

## Independent Auditor's Report

The Shareholders  
Stehwaz Holding Company K.S.C. (Holding)  
State of Kuwait

### Report on the Financial Statements

We have audited the accompanying financial statements of Stehwaz Holding Company K.S.C. (Holding), which comprise of the balance sheet as of December 31, 2006 and the related statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

### Auditors Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 financial statements.

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

### Opinion

In our opinion, financial statements present fairly, in all material respects, the financial position of the Company, as of December 31, 2006, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

### Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Company and the financial statements together with the contents of the report of the board of directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanation that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960 as amended, and by the Company's Articles of Association, and stock taking was duly conducted in accordance with recognized practices, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960 nor of the Company's Articles of Association have occurred during the year ended December 31, 2006 that might have had a material effect on the business of the Company or on its financial position.



Ali Abdulrahman Al-Hasawi

Licence No. 30A

BDO Burgan-International Accountants

May 1, 2007

State of Kuwait

## Balance Sheet

As at 31 December 2006

All amounts are in Kuwaiti Dinars

	Note	<u>2006</u>	<u>2005</u>
<b>Assets</b>			
Non current assets			
Property and equipment		1,993	3,793
Investment properties	3	28,704,960	-
Investments available for sale	4	66,504,492	-
		<u>95,211,445</u>	<u>3,793</u>
Current assets			
Cash and cash equivalents	5	581,544	4,323
Receivables and other debit balances	6	7,008,510	261,504
Investments at fair value through income statement	7	4,508,376	-
Investments in wakala	8	155,422,050	-
		<u>167,520,480</u>	<u>265,827</u>
<b>Total assets</b>		<u>262,731,925</u>	<u>269,620</u>
<b>Equity and liabilities</b>			
Equity			
Share capital	9	250,000,000	100,000
Statutory reserve	10	1,831,633	34,730
Voluntary reserve	11	1,831,633	34,730
Change in fair value reserve		(7,989,193)	-
Retained earnings		14,281,916	83,410
<b>Total equity</b>		<u>259,955,989</u>	<u>252,870</u>
Non current liabilities			
End of service indemnity		808	5,946
Current liabilities			
Payables and other credit balances	12	2,775,128	10,804
		<u>2,775,128</u>	<u>10,804</u>
<b>Total equity and liabilities</b>		<u>262,731,925</u>	<u>269,620</u>



Hala Abdullah Al Ghanem  
Chairman



Abdullatef A. Al Rfai  
Vice Chairman

The accompanying notes form an integral part of these financial statements

## Statement of Income

For the year ended 31 December 2006

All amounts are in Kuwaiti Dinars

	Note	2006	2005
Changes in fair value of investment properties		11,189,940	-
Changes in fair value of investments at fair value through income statement		166,692	-
Profit from investments	13	2,165,909	-
Income from investments in wakala		4,869,203	-
Consulting services (net)		-	202,817
General and Administrative expenses		(459,207)	(83,460)
Depreciation		(102)	(22,658)
Other income		36,598	8,750
Board of directors' remuneration	14	(15,000)	-
Contribution to Kuwait Foundation for the Advancement of Sciences		(161,721)	(949)
Net profit for the year		17,792,312	104,500
Earnings per share (Fils)	15	8.6	104.50

The accompanying notes form an integral part of these financial statements

## Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2006

All amounts are in Kuwaiti Dinars

	Share capital	Statutory reserve	Voluntary reserve	Change in fair value reserve	Retained earnings	Total
Balance net at January 1, 2005	100,000	24,185	24,185	-	191,305	339,675
Cash dividends	-	-	-	-	(191,305)	(191,305)
Net profit for the year	-	-	-	-	104,500	104,500
Transfer to reserves	-	10,545	10,545	-	(21,090)	-
Balance December 31, 2005	100,000	34,730	34,730	-	83,410	252,870
Balance at January 1, 2006	100,000	34,730	34,730	-	83,410	252,870
Share capital increase (Note 9)	249,900,000	-	-	-	-	249,900,000
Changes in fair value for investments available for sale	-	-	-	(7,989,193)	-	(7,989,193)
Net profit for the year	-	-	-	-	17,792,312	17,792,312
Transfer to reserves	-	1,796,903	1,796,903	-	(3,593,806)	-
Balance at December 31, 2006	250,000,000	1,831,633	1,831,633	(7,989,193)	14,281,916	259,955,989

