

ACICO FOR INDUSTRIES
(FORMERLY AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED))
AND ITS SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH
INDEPENDENT AUDITORS' REPORT

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Independent Auditors' report

The Shareholders

ACICO for Industries (Formerly Aerated Concrete Industries Co. K.S.C. (Closed))

State of Kuwait

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of ACICO for Industries (Formerly Aerated Concrete Industries Co. K.S.C. (Closed)) (the Parent Company) and its subsidiaries (the Group) which comprise the consolidated balance sheet as at December 31, 2008 and the consolidated statement of income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

We did not audit the financial statements of the subsidiaries, Ghassan Ahmed Sauod Al-Khaled & Co. – W.L.L., ACICO for Construction K.S.C. (Closed) and ACICO International Contracting – L.L.C. , whose total assets and revenues constitute 13.51% and 65.31% of the respective consolidated totals. The financial statements of the above mentioned subsidiaries for the year ended December 31, 2008 were audited by other auditors who expressed unqualified opinions and our opinion in so far as it relates to the amounts included in the consolidated financial statements related to those subsidiaries, is based solely on the reports of other auditors.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of 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 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 the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained and the reports of other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and based on the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of ACICO for Industries (Formerly Aerated Concrete Industries Co. K.S.C. (Closed)) as of December 31, 2008, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

Also in our opinion, the consolidated financial statements include the disclosures required by the Commercial Companies Law and the Parent Company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Director's Report is in agreement with the Parent Company's books. According to the information available to us, there were no contraventions during the year ended December 31, 2008 of either the Commercial Companies Law or the Parent Company's Articles of Association which might have materially affected the Group's financial position or results of its operations.

Abdul Rahman Mubarak Al-Qaoud
Licence No. 25-A
Abdul Rahman Al-Qaoud & Partners
Public Accountants

Dr. Shuaib A. Shuaib
Licence No. 33-A
Al-Bazie & Co.
Member of RSM International

State of Kuwait
March 30, 2009

ACICO FOR INDUSTRIES (FORMERLY AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)) AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2008
(All amounts are in Kuwaiti Dinars)

<u>ASSETS</u>	<u>Note</u>	<u>2008</u>	<u>2007</u>
Current assets:			
Cash and cash equivalents	3	613,557	31,364,480
Accounts receivable and other debit balances	4	13,861,338	15,733,320
Gross amount due from customers for contract work	5	8,259,323	2,464,759
Due from related parties	6	4,076,692	2,616,072
Inventories	7	6,758,793	3,504,196
Lands under development	8	164,420	164,420
Total current assets		<u>33,734,123</u>	<u>55,847,247</u>
Investments available for sale	9	3,035,520	6,156,803
Investment in associates	10	13,283,638	8,872,958
Investment properties	11	49,047,640	34,710,615
Right of utilization of leasehold	12	780,520	837,976
Projects under construction	13	69,781,267	59,315,822
Fixed assets	14	30,895,656	19,455,304
Goodwill		2,250,506	2,250,506
Total assets		<u><u>202,808,870</u></u>	<u><u>187,447,231</u></u>
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Due to banks	15	12,806,146	7,779,593
Accounts payable and other credit balances	16	17,765,192	12,581,610
Due to related parties	6	6,486,562	400,587
Loans current portion	17	61,289,990	59,575,307
Dividends payable to shareholders		489,372	353,680
Total current liabilities		<u>98,837,262</u>	<u>80,690,777</u>
Loans non-current portion	17	28,118,646	29,582,594
Provision for employees' end of service indemnity	18	1,109,335	871,586
Equity:			
Share capital	19	20,467,874	19,493,213
Share premium	20	24,426,446	24,426,446
Statutory reserve	21	7,683,349	7,001,050
Treasury shares	22	(731,539)	(415,881)
Treasury shares reserve		2,583,763	2,583,763
Cumulative changes in fair value		(71,143)	9,197
Effect of change in equity of an associate		(259,149)	-
Foreign currency translation adjustments		(2,648,533)	(2,556,530)
Retained earnings		19,767,020	25,570,512
Total equity attributable to parent company's shareholders		<u>71,218,088</u>	<u>76,111,770</u>
Minority interest		3,525,539	190,504
Total equity		<u>74,743,627</u>	<u>76,302,274</u>
Total liabilities and equity		<u><u>202,808,870</u></u>	<u><u>187,447,231</u></u>

The accompanying notes (1) to (37) form an integral part of the consolidated financial statements.

Abdel Aziz Al-Ayuob
Chairman

ACICO FOR INDUSTRIES (FORMERLY AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2008
(All amounts are in Kuwaiti Dinars)

	Note	2008	2007
Operating income	23	67,631,529	42,684,785
Operating costs	23	(58,372,823)	(35,530,860)
Gross profit from operations		9,258,706	7,153,925
General and administrative expenses	24	(3,915,922)	(4,750,148)
Selling expenses		(1,623,398)	(848,061)
Depreciation	14	(410,216)	(430,866)
Amortization	12	(57,456)	(57,462)
Income from operations		3,251,714	1,067,388
Gain on sale of investment property	11	523,972	1,211,275
Changes in fair value of investment properties	11	129,084	18,652,601
Group's share of results from associates	10	436,292	1,037,738
Net investment income	25	1,159,146	115,339
Rental income		2,936,357	369,621
Interest income		538,858	568,100
Provisions no longer required		-	284,294
Other income	26	647,270	243,466
Finance charges		(3,421,496)	(1,694,004)
Provision for doubtful debts	4	(10,009)	(157,075)
Provision for slow moving inventory		-	(50,000)
Foreign currency exchange gain		702,875	1,232,020
Profit for the year before contribution to Kuwait Foundation for Advancement of Sciences, National Labor Support Tax, Contribution to Zakat and Board of Directors' remuneration		6,894,063	22,880,763
Contribution to Kuwait Foundation for the Advancement of Sciences	27	(54,763)	(195,722)
National Labor Support Tax	28	(167,236)	(573,981)
Contribution to Zakat	29	(70,367)	(14,117)
Board of Directors' remuneration	30	-	(95,000)
Net profit for the year		6,601,697	22,001,943
Attributable to:			
Parent company's shareholders		6,530,622	22,080,409
Minority interest		71,075	(78,466)
Net profit for the year		6,601,697	22,001,943
		Fils	Fils
Earnings per share	31	32.15	109.11

The accompanying notes (1) to (37) form an integral part of the consolidated financial statements.

