National Central Cooling Company PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2003

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AUDITORS' REPORT TO THE SHAREHOLDERS OF

NATIONAL CENTRAL COOLING COMPANY PJSC

We have audited the accompanying consolidated balance sheet of National Central Cooling Company PJSC ('the Company") and its subsidiaries as of 31 December 2003, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of 31 December 2003 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

We also confirm that in our opinion proper books of account have been kept by the Company, an inventory was duly carried out, and the contents of the report of the Board of Directors relating to these financial statements are in agreement with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit, and to the best of our knowledge and belief no violations of the U.A.E. Commercial Companies Law of 1984 (as amended) or the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Signed by
Bassam E Hage
Partner
Registration No. 258

16 March 2004
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2003

	Notes	**2003 AED**	2002 AED
Revenues	3	**190,975,051**	85,380,040
Operating costs	3	**(128,544,291)**	(55,177,204)
GROSS PROFIT	3	**62,430,760**	30,202,836
Salaries and staff related costs		**(18,396,990)**	(8,250,166)
Other administrative expenses		**(13,024,641)**	(9,281,770)
Amortisation of goodwill and trademarks	11	**(776,103)**	(743,106)
		(32,197,734)	(18,275,042)
PROFIT FROM OPERATIONS		**30,233,026**	11,927,794
Finance costs		**(7,340,599)**	(3,653,129)
Other income	4	**2,090,671**	3,396,042
PROFIT BEFORE MINORITY INTERESTS		**24,983,098**	11,670,707
Minority interests	18	**(1,609,777)**	(3,548,679)
NET PROFIT FOR THE YEAR		**23,373,321**	8,122,028
Basic earnings per share	5	**0.4675**	0.1624

The attached notes 1 to 29 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
31 December 2003

	Notes	*2003* AED	*2002* AED
ASSETS			
Non-current assets			
Capital work in progress	7	**129,174,890**	392,023,088
Plant, furniture and equipment	8	**862,402,237**	351,592,695
Investment in associate	9	**4,978,051**	-
Advance to employee incentive scheme	10	**5,673,662**	4,059,448
Intangibles	11	**11,133,400**	11,689,503
Prepayments		**11,550,000**	-
		1,024,912,240	759,364,734
Current assets			
Inventories		**4,804,823**	3,905,981
Trade and other receivables	12	**67,844,920**	107,183,920
Contract work in progress	13	**29,434,991**	15,504,950
Prepayments		**5,209,078**	4,151,307
Bank balances and cash	14	**110,600,318**	256,312,425
		217,894,130	387,058,583
TOTAL ASSETS		**1,242,806,370**	1,146,423,317
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**500,000,000**	500,000,000
Statutory reserve	16	**5,160,205**	3,065,840
Accumulated profits		**25,838,149**	19,559,193
Proposed dividend	17	**15,000,000**	-
Cumulative changes in fair value of derivatives	28	**(4,315,300)**	(2,818,429)
Total equity		**541,683,054**	519,806,604
MINORITY INTERESTS	18	**7,986,372**	6,216,595
Non-current liabilities			
Accounts payable	22	**44,755,852**	-
Term loans	19	**169,239,594**	132,629,320
Islamic Ijara loans	20	**241,000,000**	38,210,338
Islamic Istisna'a loans	7 & 20	-	192,470,350
Islamic Muqawala loans	20	**42,195,906**	30,673,030
Employees' end of service benefits	21	**3,451,744**	2,068,608
		500,643,096	396,051,646
Current liabilities			
Accounts payable and accruals	22	**152,162,162**	112,466,065
Bank overdrafts	14	**20,464,466**	14,760,820
Current portion of term loans	19	**15,680,000**	92,934,367
Current portion of Muqawala loans	20	**4,187,220**	4,187,220
		192,493,848	224,348,472
TOTAL EQUITY AND LIABILITIES		**1,242,806,370**	1,146,423,317

Mohamed Saif Al Mazrouei
CHAIRMAN

Dany Safi
MANAGING DIRECTOR

The attached notes 1 to 29 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2003

