

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

Kuwait

31 December 2008

**Specialties Group Holding Company – KSC (Closed) and Subsidiaries
Kuwait**

Contents

	Page
Independent auditors' report	1 and 2
Consolidated statement of income	3
Consolidated balance sheet	4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	6
Notes to the consolidated financial statements	7 to 29



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Independent auditors' report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Specialties Group Holding Company – KSC (Closed) (the parent company) and its Subsidiaries (the group), which comprise the consolidated balance sheet as at 31 December 2008, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

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

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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

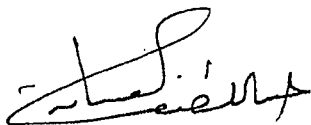
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

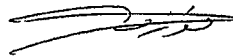
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2008, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Matters

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



Abdullatif M. Al-Aiban (CPA)
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Kuwait
11 March 2009


Consolidated statement of income

	Notes	Year ended 31 Dec. 2008 KD	Year ended 31 Dec. 2007 KD
Income			
Revenue from sales and services	6	20,761,616	11,811,867
Cost of sales and services	6	(17,084,270)	(8,767,941)
Gross profit	6	3,677,346	3,043,926
Gain on disposal of intangible assets		-	147,596
Profit from sale of trading properties	7	319,659	247,643
Provision for trading properties		(224,542)	-
Profit from bank savings account		260,139	-
Impairment of available for sale investments	12	(1,658,254)	-
Unrealized loss from investments at fair value through statement of income		(43,142)	-
(Loss)/gain on sale of property, plant and equipment		(838)	28,437
Other income		120,383	80,211
		2,450,751	3,547,813
Expenses			
Selling and distribution expenses		(41,349)	(82,690)
General, administrative and other expenses	8	(1,518,989)	(1,374,441)
Finance costs	9	(640,421)	(100,030)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Zakat, NLST and directors' remuneration		249,992	1,990,652
Contribution to KFAS		(635)	(17,916)
Zakat		(1,289)	(1,217)
National Labour Support Tax (NLST)		(1,763)	-
Directors' remuneration		(4,000)	(12,000)
Profit for the year		242,305	1,959,519
Attributable to :			
Shareholders of the parent company		62,850	1,927,680
Minority interest		179,455	31,839
		242,305	1,959,519
EARNINGS PER SHARE	11	0.6 Fils	28.5 Fils

The notes set out on pages 7 to 29 form an integral part of these consolidated financial statements.

Consolidated balance sheet

	Notes	31 Dec. 2008 KD	31 Dec. 2007 KD
Assets			
Non-current assets			
Available for sale investments	12	1,799,559	19,365
Property, plant and equipment	13	636,810	694,499
Intangible assets	14	1,464,620	1,499,819
		3,900,989	2,213,683
Current assets			
Inventories			
Accounts receivable and other assets	15	1,597,516	1,414,716
Due from contracting customers	16	4,647,140	5,534,126
Due from related parties	17	481,395	723,361
Trading properties	18	1,413,106	685,830
Investments at fair value through statement of income	19	10,814,758	4,696,689
Cash and bank balances	20	279,200	-
	26	23,716,642	2,541,991
		42,949,757	15,596,713
Total assets		46,850,746	17,810,396
Equity and liabilities			
Equity			
Share capital			
Share premium	21	15,000,000	4,000,000
Statutory reserve	21	17,500,000	-
Voluntary reserve	22	528,882	521,828
Revaluation reserve	22	557,490	550,436
Retained earnings		508,299	508,299
		1,953,733	2,904,991
Total equity attributable to the shareholders of the parent company		36,048,404	8,485,554
Minority interest		1,146,691	306,839
Total equity		37,195,095	8,792,393
Non-current liabilities			
Murabaha payables			
Provision for end of service indemnity	23	3,500,000	3,500,000
		345,455	247,663
		3,845,455	3,747,663
Current liabilities			
Current portion of term loans			
Murabaha payables	24	-	30,000
Accounts payable and other liabilities	23	3,500,000	1,068,595
Due to banks	25	2,309,835	4,122,713
	26	361	49,032
		5,810,196	5,270,340
Total liabilities		9,655,651	9,018,003
Total equity and liabilities		46,850,746	17,810,396


Musa'ab Ahmed Alyaseen
Vice Chairman

The notes set out on pages 7 to 29 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