The accompanying notes form an integral part of these financial statements

## Consolidated Statement of Cash Flows

For the year ended 31 December 2006

All amounts are in Kuwaiti Dinars

	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities</b>		
Net profit for the year	17,792,312	104,500
<b>Adjustments:</b>		
Depreciation	102	22,658
Unrealized gain from investments properties	(11,189,940)	-
Gain from investments	(1,316,700)	-
Gain from investments at fair value through income statement	(166,692)	-
Employees' end of service indemnity	808	4,847
Operating profit before changes in working capital	5,119,890	132,005
Investments at fair value through income statement	(4,341,684)	-
Receivables and other debit balances	(7,008,510)	39,087
Payables and other credit balances	3,023,675	4,575
Indemnity paid	-	(4,521)
Net cash (used in) from operating activities	<u>(3,206,629)</u>	<u>171,146</u>
<b>Cash flows from investing activities</b>		
Payments for purchase of property, and equipment	(2,095)	-
Payments for purchase of investments properties	(17,515,020)	-
Payments in investments in wakala	(155,422,050)	-
Net payments for purchase of investments available for sale	(73,176,985)	-
Net cash used in investing activities	<u>(246,116,150)</u>	<u>-</u>
<b>Cash flows from financing activities</b>		
Share capital increase	249,900,000	-
dividends paid	-	(191,305)
Net cash from (used in) financing activities	<u>249,900,000</u>	<u>(191,305)</u>
Net increase / (decrease) in cash and cash equivalents	577,221	(20,159)
Cash and cash equivalents at beginning of the year	4,323	24,482
<b>Cash and cash equivalents at end of the year</b>	<u>581,544</u>	<u>4,323</u>

The accompanying notes form an integral part of these financial statements

# Notes to the Financial Statements

For the year ended 31 December 2006

All amounts are in Kuwaiti Dinars unless otherwise stated

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## 1. Incorporation and activities

The Company was established according to the Articles of Association No. 1879/ vol.1 dated June 2, 2001 under the name of Amwag Al Kuwait for Management and Computer Consulting Company – K.S.C (Closed). Subsequently the Company amended its articles of association serial times which the latest amended was on March 12, 2006, which the name of the Company changed to Stehwaz Holding Company K.S.C. (Holding), and changing the Company's objectives.

The objectives of the Company are:

1. Holding the shares of Kuwaiti or foreign companies, in addition of holding shares or quotas of Limited Liability companies whether it was Kuwaiti or foreign, or the participation in founding these companies by managing or lending, or guarantee to others.
2. Lending the companies in which they holding its shares and guarantee to others in this case, the subscription rate of the Holding company in the capital of the borrowed company must be at least 20%.
3. Owning the Industrial Property Rights of patents or industrial trademark, or industrial charges or any other rights relating thereto, and let to other companies for exploiting it inside or outside the state of Kuwait.
4. Holding movables and real estates to initiate its activity in accordance with Law.
5. The Exploitation of financial surpluses in the company by investing in portfolios managed by experts and specialized companies.

The company is permitted to conduct the above-mentioned activities inside and outside Kuwait. The company shall have the right to have an interest or to take part in any manner with the authorities that practice similar operations, or that may help the Company to achieve its objectives inside and outside Kuwait. The company shall also acquire these authorities or merge them with the Company. According to article No. 53 of the articles of association of the Company, the Company has to establish control committee consists of three specialized in Islamic regulations. The Committee objective is to express the Islamic Opinion in respect of the

Company's activities and objective and ensure the adherence with Islamic regulations principals

The financial statements were approved for issue by the board of directors on May 1, 2007 The shareholders' general assembly meeting has the right to amend these financial statements after their issuance.

## 2. Basis of financial statements' preparation

These financial statements have been prepared to present information in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board and the interpretations issued by the International Financial Reporting Interpretations Committee and State of Kuwait Commercial laws requirements.