	Notes	*2003* *AED*	*2002* *AED*
OPERATING ACTIVITIES			
Net profit for the year		**23,373,321**	8,122,028
Adjustment for:			
Depreciation		**23,282,593**	9,709,120
Amortisation of goodwill and trademarks		**776,103**	743,106
Provision for employees' end of service benefits		**1,419,181**	773,068
(Increase) decrease in value of employee incentive scheme		**(1,599,758)**	882,768
Interest income		**(1,209,008)**	(2,638,833)
Employee incentive scheme bonus award		**-**	220,460
(Profit) loss on sale of plant, furniture and equipment		**(210,060)**	16,415
Operating profit before working capital changes		**45,832,372**	17,828,132
Inventories		**(898,842)**	(3,905,981)
Receivables and prepayments		**(32,895,511)**	(30,947,063)
Contract work in progress		**(13,930,041)**	18,131,196
Accounts payable and accruals		**38,199,226**	(36,275,489)
Net cash from (used in) operations		**36,307,204**	(35,169,205)
Minority interest		**1,769,777**	3,548,679
Employees' end of service benefits paid		**(36,045)**	(23,071)
Net cash from (used in) operating activities		**38,040,936**	(31,643,597)
INVESTING ACTIVITIES			
Purchase of plant, furniture and equipment		**(4,459,558)**	(4,745,047)
Proceeds from sale of plant, furniture and equipment		**537,500**	-
Investment in associate		**(4,978,051)**	**-**
Advance to the employee incentive scheme		**(14,456)**	(2,500,000)
Prepayments – non-current		**(11,550,000)**	-
Additions to capital work in progress		**(267,111,819)**	(339,162,409)
Registration of trademarks		-	(3,680)
Goodwill purchased		**(220,000)**	(440,000)
Interest received		**1,209,008**	2,638,833
Net cash used in investing activities		**(286,587,376)**	(344,212,303)
FINANCING ACTIVITIES			
Share capital received		**71,176,740**	178,823,260
Accounts payable		**44,755,852**	-
Term loans received		**45,415,907**	136,018,141
Term loans repaid		**(86,060,000)**	**-**
Islamic Ijara loans received		-	23,295,830
Muqawala loans received		**15,014,305**	34,860,250
Muqawala loans repaid		**(3,491,430)**	-
Islamic Istisna'a loans received (net)		**10,319,313**	183,883,451
Cash from financing activities		**97,130,687**	556,880,932
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(151,415,753)**	181,025,032
Cash and cash equivalents at the beginning of the year	14	**241,551,605**	60,526,573
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	**90,135,852**	241,551,605

The attached notes 1 to 29 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2003

	Share capital AED	*Statutory reserve AED*	*Cumulative changes in fair value of derivatives AED*	*Accumulated profits AED*	*Proposed dividend AED*	*Total AED*
Balance at 1 January 2002	250,000,000	2,158,716	-	12,344,289	-	264,503,005
Share capital (2nd instalment)	250,000,000	-	-	-	-	250,000,000
Net profit for the year	-	-	-	8,122,028	-	8,122,028
Changes in fair value of derivatives	-	-	(2,818,429)	-	-	(2,818,429)
Transfer to statutory reserve	-	907,124	-	(907,124)	-	-
Balance at 31 December 2002	500,000,000	3,065,840	(2,818,429)	19,559,193	-	519,806,604
Net profit for the year	-	-	-	23,373,321	-	23,373,321
Changes in fair value of derivatives	-	-	(1,496,871)	-	-	(1,496,871)
Transfer to statutory reserve	-	2,094,365	-	(2,094,365)	-	-
Proposed dividend (note 17)	-	-	-	(15,000,000)	15,000,000	-
Balance at 31 December 2003	**500,000,000**	**5,160,205**	**(4,315,300)**	**25,838,149**	**15,000,000**	**541,683,054**

The attached notes 1 to 29 form part of these financial statements.

1 ACTIVITIES

National Central Cooling Company PJSC is registered in the United Arab Emirates as a Public Joint Stock Company pursuant to the U.A.E. Commercial Companies Law No. 8 of 1984 (as amended). The principal objectives of the Company are to construct, own, assemble, install, operate and maintain cooling and conditioning systems. In addition, the Company's objectives include to distribute and sell chilled water for use in district cooling technologies.

The Company's registered office is located at P O Box 32444, Dubai, United Arab Emirates.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 16 March 2004.