ACICO FOR INDUSTRIES (FORMERLY AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008
(All amounts are in Kuwaiti Dinars)

	Attributable to parent company's shareholders									Total equity attributable to parent company's shareholders	Minority Interest	Total Equity
	Share capital	Share premium	Statutory reserve	Treasury shares	Treasury Shares reserve	Cumulative changes in fair value	Effect of change in equity of an associate	Foreign currency translation adjustments	Retained earnings			
Balance as of December 31, 2006	14,684,371	16,245,253	4,705,127	(605,684)	2,479,912	-	-	(50,544)	15,967,691	53,426,126	1,228,185	54,654,311
Change in fair value of investment available for sale	-	-	-	-	-	9,197	-	-	-	9,197	-	9,197
Foreign currency translation adjustments	-	-	-	-	-	-	-	(2,505,986)	-	(2,505,986)	(49,683)	(2,555,669)
Gain on sale of treasury shares	-	-	-	-	103,851	-	-	-	-	103,851	-	103,851
Net income (loss) recognized directly in equity	-	-	-	-	103,851	9,197	-	(2,505,986)	-	(2,392,938)	(49,683)	(2,442,621)
Net profit for the year	-	-	-	-	-	-	-	-	22,080,409	22,080,409	(78,466)	22,001,943
Total (loss) income recognized for the year	-	-	-	-	103,851	9,197	-	(2,505,986)	22,080,409	19,687,471	(128,149)	19,559,322
Cash dividend -(50%)	-	-	-	-	-	-	-	-	(9,253,417)	(9,253,417)	-	(9,253,417)
Bonus shares- (5%)	928,248	-	-	-	-	-	-	-	(928,248)	-	-	-
Capital increase-(26.43%)	3,880,594	8,181,193	-	-	-	-	-	-	-	12,061,787	-	12,061,787
Minority share in subsidiary capital increase	-	-	-	-	-	-	-	-	-	-	250,000	250,000
Cash dividend (subsidiary)	-	-	-	-	-	-	-	-	-	-	(1,178,152)	(1,178,152)
Effect of consolidation of a new subsidiary	-	-	-	-	-	-	-	-	-	-	18,620	18,620
Purchase of treasury shares	-	-	-	(591,922)	-	-	-	-	-	(591,922)	-	(591,922)
Sale of treasury shares	-	-	-	781,725	-	-	-	-	-	781,725	-	781,725
Transfer to statutory reserve	-	-	2,295,923	-	-	-	-	-	(2,295,923)	-	-	-
Balance as of December 31, 2007	19,493,213	24,426,446	7,001,050	(415,881)	2,583,763	9,197	-	(2,556,530)	25,570,512	76,111,770	190,504	76,302,274
Balance as of December 31, 2007	19,493,213	24,426,446	7,001,050	(415,881)	2,583,763	9,197	-	(2,556,530)	25,570,512	76,111,770	190,504	76,302,274
Change in fair value of investment available for sale	-	-	-	-	-	(80,340)	(259,149)	-	-	(339,489)	-	(339,489)
Foreign currency translation adjustments	-	-	-	-	-	-	-	(92,003)	-	(92,003)	(20,812)	(112,815)
Total loss recognized directly in equity	-	-	-	-	-	(80,340)	(259,149)	(92,003)	-	(431,492)	(20,812)	(452,304)
Net profit for the year	-	-	-	-	-	-	-	-	6,530,622	6,530,622	71,075	6,601,697
Total (loss) income recognized for the year	-	-	-	-	-	(80,340)	(259,149)	(92,003)	6,530,622	6,099,130	50,263	6,149,393
Cash dividend -(55%)	-	-	-	-	-	-	-	-	(10,677,154)	(10,677,154)	-	(10,677,154)
Bonus shares- (5%)	974,661	-	-	-	-	-	-	-	(974,661)	-	-	-
Cash dividend (subsidiary)	-	-	-	-	-	-	-	-	-	-	(554,694)	(554,694)
Effect of consolidation of a new subsidiary	-	-	-	-	-	-	-	-	-	-	3,839,466	3,839,466
Purchase of treasury shares	-	-	-	(315,658)	-	-	-	-	-	(315,658)	-	(315,658)
Transfer to statutory reserve	-	-	682,299	-	-	-	-	-	(682,299)	-	-	-
Balance as of December 31, 2008	20,467,874	24,426,446	7,683,349	(731,539)	2,583,763	(71,143)	(259,149)	(2,648,533)	19,767,020	71,218,088	3,525,539	74,743,627

The accompanying notes (1) to (37) form an integral part of the consolidated financial statements.

ACICO FOR INDUSTRIES (FORMERLY AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008
(All amounts are in Kuwaiti Dinars)

	2008	2007
Cash flows from operating activities:		
Profit for the year before Contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, Contribution to Zakat and Board of Directors' remuneration	6,894,063	22,880,763
Adjustments:		
Depreciation	2,396,907	1,699,578
Amortization	57,456	57,462
Group's share of results from associates	(436,292)	(1,037,738)
Finance charges	3,421,496	1,694,004
Rental income	(2,936,357)	(369,621)
Interest income	(538,858)	(568,100)
Provision for employees' end of services indemnity	588,460	269,343
Gain on sale of fixed assets	(455,181)	(48,680)
Gain on sale of investment property	(523,972)	(1,211,275)
Dividend income	(133,676)	(53,966)
Change in fair value of investment property	(129,084)	(18,652,601)
Foreign currency translation adjustments	(167,819)	1,344,718
Gain on sale of investment available for sale	-	(61,373)
Provision for doubtful debts	10,009	157,075
Provision for slow moving inventory	-	50,000
Impairment loss of available for sale investments	379,678	-
	<u>8,426,830</u>	<u>6,149,589</u>
Changes in operating assets and liabilities:		
Accounts receivable and other debit balances	1,861,973	(6,935,968)
Due from customers for contract work	(5,794,564)	1,803,162
Due from related parties	(1,460,620)	5,596,594
Inventories	(3,106,058)	(1,047,125)
Accounts payable and other credit balances	5,125,554	6,665,581
Due to related parties	7,242,828	(478,275)
Payment for employees' end of service indemnity	(350,711)	(116,244)
Payment for Kuwait Foundation for Advancement of Sciences	(125,221)	(74,231)
Payment for National Labor Support Tax	-	(695,152)
Payment for Zakat	(14,117)	-
Payment for Board of Directors' remuneration	(95,000)	(95,000)
	<u>11,710,894</u>	<u>10,772,931</u>
Net cash generated from operating activities		

ACICO FOR INDUSTRIES (FORMERLY AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTD.)
FOR THE YEAR ENDED DECEMBER 31, 2008
(All amounts are in Kuwaiti Dinars)

	<u>2008</u>	<u>2007</u>
Cash flows from investing activities:		
Paid for purchase of investments available for sale	-	(5,215,809)
Paid for purchase of investment properties	(11,567)	(739,677)
Proceeds from sale of investments available for sale	-	2,118,791
Paid for purchase investment in associates	-	(6,190,562)
Proceeds from sale of investment properties	-	10,410,835
Paid for purchase of fixed assets	(7,327,536)	(2,165,850)
Proceeds from sale of fixed assets	833,590	155,219
Paid for projects under construction	(34,147,406)	(32,555,509)
Rental income received	2,936,357	369,621
Dividend income received	133,676	53,966
Interest income received	538,858	250,669
Net cash used in investing activities	<u>(37,044,028)</u>	<u>(33,508,306)</u>
Cash flows from financing activities:		
Proceeds from due to banks	5,026,553	4,368,051
Net proceeds from term loans	250,735	57,978,148
Finance charges paid	(3,421,496)	(1,694,004)
Payment of cash dividends to shareholders	(10,541,462)	(9,105,084)
Minority interest (subsidiary)	3,839,466	268,620
Cash dividend (subsidiary)	(554,694)	(1,178,152)
Purchase of treasury shares	(16,891)	(591,922)
Proceeds from sale of treasury shares	-	885,576
Net cash (used in) generated from financing activities	<u>(5,417,789)</u>	<u>50,931,233</u>
Net (decrease) increase in cash and cash equivalents	<u>(30,750,923)</u>	<u>28,195,858</u>
Cash and cash equivalents at the beginning of the year (Note 3)	<u>31,364,480</u>	<u>3,168,622</u>
Cash and cash equivalents at the end of the year (Note 3)	<u><u>613,557</u></u>	<u><u>31,364,480</u></u>

The accompanying notes (1) to (37) form an integral part of the consolidated financial statements.

