

# Independent Auditor's Report

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

## Report on the consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Stehwaz Holding Company K.S.C. (Holding) ("Parent company") and its subsidiaries ("the Group") - and which comprise of the consolidated balance sheet as of December 31, 2007 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the 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 auditor's 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 Company'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 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 consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements mentioned above present fairly, in all material respects, the consolidated financial position of the Group, as of December 31, 2007, 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 Parent company and the consolidated financial statements, together with the contents of the report of the board of Parent company directors relating to these consolidated 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 consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960 as amended, and by the Parent company's Articles of Association, 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 Parent company's Articles of Association have occurred during the year ended December 31, 2007 that might have had a material effect on the business of the Group or on its financial position.



**Ali Abdulrahman Al-Hasawi**

Licence No. 30A

BDO Burgan-International Accountants

April 3, 2008 State of Kuwait

## Consolidated balance sheet

As at December 31, 2007  
All amounts are in Kuwaiti Dinars

	Note	2007	2006
<b>Assets</b>			
Non current assets			
Property and equipment		398,309	1,993
Investment properties	4	62,297,528	28,704,960
Land and real estate under development	5	11,760,432	-
Investments available for sale	6	51,388,651	66,504,492
Investments in unconsolidated subsidiaries	7	2,703,614	-
Goodwill	8	53,672,275	-
		<u>182,220,809</u>	<u>95,211,445</u>
Current assets			
Inventory		2,131	-
Receivables and other debit balances	9	99,925,913	7,008,510
Investments in Wakala receivable	10	69,441,087	155,422,050
Investments at fair value through statement of income	11	94,885,881	4,508,376
Cash and cash equivalents	12	4,056,063	581,544
		<u>268,311,075</u>	<u>167,520,480</u>
<b>Total assets</b>		<u>450,531,884</u>	<u>262,731,925</u>
<b>Equity and liabilities</b>			
Equity			
Share capital	13	250,000,000	250,000,000
Statutory reserve	14	4,777,258	1,831,633
Voluntary reserve	15	4,777,258	1,831,633
Employees' stock option reserve-subsiary		45,770	-
Change in fair value reserve		(8,754,368)	(7,989,193)
Retained earnings		<u>37,596,062</u>	<u>14,281,916</u>
<b>Shareholder's equity for Parent company</b>		<u>288,441,980</u>	<u>259,955,989</u>
Minority interest		22,529,818	-
		<u>310,971,798</u>	<u>259,955,989</u>
Non current liabilities			
Employees' end of service indemnity		<u>725,234</u>	<u>808</u>
Current liabilities			
Wakala payable and Tawaroq	16	133,450,095	-
Payables and other credit balances	17	<u>5,384,757</u>	<u>2,775,128</u>
		<u>138,834,852</u>	<u>2,775,128</u>
<b>Total equity and liabilities</b>		<u>450,531,884</u>	<u>262,731,925</u>



Hani Abdul Aziz Hussain Al-Terkit  
Chairman



Nader Hamad Sultan Al-Essa  
Vice Chairman



Dherer Khalid Al-Rabah  
C.E.O & M.D

The accompanying notes form an integral part of these consolidated financial statements

## Consolidated statement of income

For the year ended December 31, 2007  
All amounts are in Kuwaiti Dinars

	Note	2007	2006
Revenue			
Unrealized gain from Changes in fair value of investment properties		12,607,228	11,189,940
Realized gain from sale of investment properties		1,039,283	-
Profit from sale of land under development		914,241	-
Profit from sale of land held for trading		138,978	-
Gain from investments available for sale	18	6,732,632	2,165,909
Profit from investments at fair value through statement of income	19	6,355,480	166,692
Revenue from investments in Wakala and Tawaroq		20,527,941	4,869,203
Consultancy fees		486,077	-
Leasing income		813,543	-
Other income		730,059	36,598
		<u>50,345,462</u>	<u>18,428,342</u>
Expenses and other charges			
General and Administrative expenses	20	(4,306,564)	(459,207)
Depreciation		(89,735)	(102)
Provision for investments in Wakala		(585,014)	-
Charges on Wakala and Tawaroq		(9,714,800)	-
Loss of currency exchange		(38,058)	-
		<u>(14,734,171)</u>	<u>(459,309)</u>
Net profit before ("KFAS"), Zakat and board of directors' remuneration		35,611,291	17,969,033
Board of directors' remuneration		(60,000)	(15,000)
Kuwait Foundation for the Advancement of Science	21	(259,250)	(161,721)
Zakat	22	(21,727)	-
Net profit for the year		<u>35,270,314</u>	<u>17,792,312</u>
Net profit for the year attributable to:			
Shareholders of the Parent company		29,205,396	17,792,312
Minority interest		6,064,918	-
Net profit for the year		<u>35,270,314</u>	<u>17,792,312</u>
Earnings per share (Fils)	23	<u>11.7</u>	<u>8.6</u>