The total number of employees as at 31 December 2003 was 223 (2002: 144).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared in accordance with Standards issued by the International Accounting Standards Board, and interpretations issued by the International Financial Reporting Interpretations Committee and applicable requirements of the UAE Commercial Companies Law of 1984 (as amended).

The financial statements have been presented in United Arab Emirates Dirhams (AED).

The significant accounting policies adopted are as follows:

Accounting convention
The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivative financial instruments and the advance to employee incentive scheme.

The accounting policies are consistent with those used in the previous year.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and each of its controlled subsidiaries for the year ended 31 December. All significant inter-company balances, transactions and profits have been eliminated on consolidation.

The financial statements of subsidiaries are prepared using consistent accounting policies as those used by the Company. Where subsidiary financial statements are drawn up to different reporting dates, adjustments are made for the effect of significant transactions or other events that occur between those dates and the date of the Company's financial statements.

Minority interest principally represents the interest in subsidiaries not held by the Company.

Revenue recognition
Sales are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Contract revenue represents the total sales value of work performed during the year, including the estimated sales value of contracts in progress assessed on a percentage of completion method, measured by reference to total cost incurred to date to estimated total cost of the contract. Provision is made for any known losses and contingencies.

Interest revenue is recognised as interest accrues.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Capital work in progress
Capital work in progress is recorded at cost which represents the contractual obligations of the Company for the construction of the plant. Allocated costs directly attributable to the construction of the asset are capitalised. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the Company's policies when construction of the asset is completed and commissioned.

Plant, furniture and equipment
Plant, furniture and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Plant	over 25 years
Furniture and fixtures	over 3 to 4 years
Office equipment and instruments	over 3 to 4 years
Motor vehicles	over 4 to 5 years

The carrying values of plant, furniture and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

Investments in associates
The Company's investments in associates are accounted for under the equity method of accounting. These are entities in which the Company has between 20% to 50% of the voting power or over which it exercises significant influence. Investments in associates are carried in the balance sheet at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The income statement reflects the Company's share of the results of its associates.

Intangibles
Goodwill
Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary or associate at the date of acquisition. Goodwill is amortised using the straight-line method over the expected period of benefit being twenty years.

Trademarks
Costs relating to the registration of trademarks are capitalised and amortised using the straight-line method over the expected period of benefit being five years.

Borrowing costs
Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised as part of the cost of the asset until the asset is commissioned for use. Borrowing costs not attributable to an asset are expensed in the period in which they are incurred.

Contract work in progress
Contract work in progress represents cost plus attributable profit less provision for foreseeable losses and progress payments received and receivable.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Inventories
Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, as follows:

- Raw materials, consumables and goods for resale – purchase cost on a first-in, first-out basis.
- Work in progress and finished goods – costs of direct materials and labour plus attributable overheads based on a normal level of activity.

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

Accounts receivable
Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents
Cash and cash equivalents consist of cash and bank balances.

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

Provisions
Provisions are recognised when the Company and its subsidiaries have an obligation (legal or constructive) arising from a past event and the cost to settle the obligation is both probable and able to be reliably measured.

Term loans and Islamic loans
The term loans and Islamic loans are carried on the balance sheet at their principal amount. Instalments due within one year are shown as a current liability. Interest on term loans and fluctuating profit charges on Islamic loans are charged as an expense as it accrues, with unpaid amounts included in “accounts payable and accruals”.

Leases
Finance leases, which transfer to the Company and its subsidiaries substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Employees' end of service benefits
The Company and its subsidiaries provide end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees’ final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Company and its subsidiaries make contributions to the relevant UAE Government pension scheme calculated as a percentage of the employees’ salaries. The obligations under these schemes are limited to these contributions, which are expensed when due.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments
The Company uses derivative financial instruments such as interest rate swaps and caps to hedge its risks associated with interest rate currency fluctuations. Such derivative financial instruments are stated at fair value. The fair value of interest rate swap and cap contracts is determined by reference to market values for similar instruments. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet.

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gains or losses on the hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the income statement. The gain or loss on effective cash flow hedges recognised initially in equity is either transferred to the income statement in the period in which the underlying transaction impacts the income statement or capitalized with other borrowing costs directly attributable to the construction of each plant as part of the capital work in progress. The capitalisation of gain or loss ceases when the asset is commissioned for use.