These financial statements have been prepared under the historical cost basis, except that investments available for sale, Investments at fair value through income statement and investment property are stated at fair value.

The financial statements have been presented in Kuwaiti Dinar.

During the year some of new International Financial Reporting Standards were issued together with some of new modifications by the International Financial Reporting Interpretations committee.

- Amendments and modifications effective to the year ended December 31, 2006
- The Company applied all modifications and changes related to activities and the most important modifications related to the IAS (39) however there is no material impact on the financial statements of the Company due to application.
- Standards, amendments, and interpretations related to the activities of the Company, that are not applicable and the Company has not applied them

IFRS (7) Financial Instruments: Disclosures

IFRS (1) Share Capital Disclosures

IFRIC Interpretation (8) Scope of IFRS (2)

IFRIC Interpretation (10) Interim Financial Reporting and Impairment

IFRIC (7) effective as from the following financial year will result in modification and the addition of disclosures related to the financial instruments and related risks. Implementation of such modifications and other interpretations referred to above are not expected to result in material impact on the Company's financial statements.



## 2.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to statement of income on straight line basis over the estimated useful lives of property and equipment as follows:

	Years
Computers & software	3
Furniture & fixtures	5

The initial cost of property and equipment includes cost of purchase and any directly attributable cost of bringing these assets to their current location and condition.

The estimated useful lives of the property and equipment are reviewed periodically. If there is a change in the estimated useful lives, this change took place starting from the year of change with no retroactive effect.

## 2.2 Investment properties

Properties which are held by the Company for the purpose of capital appreciation or for leasing it to others are included in investment properties. Properties are initially stated on acquisition at cost and subsequently remeasured at fair value that is being determined annually based on market value estimated by independent valuers. Profit and losses arising from valuation are included in the statement of income.

## 2.3 Financial instruments

The Company has adopted changes over IAS (39) (Recognition and Measurement) and IAS (32) (Presentation and Disclosures), which become effective starting from January 1, 2006.

### Classification

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial instrument at initial recognition and re-evaluates this designed every reporting date. The Company has classified its financial instruments as follows:

### Financial assets at fair value through income statement

This category has two sub-categories financial assets held for trading and those designated at fair value through income statement. A financial assets is classified in this category if acquired principally for the purpose of selling in the short term or if so designed by management.

## Receivables

There are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides goods and services directly to a debtor with no intention of trading the receivables.

## Available for sale

These are non-derivative financial assets that are either designated in this category or not included in any of the above categories and are principally, those acquired to be held, for an indefinite period of time, which could be sold when liquidity is needed, or upon changes in rates of profit.

## Recognition and de-recognition

Regular purchase and assets of financial assets are recognized on settlement date – the date on which the Company delivers or receives the asset. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

## Measurement

Financial assets are initially recognized at fair value plus transaction cost for all financial assets not carried at fair value through income statement. Financial assets carried at fair value through income statement are initially recognized at fair value and transaction cost are expensed in the income statement.

Subsequently, investment available for sale and financial assets at fair value through income statement are carried at fair value, and loans and receivable are carried at amortized cost using the effective yield method.

Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through income statement' category, are included in the income statement for the period in which they arise. Changes in the fair value of financial assets classified as available for sale investments are recognized in equity (under change in fair value reserve), when available for sale financial assets are sold or impaired, the accumulated changes in fair value recognized in equity are included in the statement of income.

## Fair values

The fair values of financial instruments in regular financial market are based on last bid prices.

For the unquoted investment, the Company establishes fair value by reference to other that are substantially the same, or by using the expected discounted cash flow analysis after adjustment to reflect the same circumstances of the issuing company available for sale investments, which its fair value have not been determined are carried at cost less impairment losses.

## Impairment in value

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Company 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 as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

A specific provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts of receivable. The amount of the specific provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the effective rate of return. The amount of the provision is recognized in the income statement.