The accompanying notes form an integral part of these consolidated financial statements

## Consolidated statement of changes in equity

For the year ended December 31, 2007  
All amounts are in Kuwaiti Dinars

	Share capital	Statutory reserve	Voluntary reserve	Employees stock option reserve- subsidiary
Balance at January 1, 2006	100,000	34,730	34,730	-
Share capital increase	249,900,000	-	-	-
Change in fair value for investments available for sale	-	-	-	-
Net loss recognized directly in equity	-	-	-	-
Net profit for the year	-	-	-	-
Total profit recognized for the year	-	-	-	-
Transfer to reserves	-	1,796,903	1,796,903	-
Balance at December 31, 2006	250,000,000	1,831,633	1,831,633	-
Balance at January 1, 2007	250,000,000	1,831,633	1,831,633	-
Recognized profit from sale of investments available for sale	-	-	-	-
Change in fair value of investments available for sale	-	-	-	-
Return of reserve related to subsidiary at acquisition date	-	-	-	-
Net loss recognized directly in equity	-	-	-	-
Net profit for the year	-	-	-	-
Total profit recognized for the year	-	-	-	-
Net change in subsidiaries sharing	-	-	-	-
Transfer to reserve in a subsidiary	-	-	-	45,770
Transfer to reserves	-	2,945,625	2,945,625	-
Balance at December 31, 2007	250,000,000	4,777,258	4,777,258	45,770

Change in fair value reserve	Retained earnings	Total	Minority interest	Total equity
-	83,410	252,870	-	252,870
-	-	249,900,000	-	249,900,000
(7,989,193)	-	(7,989,193)	-	(7,989,193)
(7,989,193)	-	(7,989,193)	-	(7,989,193)
-	17,792,312	17,792,312	-	17,792,312
(7,989,193)	17,792,312	9,803,119	-	9,803,119
-	(3,593,806)	-	-	-
(7,989,193)	14,281,916	259,955,989	-	259,955,989
(7,989,193)	14,281,916	259,955,989	-	259,955,989
3,327,592	-	3,327,592	-	3,327,592
(4,900,742)	-	(4,900,742)	-	(4,900,742)
807,975	-	807,975	-	807,975
(765,175)	-	(765,175)	-	(765,175)
-	29,205,396	29,205,396	6,064,918	35,270,314
(765,175)	29,205,396	28,440,221	6,064,918	34,505,139
-	-	-	16,464,900	16,464,900
-	-	45,770	-	45,770
-	(5,891,250)	-	-	-
(8,754,368)	37,596,062	288,441,980	22,529,818	310,971,798

The accompanying notes form an integral part of these consolidated financial statements

## Consolidated statement of cash flows

For the year ended December 31,2007  
All amounts are in Kuwaiti Dinars

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Net profit for the year	35,270,314	17,792,312
Adjustments:		
Profit from investments at fair value through statement of income	(6,355,480)	(166,692)
Profit from investments available for sale	(6,732,632)	(1,316,700)
Realized gain from sale of investment properties	(1,039,283)	-
Profit from sale of land under development	(914,241)	-
Profit from sale of land held for trading	(138,978)	-
Unrealized gain from change in fair value of investment properties	(12,607,228)	(11,189,940)
Depreciation	106,457	102
Provision for employees' end of service indemnity	108,065	808
Operating profit before changes in working capital	<u>7,696,994</u>	<u>5,119,890</u>
Changes in working capital:		
Receivables and other debit balances	8,338,460	(7,008,510)
Inventory	(2,131)	-
Investments at fair value through statement of income	(35,177,154)	(4,341,684)
Payables and other credit balances	<u>217,097</u>	<u>3,023,675</u>
Cash used in operations	(26,623,728)	(3,206,629)
Employees' end of service indemnity paid	<u>(17,165)</u>	<u>-</u>
Net cash used in operating activities	<u>(18,943,899)</u>	<u>(3,206,629)</u>
Cash flows from investing activities		
Purchase of investments available for sale	(1,366,671)	(73,176,985)
Proceeds of from sale of investments available for sale	22,313,939	-
Paid for acquiring a subsidiary	(99,411,014)	-
Purchase of unconsolidated subsidiaries	(2,478,614)	-
Purchase of investment properties	(17,483,949)	(17,515,020)
Proceeds from sale of investment property	10,999,985	-
Purchase of property under development	(7,586,203)	-
Proceeds from sale of property under development	5,761,460	-
Paid for purchase of properties held for trading	(900,000)	-
Proceeds from sale of properties held for trading	1,359,113	-
Dividends received	2,350,166	-
Purchase of property and equipment	<u>(166,064)</u>	<u>(2,095)</u>
Net cash used in investing activities	<u>(86,607,852)</u>	<u>(90,694,100)</u>