**ACICO FOR INDUSTRIES (FORMERLY AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)) AND
ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008
(All amounts are in Kuwaiti Dinars)**

1. Incorporation and activities

ACICO for Industries (Formerly Aerated Concrete Industries Co. K.S.C. (Closed)) was incorporated authenticated at the Ministry of Justice – Real Estate Registration and Authentication Department under Ref. No. 16540 on June 23, 1990 and registered on Commercial register under Ref. No. 41903 dated July 17, 1991.

The main objectives of the Company include the establishment of a factory for the production of all types and sizes of aerated concrete and non-concrete and all its construction requirements, import and export of all building materials. The Company is considered the sole agent in the Middle East for manufacturing 'Hebel' international products.

The Company's objectives also include owning, buying and selling real estates, land and lands for development for the benefit of the Company either inside or outside Kuwait, dealing in industrial companies' shares and bonds relating to the main objective of the Company for the benefit of the Company only either inside or outside Kuwait, preparing and submitting the studies and consultancy and also organizing the industrial exhibitions for the Company's projects.

The Company may have interests or participate in any aspect in other firms conducting similar activities or which may assist the Company in achieving its objectives in Kuwait or abroad. The Company may also acquire such firms or participate in their equity.

The parent Company's number of employees is 225 as at December 31, 2008 (2007 - 300).

The address of the Company is Sharq – Ahmed Al-Jaber Street – Raed Center, 5th floor, P.O. Box 24079, Safat, 13101 - State of Kuwait.

The financial statements were authorized for issue by the Board of Directors on March 30, 2009. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

2. Accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention, except investment available for sale and investment properties which are stated at their fair value. The accounting policies applied by the Group are consistent with those used in the previous year.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(aa).

ACICO FOR INDUSTRIES (FORMERLY AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008
(All amounts are in Kuwaiti Dinars)

Standards and Interpretations issued but not effective

The following IASB Standards and Interpretation have been issued but are not yet effective, and have not yet been adopted by the Group:

IFRS 8 "Operating Segments"

The application of IFRS 8, which will be effective for the annual periods beginning on or after January 1, 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 January 1, 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 January 1, 2009, will require an entity to capitalize borrowing costs attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset and removing an option of expensing these borrowing costs in the consolidated statement of income.

IFRIC Interpretation 13 "Customer Loyalty Programmes"

The application of IFRIC Interpretation 13, which will be effective for annual periods beginning on or after July 1, 2008, provides guidance on the accounting for transactions relating to the sale of goods or services together with a customer loyalty incentive. This amendment is not expected to have any impact on the consolidated financial statements.

Revised IFRS 3 Business Combinations (2008)

Revised IFRS 3, which will be effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009 with prospective application, incorporates the following changes:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Amended IAS 27 Consolidated and Separate Financial Statements (2008)

Amended IAS 27, which will be effective for annual periods beginning on or after July 1, 2009 with retrospective application, requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss.

ACICO FOR INDUSTRIES (FORMERLY AERATED CONCRETE INDUSTRIES CO. K.S.C. (CLOSED)) AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008
(All amounts are in Kuwaiti Dinars)

Amendments to IFRS 2 Share-based Payment— Vesting Conditions and Cancellations

Amended IFRS 2, which will be effective for annual periods beginning on or after January 1, 2009 with retrospective application, clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. This amendment is not expected to have any impact on the consolidated financial statements.

b) Basis of consolidation

The consolidated financial statements include the financial statements of Aerated Concrete Industries Company - K.S.C. (Closed) and the following subsidiaries:

Name of Subsidiary	Country of incorporation	Percentage of ownership 2008	Percentage of ownership 2007
Ghassan Ahmed Sauod Al-Khaled & Co. – W.L.L. and its subsidiary	Kuwait	75 %	75 %
ACICO International Contracting – L.L.C.	UAE	75 %	75 %
ACICO Arabia for General Trading & Contracting – W.L.L.	Kuwait	60 %	-
ACICO for Construction K.S.C. (Closed)	Kuwait	100 %	-

During the year, the Parent Company purchased ACICO for Construction K.S.C. (Closed) formerly known as Kuwait United Precast System Company K.S.C. (Closed) for an amount of KD 1,800,000 which was wholly owned by Ghassan Ahmed Saoud Al-Khaled & Partners W.L.L.

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

c) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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d) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of income with in general and administration expense. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of income.

e) Due from (to) customers for contract work

The gross amount due from (to) customers for contract work represents the net amount of costs incurred plus recognized profits, less the sum of recognized losses and progress billings for all contracts in progress. Cost comprises direct materials, direct labor and an appropriate allocation of overheads. For contracts where progress billings exceed costs incurred plus recognized profit (less recognized losses), the excess is included under liabilities.

f) Inventories

Inventories are valued at the lower of cost or net realizable value after providing allowances for any obsolete or slow-moving items. Cost comprises direct materials and direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis.

Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses.

g) Lands under development

Lands under development are valued at actual cost, while land and real estate that are ready for sale are valued at the lower of cost or net realizable value. Any resulting differences are included in the statement of income.

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h) Investments

The Group classifies its investments in the following categories; loans and available for sale investments. The classification depends on the purpose for which the investments were acquired and is determined at initial recognition by the management.

(i) Investments available for sale

Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on settlement date – the date on which an asset is delivered to or by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement.

After initial recognition, investments at fair value through income statement and investments available for sale are subsequently carried at fair value. The fair values of quoted investments are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Realized and unrealized gains and losses from investments at fair value through income statement are included in the income statement. Unrealized gains and losses arising from changes in the fair value of investments available for sale are recognized in cumulative changes in fair value in consolidated statement of changes in shareholders' equity.

Where investments available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When an investment available for sale is disposed off or impaired, any prior fair value earlier reported in equity is transferred to the consolidated statement of income.

An investment (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the investment have expired; or the Group has transferred its rights to receive cash flows from the investment and either (a) has transferred substantially all the risks and rewards of ownership of the investment, or (b) has neither transferred nor retained substantially all the risks and rewards of the investment, but has transferred control of the investment. Where the Group has retained control, it shall continue to recognize the investment to the extent of its continuing involvement in the investment.

The Group assesses at each balance sheet date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for investments available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on available for sale equity instruments are not reversed through the consolidated statement of income.

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i) Investment in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policy decisions. The consolidated financial statements include the Group's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate which includes any long-term interests that, in substance, form part of the Group's net investment in the associate are not recognized.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in consolidated profit or loss.

j) Investment properties

Investment properties, which are properties, held to earn rentals and/or for capital appreciation, are stated at their fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of income for the period in which they arise. Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

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

k) Rights of utilization

Rights of utilization are stated at historical cost. Rights of utilization have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of rights of utilization over their estimated useful lives (17 years).

l) Projects under construction

All project costs are included in the projects under construction item till the date of its completion and preparation to be ready for use. At this date, it is reclassified as property and equipment or investment properties according to the intention of the Group's management.