Equity attributable to the shareholders of the parent company

	Equity attributable to the shareholders of the parent company							Minority Interest		Total
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Revaluation reserve KD	Fair value reserve KD	Retained earnings KD	Total KD	KD	
Balance as at 31 December 2006	4,000,000	-	325,947	354,555	836,654	-	1,040,718	6,557,874	-	6,557,874
Realised on sale of intangible assets (Note 14)	-	-	-	-	(328,355)	-	328,355	-	-	-
Profit for the year	-	-	-	-	-	-	1,927,680	1,927,680	31,839	1,959,519
Total recognised (expenses)/income for the year	-	-	-	-	(328,355)	-	2,256,035	1,927,680	31,839	1,959,519
Capital introduced by minority shareholders	-	-	195,881	195,881	-	-	(391,762)	-	275,000	275,000
Transfer to reserves	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2007	4,000,000	-	521,828	550,436	508,299	-	2,904,991	8,485,554	306,839	8,792,393
Net change in fair value of available for sale investments	-	-	-	-	-	(1,658,254)	-	(1,658,254)	-	(1,658,254)
Impairment in available for sale investments transferred to statement of income	-	-	-	-	-	1,658,254	-	1,658,254	-	1,658,254
Profit for the year	-	-	-	-	-	-	62,850	62,850	179,455	242,305
Total recognised income for the year	-	-	-	-	-	-	62,850	62,850	179,455	242,305
Issue of bonus shares (Note 21)	1,000,000	-	-	-	-	-	(1,000,000)	-	-	-
Share capital increase (Note 21)	10,000,000	17,500,000	-	-	-	-	-	27,500,000	-	27,500,000
Capital introduced by minority shareholders	-	-	7,054	7,054	-	-	-	-	660,397	660,397
Transfer to reserves	-	-	-	-	-	-	(14,108)	-	-	-
Balance as at 31 December 2008	15,000,000	17,500,000	528,882	557,490	508,299	-	1,953,733	36,048,404	1,146,691	37,195,095

The notes set out on pages 7 to 29 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 Dec. 2008 KD	Year ended 31 Dec. 2007 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, Zakat, NLST and directors' remuneration		249,992	1,990,652
Adjustments for:			
Gain on disposal of intangible assets		-	(147,596)
Depreciation and amortisation		196,990	235,348
Loss/(gain) on sale of property, plant and equipment		838	(28,437)
Finance costs		640,421	100,030
Provision for end of service indemnity		114,303	21,304
Unrealised loss from investments at fair value through statement of income		43,142	-
Impairment of available for sale investments		1,658,254	-
Profit from bank savings account		(260,139)	-
		2,643,801	2,171,301
Changes in operating assets and liabilities:			
Inventories		(182,800)	(424,384)
Accounts receivable and other assets		1,147,125	(2,684,925)
Due from contracting customers		241,966	3,481,415
Due from related parties		(727,276)	738,076
Accounts payable and other liabilities		(2,410,226)	263,445
Due to related parties		-	(656,606)
Trading properties		(6,118,069)	(4,696,689)
Indemnity paid		(16,511)	(41,234)
		(5,421,990)	(1,849,601)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(109,226)	(77,100)
Purchase of leasehold land		-	(900,000)
Proceeds from disposal of property, plant and equipment		4,286	185,813
Proceed from disposal of intangible assets		-	502,178
Proceeds from available for sale investments		-	7,352
Purchase of investments at fair value through statement of income		(322,342)	-
Purchase of available for sale investments		(3,438,448)	-
		(3,865,730)	(281,757)
FINANCING ACTIVITIES			
Share capital increase		27,500,000	-
Movement in murabaha payables		2,431,405	4,118,658
Finance costs paid		(50,760)	(100,030)
Capital introduced by minority shareholders		660,397	275,000
Repayment of term loans		(30,000)	(100,000)
		30,511,042	4,193,628
Net cash from financing activities		30,511,042	4,193,628
Net increase in cash and cash equivalents		21,223,322	2,062,270
Cash and cash equivalents at beginning of the year		2,492,959	430,689
Cash and cash equivalents at end of the year	26	23,716,281	2,492,959

The notes set out on pages 7 to 29 form an integral part of these consolidated financial statements.