Cash flows from financing activities		
Share capital increase	-	249,900,000
Investments at Wakalat and Murabhat	86,330,963	(155,422,050)
Wakala payable and Tawaroq	22,649,537	-
Employees' shares options	45,770	-
Net cash generated from financing activities	<u>109,026,270</u>	<u>94,477,950</u>
Net increase in cash and cash equivalents	3,474,519	577,221
Cash and cash equivalents at January 1,	<u>581,544</u>	<u>4,323</u>
Cash and cash equivalents at December 31,	<u>4,056,063</u>	<u>581,544</u>

## 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 several times which the latest amended was on March 12, 2007, 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 shari'ah supervisory board consists of three specialized in Islamic regulations. The board 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 April 3, 2008 the shareholders' general assembly meeting has the right to amend these financial statements after their issuance.

## 2- Adoption of new and revised standards

Standards and Interpretations adopted during the year:

In the current year the group has adopted IFRS 7: Financial instruments "Disclosure" and subsequent amendments to IAS 1 Financial Statements Presentation which are effective for annual reporting periods beginning on or after January 1, 2007 the adoption of these standards and amendments resulted in additional disclosures in the financial statements regarding to the financial instruments and managing capital as follows:

- IFRS (7), Financial Instruments: "Disclosures" to evaluate the significance of the group's financial instruments for the group's financial position and performance and to disclose the nature and extent of risks resulted from financial instruments during the year and at the consolidated financial statements date, and also how the group is managing these risks.
- The adjustments related to IAS (1), "Capital Disclosures" to disclose the group's objectives and policies to manage capital.

Standards and Interpretation issued but not yet adopted:

Up to the date of issue of these consolidated financial statements, the following new standards have been issued but are not yet effective:

- IAS 23 "Revised": Borrowing Cost.
- IAS 1 "Revised": Financial statements presentation.
- IFRS 8 "Operating Segments"

These standards will be adopted for the annual reporting periods beginning on or after January 1, 2009. The management anticipates that the adoption of these standards will have no material impact for the periods commencing on or after January 2009.

## 3- Significant accounting policies

The principals accounting policies applied in the preparation of these consolidated financial statements are set out below:

### 3/1) Basis of preparation

- These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and state of Kuwait Commercial Companies' law requirements.
- The accounting policies have been consistently applied during the year, as a similar base for the policies applied in the previous year, except for the adoption of (Note 2).

### 3/2) Accounting convention

- These consolidated financial statements are prepared under the historical cost convention, adjusted through the revaluation of some assets according to fair value as explained in detail in the accompanying policies and disclosures.
- The consolidated financial statements are presented in Kuwaiti Dinar.

### 3/3) Basis of consolidation

The consolidated financial statements include the consolidated financial statements of the parent company and its subsidiaries (Al- Madar Finance and Investment – K.S.C (closed) and subsidiaries – Kuwait) which owned by 68.6 % subsidiary referred to as (“the Group”) in these consolidated financial statements.

Subsidiaries of Al- Madar Finance and Investment – K.S.C (closed) as follows:

	<u>Inception comity</u>	<u>Ownership</u>	<u>Principle activity</u>
Al-Shomoukh Al Arabi for General Trading and Contracting Co. (W.L.L)	Kuwait	100%	General trading and contracting
Dar Al-Thuraya Real Estate Co. (K.S.C.C)	Kuwait	100%	Real estate
Pack & Move Company for General Trading & Contracting W .L.L.	Kuwait	90%	Transport

Subsidiaries are those enterprises controlled by the parent Company. Control exists when the parent Company has the power, directly or indirectly, to govern the financial and operating policies of the subsidiaries as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements effective from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Inter-group balances and transactions, including inter-group profits and unrealized gains/ losses, are eliminated in preparing the consolidated financial statements. The consolidated financial statements are prepared by using unified accounting policies for the similar transactions.