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m) Fixed assets

The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets.

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

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

	<u>Useful life years</u>
Buildings	20
Machinery	3 - 20
Motor vehicles	3
Tools and equipment	3
Furniture and fixtures	3 - 5

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

n) Goodwill

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investment in associates' in note 2(i).

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Where there is an excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, the Group is required to reassess the identification and measurement of the net identifiable assets and measurement of the cost of the acquisition and recognize immediately in the consolidated statement of income any excess remaining after that remeasurement.

o) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

p) Payables

Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

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q) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

r) Provision for employees' end of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

s) Share capital

Ordinary shares are classified as equity.

t) Treasury shares

Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (gain on sale of treasury shares) which is not distributable. Any realized 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 realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue 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.

u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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Sale of goods

Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when significant risks and rewards of ownership of goods are transferred to the buyer.

Construction contracts

Revenue from construction contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. Profit is only recognized when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments are included in the determination of contract profit when approved by contract owners. Anticipated losses on contracts are recognized in full as soon as they become apparent.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

Revenue on sale of apartments and villas

Revenue on sale of apartments and villas is recognized on the basis of percentage completion based on internal surveys of work performed as and when all the following conditions are met:

- The buyer's investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- Construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundation are finished;
- The buyer is committed. The buyer is unable to require a refund except for non-delivery of the unit and, in certain cases, in the event of the non-enactment of pending legislation regarding freehold title and immigration visas. Management believes that the likelihood of the Company being unable to fulfill its contractual obligations for these reasons is remote; and
- The aggregate sales proceeds and costs can be reasonably estimated.

Cost of revenue

Cost of revenue includes the cost of land and development costs. Development costs include the cost of infrastructure and construction

Sale of lands under development

Revenue is recognized when significant risks and rewards of ownership are transferred to the buyer.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

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The Group as a lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Dividend income

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

Rent

Rental income is recognized, when earned, on a time apportionment basis.

Gain on sale of investments

Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in net profit or loss in the period in which they are incurred.

w) Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. 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

x) Foreign currency

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlements of monetary items or on the retranslation of monetary items are included in income statement for the period. Translation differences on non-monetary items such as equity investments which are classified as investments at fair value through income statement are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity investments classified as available for sale financial assets are included in "cumulative changes in fair value" in the consolidated statement of changes in equity.

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The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the balance sheet date. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in the consolidated statement of changes in equity. Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

y) Contingencies

Contingent liabilities are not recognized but disclosed in the consolidated financial statements except when the possibility of an outflow of resources embodying economic benefits is remote.

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

z) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, receivables, investments, bank borrowings and payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

aa) Critical accounting estimates and judgments

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

a) Judgments

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

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(ii) Determination of contract cost

Determination of costs which are directly related to the specific contract or attributable to the contract activity in general requires significant judgment. The determination of contract cost has a significant impact upon revenue recognition in respect of long term contracts. The Group follows guidance of IAS 11 for determination of contract cost and revenue recognition.

(iii) Provision for doubtful debts and inventory

The determination of the recoverability of the amount due from customers and the marketability of the inventory and the factors determining the impairment of the receivable and inventory involve significant judgment.

(iv) Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income", "available for sale" or "held to maturity". The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at inception, provided their fair values can be reliably estimated.. All other investments are classified as "available for sale".

(v) Impairment of investments

The Group treats investments "available for sale" as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment.

b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimating 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.

(i) Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

(ii) Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset or the cash-generating unit to which the goodwill is allocated. Estimating a value in use requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present-value of the cash-flows.

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(iii) Long term contracts

Revenue from long term contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. The revenue recognition as per the above criteria should correspond to the actual work completed. The determination of estimated costs and the application of percentage of completion method involve estimation. Further, the budgeted cost and revenue should consider the claims and variations pertaining to the contract.

(iv) Provision for doubtful debts and inventory

The extent of provision for doubtful debts and inventories involves estimation process. Provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventory are subject to management approval.

bb) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

3. Cash and cash equivalents

	<u>2008</u>	<u>2007</u>
Cash on hand and at banks	603,242	811,771
Fixed deposits	10,315	30,552,709
	<u>613,557</u>	<u>31,364,480</u>

The effective interest rate on the short term bank deposit ranged from 6% to 7.25% per annum (2007 – 6% to 7.25%), these deposits have an average maturity of 90 days.

4. Accounts receivable and other debit balances

	<u>2008</u>	<u>2007</u>
Trade receivables (a)	5,202,455	7,100,169
Provision for doubtful debts (b)	(541,927)	(531,918)
	4,660,528	6,568,251
Cheques under collection	1,230,104	-
Letters of credit	397,373	369,394
Prepaid expenses	1,518,258	820,487
Accrued income	2,030,543	317,431
Advance payments for subcontractors	1,537,283	6,676,036
Retention held with others	1,376,162	141,729
Refundable deposits	927,228	748,993
Other debit balances	183,859	90,999
	<u>13,861,338</u>	<u>15,733,320</u>

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a) Trade receivables

Trade receivables that are less than 6 months past due are not considered impaired. As of December 31, 2008, trade receivables amounting to KD 1,109,311 (2007: KD 308,935) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of trade receivables is as follows:

	<u>2008</u>	<u>2007</u>
From 60 to 90 days	2,771,467	3,976,212
From 90 to 120 days	779,750	2,283,104
Over 120 days	1,651,239	840,853
	<u>5,202,456</u>	<u>7,100,169</u>

b) Provision for doubtful debts

The movement during the year is as follows:

	<u>2008</u>	<u>2007</u>
Balance at the beginning of the year	531,918	383,457
Charge during the year	10,009	157,075
Utilized during the year	-	(8,614)
Balance at the end of the year	<u>541,927</u>	<u>531,918</u>

The fair values of accounts receivable and other debit balances approximated their carrying values as at December 31, 2008.

5. Gross amount due from customers for contract work

	<u>2008</u>	<u>2007</u>
Contract cost incurred to date plus recognized profits less recognized losses	18,303,918	13,836,404
Less: Progress billings	(10,044,595)	(11,371,645)
	<u>8,259,323</u>	<u>2,464,759</u>

6. Related party transactions

The Group has entered into various transactions with related parties, i.e. shareholders, key management personnel, associates and other related parties in the normal course of its business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. Significant related party transactions and balances are as follows:

<u>Consolidated balance sheet:</u>	<u>Associates</u>	<u>Other related parties</u>	<u>2008</u>	<u>2007</u>
Due from related parties	2,200,987	1,875,705	4,076,692	2,616,072
Due to related parties	5,227,323	1,259,239	6,486,562	400,587
 <u>Consolidated income statement:</u>				
Operating income	1,221,428	-	1,221,428	30,451,044
Operating costs	198,609	-	198,609	28,439,660
Investment income	1,400,000	-	1,400,000	-
Rental income	-	233,490	233,490	20,000
Gain on sale of investment property	523,972	-	523,972	-

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Due from (to) related parties mainly represent loans granted to related parties, sales between them and contracting work.