## 2.4 Impairment of non financial assets

Property and equipment are reviewed as at the date of preparing the financial statements in order to determine whether there is an objective evidence of impairment in value if such evidence exists, the estimated recoverable amount of the assets are determined and any impairment loss is recognised in the statement of income when the carrying amount of the asset is in excess of the recoverable amount. The recoverable amount is the higher of an asset's net selling price or its value in use. The net selling price

represents the amount obtainable from the sale of an asset in an arm's length transaction, while the asset value in use represents the present value of estimated future cash flows expected to arise from the continuing use of an assets, and with its disposal at the end of its useful life. Recoverable amounts are estimated for each item of the assets on an individual basis or if this is impractical for the cash flows generating unit.

Reversal of impairment losses recognised in prior years is recorded as income when there is an indication that the impairment losses for the asset no longer exist or has decreased net book value of an item and impairment loss should not exceed its net book value in case that the loss has not been initially recognised.

## 2.5 Cash and cash equivalents

Cash and cash equivalents represent cash on hand and current accounts at banks and cash in investments portfolios.

## 2.6 Employees' end of service indemnity

The Company is liable under Kuwait labour law to make payments to the employees at their end of service through a defined benefit plan. Such payments are made on a lump sum at the end of an employees' service.

This liability is unfunded and has been computed on the basis of amount payable as a result of involuntary termination of employees' contracts at the balance sheet date. The management believes that this method results in an adequate approximation of the present value of this obligation.

## 2.7 Payables

Payables are stated at cost, that represented in the amounts due from the Company against supplying goods and services whether invoiced or not.

## 2.8 Provisions

Provisions are recognized in the balance sheet when the Company has legal or constructive obligations as a result of past events, and it is probable that an outflow of economic benefits will be required to settle these obligations. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

## 2.9 Investment in wakala

The wakala presented in transactions whereby one party is announced investment on behalf of the Company in accordance with specific rolls in exchange of fixed fees. The wakala is recorded at amortized cost following the actual rate of return.

## 2.10 Revenue recognition

- Wakala income is recognized as it is earned, on a time apportionment basis, using the effective rate of return.
- 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 same time of the sale.
- Other categories of income are recognized when earned, at the time the related services are rendered and / or on the basis of the terms of the contractual agreement of each activity.

## 2.11 Foreign currencies

### Transactions and balances

The Company's books are kept in Kuwaiti Dinars. Foreign currency transactions are accounted for at the prevailing exchange rates at the date of the transaction. Monetary assets and liabilities balances denominated in foreign currencies are translated at the prevailing rate at balance sheet date. Resultant gains or losses are taken to the statement of income.

## 3. Investment properties

Analysis of movement over investment properties is as follows:

	<u>2006</u>	<u>2005</u>
Addition during the year	17,515,020	-
Changes in fair value of investment properties	11,189,940	-
Balance as at 31 December	<u>28,704,960</u>	<u>-</u>

Investment properties represent in properties portfolios managed by others.

## 4. Investments available for sale

	<u>2006</u>	<u>2005</u>
Quoted shares	66,504,492	-
	<u>66,504,492</u>	<u>-</u>

The quoted shares managed by other through investment portfolio.

## 5. Cash and cash equivalent

	<u>2006</u>	<u>2005</u>
Cash in hand	-	4,323
Cash at banks	508,623	-
Cash at investments portfolios.	<u>72,921</u>	<u>-</u>
	<u>581,544</u>	<u>4,323</u>

## 6. Receivables and other debit balances

	<u>2006</u>	<u>2005</u>
Receivables	5,862,158	138,625
Retention	-	40,724
Accrued revenues	1,051,325	-
Prepaid expenses	95,027	8,615
Staff receivables	-	4,723
Other	<u>-</u>	<u>68,817</u>
	<u>7,008,510</u>	<u>261,504</u>

## 7. Investments at fair value through income statement

The investments at fair value through income statement represented in local quoted shares carried at fair value at the date of the financial statements amounting to KD 1,128,376 and investments in unquoted shares amounting to KD 3,380,000 stated at cost.

## 8. Investments in wakala

Investments in wakala represents wakala agreement entered with high credit rating financial institutions this investments earns an average income of 7.23%. The fair value of wakalah investments not different with its carrying value.