### 3/4) Recognition / derecognition of financial assets

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. Financial asset (in whole or in part) is derecognized when the contractual rights to the cash flows from the financial asset expire or when the group transfers substantially all the risks and rewards of ownership or when the group has neither transferred retained substantially all the risks and rewards of ownership and when it no longer has control over the asset or a proportion of the assets. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

### 3/5) 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
Vehicles	3

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.

### 3/6) Wakala investment

Wakala investment represents the investment that have specific maturity date and the management has the intention and the ability to keep this investment till this date. Wakala investment stated at amortized cost.

### 3/7) Investment properties

Properties which are held by the Group 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.

### 3/8) Properties held for trading

Land and real estate required for resale are classified as held for trading and are carried out at the lower of cost and net recoverable value. Net recoverable value is the estimated selling price less estimated selling cost.

### 3/9) Land and real estate under development

Lands and real estate under development are recognized at cost, which includes development costs. When the development process completed. The land and real estate are classified either as investment property or land and real estate held for trading or as property for the Group's Self-Occupation as per management intention regarding the future use of properties.

### 3/10) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

### 3/11) Financial instruments

#### 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 Group 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 Group 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 Group 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 Group 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 value

The fair value of financial instruments in regular financial market are bases on last bid prices.

For the unquoted investment, the Group 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 Group 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.

### 3/12) 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 it 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 be exceed its net book value in case that the loss has not been initially recognised.

### 3/13) Cash and cash equivalents

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

### 3/14) 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.

### 3/15) Payables

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

### 3/16) Term financing

Finance by others acquired by the Group is recognized at fair value less transaction costs. Subsequently such finance is stated at amortized cost. The difference between the amount collected (less any transaction cost) and value to be paid is recognized over the contract term in the consolidated statement of income using effective cost rate.

### 3/17) Finance costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset.

The capitalized of borrowing costs should commence when expenditures for the asset have been incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Borrowing costs that are not directly attributable to a qualifying asset should be recognized as an expense in the period in which they are incurred.

### 3/18) Provisions

Provisions are recognized in the balance sheet when the Group 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.

### 3/19) Investments 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.

### 3/20) Revenue recognition

- Income from investments in wakala 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.

### 3/21) Foreign currencies

Transactions and balances

The Parent 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.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of income 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.

### 3/22) Contingencies

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

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

#### 4- Investment properties

Analysis of movement over investment properties is as follows:

	2007	2006
Balance at 1 <sup>st</sup> January	28,704,960	17,515,020
Additions during the year	17,483,949	-
Additions resulted from acquiring a subsidiary during the year	13,709,279	-
Disposals	(9,238,260)	-
Net transferred to real estate under development	(969,628)	-
Change in fair value of investment properties	12,607,228	11,189,940
Balance as at 31 December	<u>62,297,528</u>	<u>28,704,960</u>

Investment properties include an amount of KD 34,804,960 represents real estate portfolios managed by others. Investment properties are stated at fair value with an independent valuers.

Investment properties includes an amount of KD 3,550,000 comprises of purchasing property during the year, investment properties stated at the same value as of December 31, 2007 where there is no material changes between the fair value and the book value as the property was purchased by the end of the year. The transfer of ownership of the property is still under process.

#### 5- Land and real estate under development

	2007	2006
Addition resulted from acquiring a subsidiary during the year	7,418,935	-
Additions	7,692,921	-
Disposals	(4,321,052)	-
Net transferred from investments property	969,628	-
Balance at December 31	<u>11,760,432</u>	<u>-</u>

Land and real estate under development included an amount of KD 3,323,359 comprises in property purchased during the year. The transfer of ownership of the property is still under process.

#### 6- Investments available for sale

	2007	2006
Local shres – unquoted	1,583,376	-
Local shares – quoted	46,534,225	66,504,492
Foreign shares – unquoted	3,271,050	-
	<u>51,388,651</u>	<u>66,504,492</u>

The unquoted investments carried at cost according to there ware no fair value available for these investments, and the amount of KD 34,402,500 are mortgaged in favour of a finance from others (Note 16).

Investments available for sale stated after deduction of impairment provision amounting to KD2,319,884 (December 31, 2006: KD 1,869,884) to meet the impairment of investments in unquoted foreign shares amounting to KD 3,698,839 which are the subject matter of legal suits.