<u>Compensation to key management personnel:</u>	<u>2008</u>	<u>2007</u>
Short term benefits	79,104	104,670
Termination benefits	9,606	8,000
	<u>88,710</u>	<u>112,670</u>

7. Inventories

	<u>2008</u>	<u>2007</u>
Raw materials	4,843,159	2,024,498
Finished goods	964,794	934,007
Spare parts	1,120,840	715,691
	<u>6,928,793</u>	<u>3,674,196</u>
Provision for slow-moving inventory	(170,000)	(170,000)
	<u>6,758,793</u>	<u>3,504,196</u>

8. Lands under development

Lands under development are not registered in the name of the Company. However, the Company has the right to sell and dispose the land according to the authorization from the owner of the land.

9. Investments available for sale

Investments available for sale includes the following

	<u>2008</u>	<u>2007</u>
Investment in real estate fund	134,600	214,939
Investment in unquoted shares	2,900,920	5,941,864
	<u>3,035,520</u>	<u>6,156,803</u>

Investments available for sale are denominated in the following currencies

	<u>2008</u>	<u>2007</u>
Kuwaiti Dinar	2,469,401	4,934,660
Bahraini Dinar	566,119	707,649
AED Dirham	-	514,494
	<u>3,035,520</u>	<u>6,156,803</u>

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10. Investment in associates

	Country of Incorporation	Percentage of ownership	2008	2007
Aerated Concrete Industries Company - Saudi Arabia W.L.L.	Saudi Arabia	45%	226,257	375,208
Aerated Concrete Industries Company - Qatar W.L.L.	Qatar	49%	2,176,034	406,631
Al-Masaken International for Real Estate Development - K.S.C(Closed)	Kuwait	35%	8,448,972	8,091,119
Al-Masaken Arabian Holding K.S.C. (Closed)	Kuwait	11.81%	2,432,375	-
			<u>13,283,638</u>	<u>8,872,958</u>

The movement of investments in associates during the year was as follows:

	2008	2007
Balance at the beginning of the year	8,872,958	644,658
Acquisition of associate	-	6,190,562
Group's share of results from associates	436,292	1,037,738
Transferred from investment in unconsolidated subsidiary	-	1,000,000
Transfer from available for sale investments	2,362,500	-
Transferred from projects under construction	1,848,590	-
Group 's share of associate's cumulative change in fair value	(259,149)	-
Other equity movements	22,447	-
Balance at the end of the year	<u>13,283,638</u>	<u>8,872,958</u>

At each reporting date, the Group's management reviews the carrying values of each investment in associate individually to ensure that there is no indication of impairment of such investments; in case such indication exist, the recoverable amount of such investment is calculated to determine the amount of impairment.

The Group's management has compared the recoverable amount (fair value and value in use less costs to sell, whichever is higher) for its investment in Al-Masaken International for Real Estate Development - K.S.C(Closed) to its book value as of December 31, 2008 to determine if there is any indication of impairment.

As of December 31, 2008 the fair value of the Group's investment in Al Masaken International For Real Estate Development K.S.C. (Closed) amounted to KD 8,400,000

The Group accounted its share of results from Aerated Concrete Industries Company – Qatar - W.L.L and Aerated Concrete Industries Company – Saudi Arabai - W.L.L based on management accounts as of December 31, 2008.

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The Group's interests in its associates as of December 31 were as follows:

Name of associate	Assets		Liabilities		Net Assets	
	2008	2007	2008	2007	2008	2007
Aerated Concrete Industries Company - Saudi Arabia W.L.L.	3,194,052	2,566,131	2,922,795	2,190,923	226,257	375,208
Aerated Concrete Industries Company - Qatar W.L.L.	2,428,624	1,277,212	252,590	870,581	2,176,034	406,631
Al-Masaken International for Real estate Development K.S.C (Closed).	8,767,906	8,512,740	318,933	421,621	8,448,973	8,091,119
Al-Masaken Arabian Holding K.S.C. (Closed)	2,682,884	-	17,105	-	2,665,779	-
	<u>17,073,466</u>	<u>12,356,083</u>	<u>3,511,423</u>	<u>3,483,125</u>	<u>13,517,043</u>	<u>8,872,958</u>

	Revenues		Results	
	2008	2007	2008	2007
Aerated Concrete Industries Company - Saudi Arabia W.L.L.	18,182	-	(148,951)	(108,702)
Aerated Concrete Industries Company - Qatar W.L.L.	1,733,723	890,594	(79,187)	55,321
Al-Masaken International for Real Rstate Development K.S.C (Closed).	1,912,468	5,326,042	617,003	1,091,119
Al-Masaken Arabian Holding K.S.C. (Closed)	280,528	-	47,427	-
	<u>3,944,901</u>	<u>6,216,636</u>	<u>436,292</u>	<u>1,037,738</u>

11. Investment properties

	2008	2007
Balance at the beginning of the year	34,710,615	11,626,347
Additions	11,567	739,677
Transfer from projects under construction	14,829,256	13,993,102
Disposals	(632,882)	(9,199,560)
Changes in fair value of investment properties	129,084	18,652,601
Foreign currency translation adjustments	-	(1,101,552)
Balance at the end of the year	<u>49,047,640</u>	<u>34,710,615</u>

Investment property amounting to KD 30,540,680 is registered in the name of a major shareholder. However, there is an assignment letter for the benefit of the parent company.

During the year the Company sold investment property to a related party resulting in a gain of KD 523,972 (2007 – KD 1,211,275).

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12. Right of utilization of leasehold

	Right of utilization of leasehold
Cost as of December 31, 2007	<u>1,149,225</u>
Cost as of December 31, 2008	<u>1,149,225</u>
Accumulated amortization as of December 31, 2007	(311,249)
Charge for the year	<u>(57,456)</u>
Accumulated amortization as of December 31, 2008	<u>(368,705)</u>
Balance as of December 31, 2008	<u>780,520</u>
Balance as of December 31, 2007	<u>837,976</u>

This land was leased from the government for 20 years ending on June 15, 2017, which is amortized over the lease contract period.

13. Projects under construction

	2008	2007
Balance at the beginning of the year	<u>59,315,822</u>	48,215,882
Additions	<u>31,382,328</u>	30,317,465
Finance charges capitalized	<u>2,765,078</u>	2,238,044
Transfer to investment properties	<u>(14,829,256)</u>	(13,993,102)
Transfer to investment in associate	<u>(1,848,590)</u>	-
Transfer to fixed assets	<u>(6,855,577)</u>	(4,887,500)
Transferred to inventories	<u>(148,538)</u>	-
Foreign currency translation adjustments	<u>-</u>	(2,574,967)
Balance at the end of the year	<u>69,781,267</u>	<u>59,315,822</u>

Project under construction amounting to KD 33,804,097 with its future rental income is pledged against a term loan. Project under construction amounting to KD 37,577,914 is pledged against term loan (Note 18).

Projects under construction amounting to KD 66,291,708 are registered in the name of a major shareholder. However, there are assignment letters for the benefit of the parent company.

Projects under construction represent different projects in the GCC countries.