For derivatives that do not qualify for special hedge accounting, any gain or loss arising from changes in fair value is taken to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Financial instruments
The financial instruments comprise receivables, deposits, bank balances and cash, payables and certain other assets and liabilities.

Fair values of financial instruments are based on estimated fair values using methods such as the net present value of future cash flows.

The fair value of interest bearing items is estimated based on discounted cash flow using interest rates for items with similar terms and risk characteristics. The fair value of investments traded in organised markets is determined by reference to quoted market bid prices.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

3 SEGMENTAL ANALYSIS

Income statment	*Services AED*	*Chilled water AED*	*Contracting AED*	*Manufacturing AED*	*Total AED*
2003:					
Revenues	**9,288,267**	**75,458,917**	**74,500,000**	**31,727,867**	**190,975,051**
Operating costs	**(4,964,778)**	**(33,896,578)**	**(68,508,279)**	**(21,174,656)**	**(128,544,291)**
Gross profit	**4,323,489**	**41,562,339**	**5,991,721**	**10,553,211**	**62,430,760**
Segmental profit	**428,245**	**12,904,724**	**6,773,952**	**4,876,177**	**24,983,098**
Minority interests					**(1,609,177)**
Net profit for the year					**23,373,321**
2002:					
Revenues	**-**	32,607,266	24,772,400	28,000,374	85,380,040
Operating costs	-	(15,535,981)	(21,806,081)	(17,835,142)	(55,177,204)
Gross profit	-	17,071,285	2,966,319	10,165,232	30,202,836
Segmental profit (loss)	-	(278,271)	2,812,283	9,136,695	11,670,707
Minority interests					(3,548,679)
Net profit for the year					8,122,028
Assets and liabilities					
2003:					
Segment assets	**5,415,105**	**1,138,459,235**	**67,765,668**	**31,166,362**	**1,242,806,370**
Segment liabilities	**4,286,861**	**634,572,265**	**39,865,363**	**14,412,455**	**693,136,944**
2002					
Segment assets	-	1,087,019,782	28,770,894	30,632,641	1,146,423,317
Segment liabilities	-	594,000,665	7,644,541	18,754,912	620,400,118

4 OTHER INCOME

	2003 AED	*2002 AED*
Interest income	**1,209,008**	2,638,833
Miscellaneous	**881,663**	757,209
	2,090,671	3,396,042

5 BASIC EARNINGS PER SHARE

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

	2003	*2002*
Net profit for the year *(AED)*	**23,373,321**	8,122,028
Ordinary shares issued	**50,000,000**	50,000,000
Earnings per share *(AED)*	**0.4675**	0.1624

6 RESULTS OF SUBSIDIARIES

Included in the consolidated income statement for the years ended 31 December 2002 and 2003 are the following in respect of subsidiary operations:

	2003 AED	*2002 AED*
Revenues (includes interest)	**119,305,683**	55,603,263
Expenses	**(107,784,656)**	(43,919,283)
Net profit for the year	**11,521,027**	11,683,980

7 CAPITAL WORK IN PROGRESS

The movement in capital work in progress during the year is as follows:

	2003 AED	*2002 AED*
Balance at 1 January	**380,266,733**	293,396,204
Additions during the year	**265,957,729**	352,997,569
Transfer to plant, furniture and equipment (note 8)	**(529,960,017)**	(266,127,040)
Balance at 31 December	**116,264,445**	380,266,733
Advances to contractors	**12,910,445**	11,756,355
	129,174,890	392,023,088

There are no plants included within capital work in progress (2002: AED 192,470,350) which have been funded under an Islamic financing arrangement (Istisna'a). Upon completion of the construction of plants under an Istisna'a financing arrangements, the total cost of the plant is financed under an Islamic Ijara agreement.

Istisna'a is a sales contract between a contract owner (the Islamic financing institution) and a contractor (the Company) whereby the contractor, based on an order from the contract owner, undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

In addition, AED 58,179,137 (2002: AED 34,860,250) is included in capital work in progress which has been funded under a separate Islamic financing arrangement (Muqawala).

Included in additions to capital work in progress are capitalised financing costs amounting to AED 7,142,265 (2002: AED 19,178,964).