## 7 - Investments in unconsolidated subsidiaries

	Ownership (%)	2007	2006
Medical Madar for general trading & contracting (W.L.L)	100%	250,000	-
Althuraya Star for general trading & contracting (W.L.L.)	100%	250,000	-
Al Aula Holding Company (W.L.L.)	100%	41,071	-
Al Murooj Gulf Trading (W.L.L.)	57%	12,543	-
The Eastern Madar for general trading and contracting company (W.L.L.)	100%	150,000	-
The Western Madar for general trading and contracting company (W.L.L.)	100%	150,000	-
The Middle Madar for general trading and contracting (W.L.L.)	100%	150,000	-
The Southern Madar for general trading and contracting company (W.L.L.)	100%	150,000	-
Almoa'tamed Madar for general trading and contracting company	100%	150,000	-
Zahrat Almuden Alarabia (W.L.L.)	100%	150,000	-
Golden Madar Real Estate Company (W.L.L.)	100%	250,000	-
Althuraya for warehousing & Cold storage (W.L.L.)	100%	1,000,000	-
		<u>2,703,614</u>	<u>-</u>

The financial statements of the subsidiaries are not consolidated since the Company's management believes it is not material to the financial statements of the Group.

## 8 - Goodwill

Goodwill includes an amount of KD 53,497,604 represents the goodwill resulted from the acquisition of Al Madar Finance and Investment Company K.S.C (Closed) (subsidiary company) by Stehwas Holding Company (K.S.C) holding, which was dated on 26 June 2007 by 67.5 % of the owned company's capital as follows:

	2007
Cost of acquisition	
• Cost of acquisition in June 26, 2007	99,236,343
• Cost of investments before acquisition date	<u>1,316,700</u>
	100,553,043
Net assets	(47,055,439)
Goodwill from acquisition	<u>53,497,604</u>

In addition, the goodwill in subsidiary balance sheet with amount of KD 174,671. The management has no evidence or indications for any impairment of the value of the goodwill at the consolidated balance sheet date.

## 9 - Receivables and other debit balances

	2007	2006
Receivables	78,089,655	5,862,158
Provision for doubtful debts	<u>(2,414,968)</u>	-
	75,674,687	5,862,158
Other receivable	5,806,880	-
Receivables from selling of financial and property investments	9,528,462	-
Prepaid for purchase of financial and property investments	684,483	-
Receivables of forward deals	3,128,991	-
Investment in subsidiary under establishment	500,000	-
Due from Kuwait clearing company	1,403,279	-
Accrued revenues	649,031	1,051,325
Prepaid expenses	390,449	95,027
Staff receivable	32,824	-
Other debit balances	<u>2,126,827</u>	-
	<u>99,925,913</u>	<u>7,008,510</u>

As follows the distribution of the provision for doubtful debts:

	2007	2006
Termed provision	1,057,242	-
General provision	<u>1,357,726</u>	-
	<u>2,414,968</u>	-

The analysis of specific and general provisions mentioned above was on according to the instructions of the Central Bank of Kuwait. (Subsidiary company - Al Madar Finance and Investment Company K.S.C .Closed).

The movement of doubtful debts provision is as follows:

	2007	2006
Opening balance from acquired company	2,294,234	-
Increase in provision	<u>120,734</u>	-
Ending balance	<u>2,414,968</u>	-

## 10 - Investments in wakala receivable

Investments in wakala represents wakala agreements entered with high credit rating financial institutions this investments earns an average income of 8.14% as December 31, 2007 (2006: 7.23%). The fair value of wakala investments not different with its carrying value.

These investments include Murabaha of KD 350,000 with local bank maturing within more than three months. The effective interest rate on these Murabah was 8.4% as at December 31, 2007.

## 11 - Investments at fair value through statement of income

	2007	2006
Local shares – unquoted	36,145,304	3,380,000
Local shares – quoted	42,655,104	1,128,376
Foreign shares – quoted	67,245	-
Foreign shares – unquoted	10,456,693	-
Investments in local funds – quoted	3,446,574	-
Investments in foreign funds – unquoted	2,114,961	-
	<u>94,885,881</u>	<u>4,508,376</u>

## 12 - Cash and cash equivalent

	2007	2006
Cash in hand	7,290	-
Cash at banks	3,512,355	508,623
Cash at investment portfolios.	536,418	72,921
	<u>4,056,063</u>	<u>581,544</u>

## 13 - Share capital

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

## 14 - 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.

## 15 - 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.

## 16 - Wakala payable and Tawaroq

	2007	2006
Tawaroq	5,684,095	-
Wakala payable	127,766,000	-
	<u>133,450,095</u>	<u>-</u>

Tawaroq contracts are due within the year 2008, with average cost 7.61%.  
Wakala payable are due within the year 2008, with average cost 8.25%.