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14. Fixed assets

	Land & buildings	Machinery	Motor vehicles	Tools and equipment	Furniture and fixtures	Total
Cost:						
As of December 31, 2007	6,180,162	18,439,430	3,295,962	435,595	2,071,740	30,422,889
Reclassification	-	(1,099)	-	-	1,099	-
Additions	4,947,205	684,005	1,174,655	357,970	163,701	7,327,536
Disposals	(300,191)	(17,773)	(452,065)	(19,630)	(220)	(789,879)
Transferred from projects under construction	963,443	5,892,134	-	-	-	6,855,577
Foreign currency translation adjustments	12,666	25,283	1,618	2,902	2,368	44,837
As of December 31, 2008	11,803,285	25,021,980	4,020,170	776,837	2,238,688	43,860,960
Accumulated depreciation:						
As of December 31, 2007	1,390,281	5,600,693	1,988,427	201,985	1,786,199	10,967,585
Reclassification	(131,406)	131,406	-	-	-	-
Charge for the year	299,964	1,149,452	526,885	277,797	142,809	2,396,907
Relating to disposals	-	(17,169)	(374,671)	(19,630)	-	(411,470)
Foreign currency translation adjustments	2,054	6,088	1,120	1,961	1,059	12,282
As of December 31, 2008	1,560,893	6,870,470	2,141,761	462,113	1,930,067	12,965,304
Net book value:						
As of December 31, 2008	10,242,392	18,151,510	1,878,409	314,724	308,621	30,895,656
As of December 31, 2007	4,789,881	12,838,737	1,307,535	233,610	285,541	19,455,304

Cost of sales include depreciation charge for the year amounting to KD 1,986,691 (2007 – KD 1,268,712)

The Company's factory buildings are erected on land leased from the Government for 25 years ending on June 30, 2017 and is renewable.

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15. Due to banks

Annual interest rate on bank overdrafts varies from 1% to 2% over the Central Bank of Kuwait discount rate.

16. Accounts payable and other credit balances

	<u>2008</u>	<u>2007</u>
Trade payable	6,103,584	9,416,735
Advances from customers	4,639,237	764,415
Post dated cheques	1,260,583	-
Subcontractors' retention payable	1,640,389	444,121
Accrued staff leave	542,641	253,896
Deposits held to others	210,905	-
Payable to Kuwait Foundation for Advancement of Sciences	250,485	320,943
National Labor Support Tax payable	791,217	623,981
Payable to Zakat	70,367	14,117
Provision for maintenance	-	116,481
Provision for projects	380,138	-
Board of Directors' remuneration payable	-	95,000
Accrued expenses and others	1,875,646	531,921
	<u>17,765,192</u>	<u>12,581,610</u>

There is no material difference between the fair value and the book value of accounts payable and other credit balances.

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17. Loans

	<u>2008</u>	<u>2007</u>
<u>Current portion</u>		
Loan guaranteed by note payable (promissory note) bearing annual interest 1.25 % over the CBK discount rate payable on May 25, 2008	-	14,200,000
Loan guaranteed by note payable (promissory note) bearing annual interest 1% over the CBK discount rate payable on February 28, 2008	-	3,000,000
Loan guaranteed by note payable (promissory note) bearing annual interest 7.5 % payable on September 25, 2008	-	10,000,000
Loan guaranteed by note payable (promissory note) bearing annual interest 1.25 % over the CBK discount rate payable on September 30, 2008	-	3,000,000
Loan guaranteed by note payable (promissory note) bearing annual interest 1% over the CBK discount rate payable on March 30, 2008	-	2,000,000
Loan in USD guaranteed by note payable (promissory note) bearing annual interest 1.5 % over the LIBOR payable on April 30, 2012	-	535,474
Loan in USD guaranteed by note payable (promissory note) and a fixed deposit bearing annual interest 2.5 % over LIBOR payable on March 31, 2008	-	14,769,000
Loan in USD guaranteed by note payable (promissory note) and bearing annual interest 2% over Central of Kuwait discount rate payable on installments ending June 14, 2011	1,474,400	1,494,209
Loan guaranteed by note payable (promissory note) bearing annual interest 7.75 % payable on September 1, 2009	-	3,000,000
Loan guaranteed by note payable (promissory note) bearing annual interest 1% over the CBK discount rate payable on February 28, 2009	-	1,800,000
Loan in USD guaranteed by note payable (promissory note) and a project under construction bearing annual interest 2.75 % over a local bank funding cost payable on December 5, 2015	-	1,542,540
Loan in UAE Dirham guaranteed by project under construction bearing annual interest ranging from 1% to 2.5 % over DIBOR payable on May 1, 2015	-	733,560
Loan in UAE Dirham guaranteed by project under construction bearing annual interest 2 % over EBOR payable on installments ending December 31, 2016	4,891,575	-
Loan guaranteed by a note payable (promissory note) bearing annual interest ranging from 1.75% to 2.5 % over the CBK discount rate payable on July 2008	-	500,000
Loan guaranteed by a note payable (promissory note) bearing annual interest ranging from 1.75% to 2.5 % over the CBK discount rate payable on November 2008	-	500,000
Loan guaranteed by a note payable (promissory note) bearing annual interest ranging from 1.75% to 2.5 % over the CBK discount rate payable on June 2009	-	1,300,524
Loan guaranteed by a note payable (promissory note) bearing annual interest ranging from 1.75% to 2.5 % over the CBK discount rate payable on November 2009	-	1,200,000

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Loan bearing annual interest 2.5% over the CBK discount rate payable on April 30, 2009	2,668,700	-
Loan guaranteed by a note payable (promissory note) bearing annual interest rate 2.5% over CBK discount rate payable on September 2009	500,000	-
Loan guaranteed by a subsidiary Company's fixed assets bearing annual interest rate of 2.5% over the CBK discount rate payable during the year 2009	1,244,823	-
Loan guaranteed by a note payable (promissory note) bearing annual interest 1.25% over the CBK discount rate payable on April 30, 2009	5,454,105	-
Loan bearing annual interest 2.25% over the CBK discount rate payable on installments ending February 1, 2010	9,000,000	-
Loan bearing annual interest 2.25% over the CBK discount rate payable on installments ending September 1, 2012	416,664	-
Loan guaranteed by a note payable (promissory note) bearing annual interest 1% over the CBK discount rate payable on May 28, 2009	7,000,000	-
Loan guaranteed by a note payable (promissory note) bearing annual interest 1% over the CBK discount rate payable on February 28, 2009	10,000,000	-
Loan bearing annual interest 2.25% over the CBK discount rate payable on April 30, 2009	1,500,000	-
Loan bearing annual interest 1.25% over the CBK discount rate payable on May 27, 2009	15,000,000	-
Loan in USD guaranteed by note payable (promissory note) and a project under construction bearing annual interest 2.75 % over a local bank funding cost payable on installments ending December 5, 2015	1,559,178	-
Loan in USD bearing annual interest 1% over US LIBOR payable on installments ending December 31, 2011	580,545	-
Gross current portion	61,289,990	59,575,307