## 9. Share capital

According with Extraordinary General Assembly held on February 6, 2006, the Company's Share Capital has been increased from KD 100,000 to KD 250,000,000.

Authorized, issued and fully paid up share capital amounted to KD 250,000,000 divided into 2,500,000,000 shares of 100 fils per value each.

## 10. Statutory reserve

In accordance with the provisions of the Commercial Companies' Law and the Company's Articles of Association, 10% of the net profit for the year

before Kuwait Foundation for the Advancement of Sciences contribution and Board of Directors' remuneration should be transferred to statutory reserve. The Company may resolve to discontinue the transfer to the statutory reserve when the reserve exceeds 50% of paid up share capital. This reserve is undistributable except for the cases stipulated by the law.

## 11. Voluntary reserve

In accordance with the Company's Articles of Association, it is allowed to transfer a percentage proposed by the Board of Directors and supported from the General Assembly from net profits before Kuwait Foundation for the Advancement of Sciences contribution and the Board of Directors' remuneration to voluntary reserve. This transfer could be discontinued by a decision from the General Assembly based on proposal from the board of directors. The board of directors proposed to transfer 10% of the net profit of the year.

## 12. Payables and other credit balances

	<u>2006</u>	<u>2005</u>
Payables	2,593,192	-
Accrued expenses	4,411	4,530
Leave provision	804	3,148
Board of Directors' remuneration	15,000	-
Kuwait Foundation for the Advancement of Sciences	161,721	3,126
	<u>2,775,128</u>	<u>10,804</u>

## 13. Profit from investments

	<u>2005</u>	<u>2004</u>
Realized gain from sale of investments available for sale	101,084	-
In kind shares	1,316,700	-
Cash dividends	748,125	-
	<u>2,165,909</u>	<u>-</u>

In kind shares represent in shares distributed to the Company from listed Company.

## 14. Board of directors remuneration

The board of directors proposed remuneration for board of directors an amount of KD 15,000 this proposal is subject to the approval of the Shareholders' General Assembly.

## 15. Earnings per share

Earnings per share is calculated for by dividing net profit for the year over the weighted average number of ordinary shares outstanding during the year as follows:

	<u>2005</u>	<u>2004</u>
Net profit for the year	17,792,312	104,500
Weighted average number of outstanding shares	<u>2,054,972,603</u>	<u>1,000,000</u>
Earnings per share (fls)	<u>8.6</u>	<u>104.50</u>

## 16. Financial instruments

The Company in the normal course of business, uses various types of financial instruments. Information on financial risks and fair value of these financial instruments is set out below:

Risk related to financial instruments

- **Credit risk**

The Company is exposed to credit risk in respect of loss that would have to be incurred if counterparty fails to fulfil his obligations. The Company's exposure to credit risk is primarily in respect of cash and cash equivalents, receivables and due from related parties. As at the balance sheet date, the Company's maximum exposure to credit risk is equal to the book value of the above assets as disHolding above. The Company minimizes its credit risks by dealing with high credit quality financial institutions.

- **Foreign currency risk**

Represents the risk of variation in exchange rate which may affect adversely the Company's cash flows or assets and liabilities values dominated in foreign currencies. The management believes that there is minimal risk of significant losses due to exchange rate fluctuation and consequently the Company held foreign currency exposure (if any).

- **Liquidity risk**

Liquidity risk is the risk that the Company may encounter difficulty in liquidating its assets by amounts equal its fair value to meet the financial obligations of the Company. The management attempts to minimize this risk through balancing assets and liabilities' maturities and provide the required financing to meet its liabilities maturities.



- **Return rate risk**

The risk of return rate resulted from fluctuations with respect to the financial instrument. The Company doesn't have any assets related to the interest rate. The Company obtains its credit facilities in favourable rates to fulfil its financing requirement.

- **Fair value of financial assets and liabilities**

The Fair value is the Mount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the group is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The estimated fair value of financial assets and liabilities that are not carried at fair value (receivable and other debit balances, cash and cash equivalents, payables and other credit balances) at the balance sheet date are not materially different from their book values.

## 17. Comparative figures

Where necessary, comparative figures have been reclassified to conform with the presentation of the current year.