## 17 - Payables and other credit balances

	2007	2006
Finance payable	1,843,214	-
Due to related parties (Note 25)	1,417,824	-
Accrued expenses and leave provision	769,893	5,215
Board of Directors' remuneration	102,000	15,000
National labour support tax – subsidiary	221,727	-
Zakat	21,727	-
Kuwait Foundation for the Advancement of Science	259,250	161,721
Payables and other credit balances	<u>749,122</u>	<u>2,593,192</u>
	<u>5,384,757</u>	<u>2,775,128</u>

## 18 - Profit from investments available for sale

	2007	2006
Realized gain from sale of investments available for sale	7,753,139	101,084
Transferred from reserve from sale of investments available for sale	(3,327,592)	-
In kind shares	-	1,316,700
Cash dividends	<u>2,307,085</u>	<u>748,125</u>
	<u>6,732,632</u>	<u>2,165,909</u>

The kind of distributions in 2006 represent in free shares distributed to the group from listed company.

## 19 - Profit from investments at fair value through statement of income

	2007	2006
Realised gain from sale of investments at fair value through income statement	2,225,949	-
Unrealised gain from change in fair value of investments at fair value through income statement	4,086,450	166,692
Cash dividends	43,081	-
	<u>6,355,480</u>	<u>166,692</u>

## 20 - General and administrative expenses

General and administrative expenses including staff costs with amount of KD 2,124,262 as professional fees and an amount of KD 2,124,262 as wakala & portfolios management for the year ended December 31, 2007 (KD 1,562,064), KD 337,076 for the year ended December 31, 2006.

## 21- Kuwait foundation for advancement of science

	2007	2006
Parent company	174,695	161,721
Subsidiary	84,555	-
	<u>259,250</u>	<u>161,721</u>

## 22- Zakat

Zakat computed in accordance with law No. 46/2006 related to Zakat imposed on the general and closed shareholding companies, this Zakat is calculated for the period from December 10, 2007 (the date of issuing the Ministerial decree No. 58 of year 2007 with regard in Kuwait Gazette) to December 31, 2007 as 1% from net profit before deducting the group's provisions and reserves.

	2007	2006
Parent company	16,158	-
Subsidiary company	5,569	-
	<u>21,727</u>	<u>-</u>

## 23- Earnings per share

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

	2007	2006
Net profit for the year	<u>29,205,396</u>	<u>17,792,312</u>
Weighted average number of outstanding shares	<u>2,500,000,000</u>	<u>2,054,972,603</u>
Earnings per share (fils)	<u>11.7</u>	<u>8.6</u>

## 24- Acquisition of subsidiary

On June 30, 2007, the Parent company acquired 67.5% of the share capital of Al-Madar Finance and Investment Company – K.S.C. (closed) and its subsidiaries

The fair value of net assets acquired as follows:

	Kuwaiti Denar
Cash and cash equipments	6,585,889
Wakala, receivables and debit balances and due from related parties	101,255,863
Investment in securities	52,725,707
Investment properties, land and real estate under development and properties held for sale	22,803,676
Property, plant and equipment	225,000
Investment in unconsolidated subsidiaries	336,709
Wakala and tawaroq contracts	(110,800,558)
Payables & accrued expenses	<u>(3,420,524)</u>
Fair value for net assets	<u>69,711,762</u>
Cost of acquisition	<u>99,236,343</u>

## 25- Related parties

Related parties comprise of the Group's shareholders who have representation in the board of directors, senior management personnel, associates and companies in which the Group companies have representation in its board of directors.

The resulted balances from the transactions with related parties are as follows:

	Total	
	2007	2006
Due to related parties	1,417,824	-
Board of directors remuneration:		
	2007	2006
Board of directors remuneration	180,968	44,613

Transactions with related parties are subject to approval of the general assembly of the shareholders.

## 26- Proposed dividends

The board of directors of the parent company decided not to propose dividends for the year ended 31 December 2007 (2006: Nil), and proposed remuneration for board of directors of KD 60,000 (2006: KD 15,000).

These transactions are subject to the General Assembly approval.

## 27- Financial instruments

### Categories of financial instruments

The financial instruments represent financial assets & liabilities. Financial assets include cash and cash equivalents, investments at fair value through income statement, Murabaha and Wakala investments, accounts receivable and other debts balances, investments available for sale. The financial liabilities include Wakala payable, tawaroq contracts and accounts payable and other credit balances.

### 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 force or liquidation sale. The group used recognized assumptions and methods to estimate the fair value of the financial instruments. The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of other financial assets and financial liabilities with standard terms and conditions and trade on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar financial instruments.
- The fair values of financial instruments carried at amortized cost are not significantly different from their carrying values.

