders, return capital to shareholders or issue new shares.

The group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The group includes within net debt, interest bearing loans and borrowings and other liabilities, less cash and bank balances and fixed deposits. Capital includes equity attributable to the equity holders of the parent less cumulative changes in fair values.

	2008 KD	2007 KD
Interest bearing loans and borrowings	127,550,319	143,012,033
Other liabilities	18,662,082	19,848,731
Less: cash and bank balances and fixed deposits	(7,635,216)	(10,345,808)
Net debt	138,577,185	152,514,956
Equity attributable to the equity holders of the parent	106,290,710	151,122,469
Less:- Cumulative changes in fair values	(3,135,277)	4,302,706
Total capital	103,155,433	155,425,175
Capital and net debt	241,732,618	307,940,131
Gearing ratio	57%	50%

28 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At the balance sheet date, the group had the following contingencies and capital commitments:

	2008 KD	2007 KD
Letters of guarantee	20,334,644	20,469,340
Uncalled capital of an unquoted investments	-	4,254,738
Construction project	7,597,600	12,000,000
	27,932,244	36,724,078

29 COMPARATIVE FIGURES

Certain comparative figures have been reclassified in conformity with the presentation for the current year. Such reclassification does not affect previously reported net assets, net equity and net results for the year or net increase/ (decrease) in cash and cash equivalents.