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Non current portion

Loan in USD guaranteed by note payable (promissory note) and a project under construction bearing annual interest 2.75 % over a local bank funding cost payable on December 5, 2015	4,196,096	8,850,460
Loan guaranteed by note payable (promissory note) bearing annual interest 1% over the CBK discount rate payable on February 28, 2009	-	7,000,000
Loan in USD guaranteed by note payable (promissory note) bearing annual interest 2.28375% payable on June 14, 2011	2,204,267	3,611,125
Loan guaranteed by note payable (promissory note) bearing annual interest 7.75 % payable on September 1, 2009	-	2,000,000
Loan in USD guaranteed by note payable (promissory note) bearing annual interest 1.5 % over the LIBOR payable on April 30, 2012	-	2,008,076
Loan in UAE Dirham guaranteed by project under construction bearing annual interest ranging from 1% to 2.5 % over DIBOR payable on May 1, 2015	-	4,645,878
Loan guaranteed by a note payable (promissory note) bearing annual interest ranging from 1.75% to 2.5 % over the Central bank of Kuwait discount rate payable on June 2009	-	1,367,055
Loan guaranteed by a note payable (Promissory note) bearing annual interest 2.5% over CBK discount rate payable during 2010	2,500,000	-
Loan guaranteed by a note payable (promissory note) bearing annual interest ranging from 1.75% to 2.5 % over the CBK discount rate payable on November 2009	-	100,000
Loans bearing annual interest 2.25% over the CBK discount rate payable on September 1, 2012	4,583,335	-
Loan in UAE Dirham guaranteed by project under construction bearing annual interest from 2% over 3M EIBOR payable on December 31, 2016	13,180,730	-
Loan in USD bearing annual interest 1% over the US LIBOR payable on December 31, 2011	1,454,218	-
Gross non current portion	28,118,646	29,582,594
	89,408,636	89,157,901

18. Provision for employees' end of services indemnity

	<u>2008</u>	<u>2007</u>
Balance at the beginning of the year	871,586	722,510
Charge for the year	588,460	269,343
Paid during the year	(350,711)	(116,244)
Transferred to a related party	-	(1,403)
Foreign currency translation adjustments	-	(2,620)
Balance at the end of the year	<u>1,109,335</u>	<u>871,586</u>

19 Share capital

Authorized issued and paid up capital consist of 204,678,748 shares (2007 – 194,932,138 shares) of 100 fils each.

The shareholders' General Assembly meeting held on May 8, 2008 increased the share capital from 194,932,138 shares to 204,678,748 shares with an increase of 9,746,610 shares represents 5% bonus shares (2007 – 5%).

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	Shares	Nominal value KD
Balance at December 31, 2007	194,932,138	19,493,213
Bonus shares – 5%	9,746,610	974,661
Balance at December 31, 2008	204,678,748	20,467,874

20. Share premium

This represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution except in cases stipulated by law.

21. Statutory reserve

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of net profit for the year attributable to equity holders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), contribution to Zakat and board of directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

22. Treasury shares

	2008	2007
Number of shares	1,471,286	1,446,286
Percentage of issued shares	0.72 %	0.75%
Market value (KD)	684,148	795,457
Cost	731,539	415,881

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23. Segment reporting

Following are the segment information for the main activities of the Company:

	December 31, 2008				Minority / entries to eliminate inter-company transaction	Total
	Industrial	Real estates and hotels	Contracting	Total		
Operating income	30,530,048	2,913,909	59,365,570	92,809,527	(25,177,998)	67,631,529
Operating costs	24,781,834	-	55,152,484	79,934,318	(21,561,495)	58,372,823
Net income for the year	4,658,393	2,571,968	(628,664)	6,601,697	(71,075)	6,530,622
Finance charges	3,159,366	7,782	254,348	3,421,496	-	3,421,496
Depreciation	105,063	14,105	291,048	410,216	-	410,216
Total assets	109,302,595	88,533,907	25,676,454	223,512,956	(20,704,086)	202,808,870
Total liabilities	66,942,196	46,623,959	16,755,513	130,321,668	(2,256,425)	128,065,243

	December 31, 2007				Minority / entries to eliminate inter-company transaction	Total
	Industrial	Real estates and hotels	Contracting	Total		
Operating income	13,291,929	442,034	63,048,969	76,782,932	(34,098,147)	42,684,785
Operating costs	7,662,561	392,784	56,452,689	64,508,034	(28,977,174)	35,530,860
Net income for the year	22,358,086	102,774	(458,917)	22,001,943	78,466	22,080,409
Finance charges	1,544,629	-	149,375	1,694,004	-	1,694,004
Depreciation	102,522	-	328,344	430,866	-	430,866
Total assets	253,142,441	780,854	23,311,925	277,235,220	(89,787,989)	187,447,231
Total liabilities	176,954,340	664,025	19,242,139	196,860,504	(85,715,547)	111,144,957

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24. General and administrative expenses

	<u>2008</u>	<u>2007</u>
Staff cost	1,399,875	1,339,795
Preopening hotel expenses	-	1,227,368
Rent expenses	200,433	198,187
Donations	3,558	78,350
Insurance	97,634	52,121
Legal and professional fees	188,608	150,812
Bank charges	36,515	147,317
Real estate maintenance	102,099	-
Fines	815,556	-
Miscellaneous	1,071,653	1,556,198
	<u>3,915,931</u>	<u>4,750,148</u>

25. Net investment income

	<u>2008</u>	<u>2007</u>
Dividend income	133,676	53,966
Gain on sale of investment available for sale	-	61,373
Gain on sale of a portion of investment in a subsidiary	1,405,148	-
Impairment loss of available for sale investments	(379,678)	-
	<u>1,159,146</u>	<u>115,339</u>

26. Other income

	<u>2008</u>	<u>2007</u>
Gain on sale of fixed assets	455,181	48,680
Management fees	-	2,912
Miscellaneous	192,089	191,874
	<u>647,270</u>	<u>243,466</u>

27. Contribution to Kuwait Foundation for Advancement of Sciences

Contribution to Kuwait Foundation for Advancement of Sciences is calculated at 1% of the profit of the Parent Company after deducting its share of income from shareholding subsidiaries and associates and transfer to statutory reserve:

	<u>2008</u>	<u>2007</u>
Profit for the year before contribution to KFAS, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration attributable to shareholders of the Parent Company	6,822,988	22,959,229
Income from associates subject to KFAS –Al-Masaken International for Real Estate development K.S.C(Closed) and Al-Masaken Arabian Holding K.S.C(Closed)	(664,430)	(1,091,119)
Deduct : the transfer to statutory reserve	(682,299)	(2,295,923)
	<u>5,476,259</u>	<u>19,572,187</u>
Kuwait Foundation for the Advancement of Sciences percentage	1%	1%
	<u>54,763</u>	<u>195,722</u>

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28. National Labor Support Tax

National Labor Support Tax is calculated at 2.5% of the profit of the Parent Company and after deducting its share of income from listed shareholding subsidiaries and associates, dividends from Kuwaiti listed shareholding companies and compensation claim from UNCC.

29. Contribution to Zakat

Contribution to Zakat is calculated at 1% of the profit of the Parent Company after deducting its share of income from shareholding subsidiaries and associates in accordance with Ministry of Finance resolution No. 58/2007 effective December 10, 2007.

30. Board of Directors' remuneration

The proposed Board of Directors' remuneration is subject to the approval of the shareholder's General Assembly.