### Financial risks management

The group's use of financial instruments exposes it to financial risks such as credit risk, market risk, liquidity risk.

The Group continuously reviews its risk exposures and takes the necessary procedures to limit these risks at acceptable levels.

The significant risks that the Group is exposed to are as follows:

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to pay an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of accounts receivables. Credit risk with respect to receivables is limited due to limited customers dealing with the group business which is concentrated in real estate under developments. For more details see note (9).

The majority of the group's trade receivables is due for maturity within 90 days and most big portion of this debts represent debts individuals and group's.

Therefore the management believes there is no future credit risk provision required in excess of the normal provision for impairment of trade receivables.

#### Liquidity risks

Liquidity risks are the risk that the Group will be unable to meet its cash obligations. The management of liquidity risks consist of keeping sufficient cash, and arranging financing sources through enough facilities , managing highly liquid assets, and monitoring liquidity on a periodically basis by method of future cash flow.

The maturity of liabilities stated below based on the period from the balance sheet date to the contractual maturity date. In the case of financial instruments that do not have a contractual maturity date, the maturity is based on management's estimate of time period in which the asset will be collected or disposed and the liability settled.

Liabilities stated below represents the contractual maturity of financial liabilities based on undiscounted cash flows, as such, these balances accrued during period less than one year so the discount will be immaterial.

The maturity analysis of liabilities as of December 31, 2007 as follows:

	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Liabilities				
Payables and other credit balances	5,384,757	-	-	5,384,757
Wakala payable and Tawaroq	133,450,095	-	-	133,450,095
Employees' end of service indemnity	-	-	725,234	725,234
<b>Total liabilities</b>	<b>138,834,852</b>	<b>-</b>	<b>725,234</b>	<b>139,560,086</b>

The maturity analysis of liabilities as of December 31, 2006.

	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Liabilities				
Payables and other credit balances	2,775,128	-	-	2,775,128
Employees' end of service indemnity	-	-	808	808
<b>Total liabilities</b>	<b>2,775,128</b>	<b>-</b>	<b>808</b>	<b>2,775,936</b>

#### Market risks

Market risk, comprise of price risk, interest rate risk and currency risk. These risks arise due to change in market prices, interest rates and foreign currency rates.

#### Foreign currencies risks

Foreign currencies risks arise from transactions with foreign currencies. The Group manages these risks by setting limits on transaction with other foreign currencies and counterparty and limiting its transaction business in major currencies with reputable counterparties.

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

	2007 KD	2006 KD
US Dollars	5,701,701	61,935

If the foreign currencies had strengthened against the Kuwaiti Dinar assuming the above sensitivity 5%, then this would have the following impact on the profit for the year. There is no impact on the company's equity.

	Percentage of changes in currencies	2007 Income statements	2006 Income statements
US Dollars	5+	285,084	3,097

In case of negative change in foreign currency rate by 5% and the variables are held constant, there be an equal and opposite impact on the profit for the year.

#### Cash flow and fair value interest rate risks

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially not affected by the changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk.

The Company is not exposed to cash flow changes due to changes in the interest rates on Wakala and Murabah as these facilities issued at fixed rates.

#### Share price risks

To manage its equity price risks arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limitations set by the Group.

During the year the Group held investments and classified on the balance sheet as investments at fair value through income statement and available for sale investments.

The equity price risk sensitivity is determined on the assumptions of changes in Kuwait stock market by 5%+/- for the year 2007 and 2006.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The analysis reflects the impact of positive changes to equity prices in accordance with the above-mentioned equity price risk sensitivity assumptions. All other variables are held constant.

	Profit/loss for the year		Equity	
	2007	2006	2007	2006
	KD	KD	KD	KD
Investments at fair value through statement of income Available for sale investments	4,466,217	225,419	-	-
	-	-	2,569,433	3,440,261

In case of a negative change in equity prices by 5% and other variables are held constant, there would be an equal and opposite impact on the profit for the year and equity, and the balances shown above would be negative.

## 28- Capital risk management

The Group's objectives when managing capital is safeguarding the group's ability to continue as a going concern to be able to provide returns for shareholders and benefits for other beneficiaries with risk level.

Consistently with others in the industry, the group determines share capital that is adequate for risks and manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders or sell assets to reduce debt.

The group monitors capital on the basis of debt – to – adjusted capital ratio. This ratio is calculated as net debts divided by total adjusted capital. Net debts calculated as total debts including loans and facilities, as shown in the balance sheet less cash and cash equivalent. Total adjusted capital comprise of all components of equity (share capital reserves and retained earning).