31. Earnings per share

Earnings per share are calculated based on net profit for the year attributable to parent company's shareholders and the weighted average number of shares outstanding. There are no potential dilutive shares. The required information to calculate earnings per share is as follows:

	<u>2008</u>	<u>2007 (Restated)</u>
Net profit for the year attributable to parent company's shareholders	<u>6,530,622</u>	<u>22,080,409</u>
	<u>Shares</u>	<u>Shares</u>
<u>Number of shares outstanding:</u>		
Number of issued shares at beginning of the year	194,932,130	193,550,009
Bonus shares 5%	9,746,607	9,746,607
Weighted average of treasury shares	<u>(1,531,606)</u>	<u>(919,281)</u>
Weighted average number of shares outstanding at end of the year	<u>203,147,131</u>	<u>202,377,335</u>
	<u>Fils</u>	<u>Fils</u>
Earnings per share attributable to parent company's shareholders	<u>32.15</u>	<u>109.11</u>

Earnings per share attributable to parent company's shareholders for the year ended December 31, 2007 was 114.58 fils before retroactive adjustment relating to the issue of bonus shares.

32. Proposed dividends and bonus shares

Cash Dividends

The Board of Directors proposed a cash dividend of 5 fils per share (2007 – 55 fils). This proposal is subject to the approval of the shareholders' annual General Assembly.

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Bonus Shares

The Board of Directors proposed bonus shares of 5 shares for every 100 shares held. This proposal is subject to the approval of the shareholders' annual General Assembly.

The shareholders' general assembly meeting held on May 8, 2008 approved the distribution of cash dividend of 55 fils per share (55%) and 5 bonus shares for every 100 shares held (5%) for the year ended December 31, 2007.

33. Financial Risk Management

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalents, receivables, due from related parties, investments available for sale, bank facilities, payables and due to related parties and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

a) Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. The effective interest rates and the periods in which interest bearing financial assets and liabilities are reprised or mature are indicated in the respective notes.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit (through the impact on floating rate borrowings). There is no impact on Group's equity.

Year	Increase / (Decrease) in interest rate	Loan Balance on December 31	Effect on consolidated statement of income
2008			
Due to banks	± 50 basis points	12,806,146	± 64,031
Loans	± 50 basis points	89,408,636	± 447,043
2007			
Due to banks	± 50 basis points	7,779,593	± 38,898
Loans	± 50 basis points	89,157,901	± 445,790

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of fixed and short notice bank deposits. The Group's fixed and short notice bank deposits are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash at banks, short-term deposits, receivables and due from related parties.

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c) Foreign currency risk

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between AED and Kuwaiti Dinar.

Year	Increase / (Decrease) against KD	Effect on consolidated statement of income	Effect on consolidated statement of shareholders' equity
2008			
AED	±5.00%	±3,488,267	±10,855,168
Year	Increase / (Decrease) against KD	Effect on consolidated statement of income	Effect on consolidated statement of shareholders' equity
2007			
AED	± 5.00%	±486,020	± 5,038,323

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable.

Maturity Table for financial liabilities

2008

Financial liabilities	1 month	1-3 months	3-12 months	Over 1 year	Total
Due to banks	-	-	12,806,146	-	12,806,146
Term loans	-	10,000,000	51,289,990	28,118,646	89,408,636
Accounts payable and other credit balances	1,112,069	-	16,653,123	-	17,765,192
Due to related parties	-	-	6,486,562	-	6,486,562
Dividend payable to shareholders	489,372	-	-	-	489,372
Total	1,601,441	10,000,000	87,235,821	28,118,646	126,955,908

2007

Financial liabilities	1 month	1-3 months	3-12 months	Over 1 year	Total
Due to banks	-	-	7,779,593	-	7,779,593
Term loans	-	19,769,000	39,806,307	29,582,594	89,157,901
Accounts payable and other credit balances	959,041	2,085,890	9,536,679	-	12,581,610
Due to related parties	-	-	400,587	-	400,587
Dividends payable to shareholders	353,680	-	-	-	353,680
Total	1,312,721	21,854,890	57,523,166	29,582,594	110,273,371

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e) Equity price risk

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in equity securities classified as fair value through profit or loss and available for sale.

The following table demonstrates the sensitivity to a reasonably possible change in the equity indices as a result of change in the fair value of these investments, to which the Group had significant exposure at December 31:

<u>Market Indices</u>	2008		2007	
	Change in equity price %	Effect on consolidated statement of shareholders' equity	Change in equity price %	Effect on consolidated statement of shareholders' equity
Real Estate Fund Manager's report	±5%	6,730	±5%	10,747

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from current bid prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their carrying amounts, except that it was not possible to reliably measure the fair value of certain of the available-for-sale investments as indicated in Note 9.

34. Capital Risk Management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

For the purpose of capital risk management, the total capital resources consist of the following components:

	2008	2007
Due to banks	12,806,146	7,779,593
Term loans	89,408,636	89,157,901
Less: cash and cash equivalents	(613,557)	(31,364,480)
Net debt	101,601,225	65,573,014
Total equity	74,743,627	76,302,274
Total capital resources	176,344,852	141,875,288

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35. Working capital

The Group's current liabilities exceed its current assets by an amount of KD 65,103,139 (2007 – 24,843,530). The consolidated financial statements have been prepared assuming the Group will continue as a going concern. The consolidated financial statements do not include any adjustment that might result from the outcome of the uncertainty.

The Group's going concern assumption relies on necessary support from financial institutions, shareholders as well as the Group's ability to promote its cash inflows.

The Group's management succeeded in renewing its borrowings from the respective financial institutions in an amount of KD 63,250,000.

As of the balance sheet date, the Group had undrawn outstanding credit facilities of KD 4,660,895. Subsequent to the balance sheet date the Group was granted additional bank facilities amounting to KD 7,000,000

In the Group's management opinion, its lender financial institutions will renew the Group's outstanding borrowings on their respective due dates considering the quality of the Group's assets and the stability of its cash inflows and that the major shareholders of the Parent Company as well as the associates will provide necessary support, if needed, to increase the Group's cash inflows.

36. Contingent liabilities

	<u>2008</u>	<u>2007</u>
Letters of guarantee	1,698,587	2,983,079
Letters of credit	2,017,779	334,917
	<u>3,716,366</u>	<u>3,317,996</u>

On December 12, 2007 the Supreme Court had issued a verdict dictating that one of the company's promoters will be reinstated as a partner in a subsidiary company, according to the confirmations and attestations presented by the Group's legal consultant and the partner whose share is under litigation, the share of the parent company in the subsidiary company will not be affected whatsoever by the verdict as the latter wasn't issued against the parent company; accordingly, there are no contingent liabilities for the parent company for this case.

As of the consolidated balance sheet date there is a case held for arbitration raised against ACICO International Contracting L.L.C. (a subsidiary company) from Killi Construction W.L.L. claiming an amount of AED 122,000,000 as a compensation for canceling a sub construction contract. On the other side, the subsidiary company is claiming an amount of AED 112,000,000 as a compensation for the cost that will be incurred to complete the sub construction work and the case is still pending at the Arbitrary Court in Dubai , United Arab Emirates.

37. Comparative figures

Certain prior year amounts have been reclassified to conform to the current year presentation.