The gearing ratio as follows:

	2007	2006
Debts	133,450,095	-
Less: Cash and cash equivalent	4,056,063	-
Net debts	129,394,032	-
Equity	288,441,980	-
Total equity and debts	417,836,012	-
Gearing ratio	31 %	-

## 29- Financial information for segments

## A) Geographic distribution for assets / liabilities

	Assets		Liabilities	
	2007	2006	2007	2006
Kuwait	387,508,730	234,026,966	139,560,086	2,775,936
Middle east	16,444,568	-	-	-
Other	46,578,586	28,704,959	-	-
	<u>450,531,884</u>	<u>262,731,925</u>	<u>139,560,086</u>	<u>2,775,936</u>

## B) Major information – activities segment

The group carries out its activities through the following major business segments:

- Real estate segment
- Investment segment
- Finance segment

	Revenue		Assets		Liabilities	
	2007	2006	2007	2006	2007	2006
Financing companies	19,920,460	4,869,203	155,441,167	155,422,050	126,608,552	-
Real estate and other	15,720,820	11,226,538	95,318,822	36,297,007	1,604,000	2,760,936
Investments	14,704,182	2,332,601	199,771,895	71,012,867	11,347,534	-
	<u>50,345,462</u>	<u>18,428,342</u>	<u>450,531,884</u>	<u>262,731,924</u>	<u>139,560,086</u>	<u>2,760,936</u>

30- Stand alone balance sheet for Stehwaz Holding Company  
K.S.C. (Holding) - ("Parent company")

	2007	2006
Assets		
Non-current assets		
Property & equipment	11,397	1,993
Investment properties	51,249,528	28,704,960
Land and real estate under development	3,323,359	-
Investments available for sale	46,534,225	66,504,492
Investments in subsidiaries	49,917,334	-
Goodwill	53,497,604	-
	<u>204,533,447</u>	<u>95,211,445</u>
Current assets		
Receivables and other debt balances	8,549,775	7,008,510
Investments in Wakala	74,675,332	155,422,050
Investments at fair value through income statement	46,245,453	4,508,376
Cash and cash equivalents	1,258,673	581,544
	<u>130,729,233</u>	<u>167,520,480</u>
<b>Total assets</b>	<u><b>335,262,680</b></u>	<u><b>262,731,925</b></u>
Equity and liabilities		
Equity		
Share Capital	250,000,000	250,000,000
Statutory reserve	4,777,258	1,831,633
Voluntary reserve	4,777,258	1,831,633
Employees' stock option reserve	45,770	-
Change in fair value reserve	(8,754,368)	(7,989,193)
<b>Total Equity</b>	<u><b>37,596,062</b></u>	<u><b>14,281,916</b></u>
	<u>288,441,980</u>	<u>259,955,989</u>
Non-current liabilities		
Employees' end of service indemnity	5,426	808
Current liabilities		
Wakala payable and Tawaroq	45,684,095	-
Payables and other credit balances	1,131,179	2,775,128
	<u>46,815,274</u>	<u>2,775,128</u>
<b>Total Equity and liabilities</b>	<u><b>335,262,680</b></u>	<u><b>262,731,925</b></u>

### 31- Stand alone income statement for Stehwaz Holding Company K.S.C. (Holding) and subsidiaries - ("Parent company")

	2007	2006
Revenue		
Unrealized gain from change at fair value for properties investments	10,194,568	11,189,940
Income from subsidiary	3,010,214	-
Gain from sale of properties under development	100,000	-
Gain form investment available for sale	6,138,481	2,165,909
Gain from investment at fair value through income statement	3,866,862	166,692
Revenue from investment in wakala and tawaroq	8,407,526	4,869,203
Consulting fees	152,000	-
Other income	2,881	36,598
	<u>31,872,532</u>	<u>18,428,342</u>
Expenses and other charges		
General and administrative expenses	(938,840)	(459,207)
Depreciation	(1,062)	(102)
Wakala and tawaroq charges	(1,438,323)	-
Loss of currency exchange	(38,058)	-
	<u>(2,416,283)</u>	<u>(459,309)</u>
Net profit befor Kuwait foundation for advancement of science, zakat and board of directors remuneration	29,456,249	17,969,033
Board of directors remuneration	(60,000)	(15,000)
Kuwait foundation for advancement of science	(174,695)	(161,721)
Zakat	(16,158)	-
Net profit for the year	<u>29,205,396</u>	<u>17,792,312</u>
Earnings per share (fils)	<u>11.7</u>	<u>8.6</u>

### 32- Comparative figures

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