8 PLANT, FURNITURE AND EQUIPMENT

	Plant and buildings AED	*Furniture and fixtures AED*	*Office equipment and instruments AED*	*Motor vehicles AED*	*Total AED*
Cost:					
At 1 January 2003	359,799,761	2,815,722	3,525,828	1,511,450	367,652,761
Additions	1,103,993	508,526	2,155,539	691,500	4,459,558
Transfer from capital work in progress (note 7)	519,063,503	8,249,099	2,647,415	-	529,960,017
Disposals	-	(823,827)	(38,100)	(335,000)	(1,196,927)
At 31 December 2003	**879,967,257**	**10,749,520**	**8,290,682**	**1,867,950**	**900,875,409**
Depreciation:					
At 1 January 2003	(11,114,297)	(2,003,039)	(2,138,873)	(803,857)	(16,060,066)
Charge for the year	(20,823,210)	(708,213)	(1,375,050)	(376,120)	(23,282,593)
Relating to disposals	-	605,269	-	264,218	869,487
At 31 December 2003	**(31,937,507)**	**(2,105,983)**	**(3,513,923)**	**(915,759)**	**(38,473,172)**
Net carrying amount:					
At 31 December 2003	**848,029,750**	**8,643,537**	**4,776,759**	**952,191**	**862,402,237**
At 31 December 2002	348,685,464	812,683	1,386,955	707,593	351,592,695

The depreciation charge for the year has been dealt with as follows:

	2003 AED	*2002 AED*
Included in direct operating costs	**20,534,590**	8,030,072
Included in other administrative expenses	**2,689,548**	1,544,363
Included in capital work in progress	**58,455**	134,685
	23,282,593	9,709,120

At 31 December 2003, the net book value of plant financed by an Islamic Ijara loan under sale and leaseback Ijara financing arrangements amounted to AED 186,104,204 (2002: AED 68,221,182).

The plants are constructed on land which has been granted to the Company and one of its subsidiaries at nominal or no cost to them.

9 INVESTMENTS IN ASSOCIATES

During the year, the Company invested AED 4,978,051 in an associate, Qatar Central Cooling Company, incorporated as a private joint stock company in the State of Qatar. The balance represents the cost of the Company's 44.5% shareholding in the associate. Management believe that the carrying value of the investment will ultimately be realised in full.

10 ADVANCE TO EMPLOYEE INCENTIVE SCHEME

The employee incentive scheme represents an advance extended to fund the employee incentive scheme, which was formed in accordance with the Board of Directors resolution dated 17 December 2000. At 31 December 2003, the incentive scheme held 420,271 shares (2002: 419,258 shares) in the Company, which are held in the name of a related party acting as a custodian. The advance to the scheme is interest-free and is principally recoverable after one year from the balance sheet date.

The movements on the advance to employee incentive scheme recognised in the balance sheet are as follows:

	2003	*2002*
	AED	*AED*
Balance at 1 January	**4,059,448**	2,662,676
Employees' incentive scheme award during the year	-	(220,460)
Advance made during the year	**14,456**	2,500,000
Increase (decrease) in value of advance in the year due to movements in the market value of the Company's shares	**1,599,758**	(882,768)
Balance at 31 December	**5,673,662**	4,059,448

11 INTANGIBLES

	Goodwill		***Trademarks***		***Total***	
	2003	*2002*	***2003***	*2002*	***2003***	*2002*
	AED	*AED*	***AED***	*AED*	***AED***	*AED*
Balance at 1 January	**11,591,130**	11,870,560	**98,373**	118,369	**11,689,503**	11,988,929
Additions during the year	**220,000**	440,000	**-**	3,680	**220,000**	443,680
Amortisation for the year	**(752,427)**	(719,430)	**(23,676)**	(23,676)	**(776,103)**	(743,106)
Balance at 31 December	**11,058,703**	11,591,130	**74,697**	98,373	**11,133,400**	11,689,503

12 TRADE AND OTHER RECEIVABLES

	2003	*2002*
	AED	*AED*
Trade accounts receivable	**65,556,139**	33,418,503
Due from related parties	**635,536**	-
Share capital receivable	**-**	71,176,740
Other receivables	**1,653,245**	2,588,677
	67,844,920	107,183,920

As amounts receivable are stated net of any required provision and are short term in nature, fair value approximates carrying value.

13 CONTRACT WORK IN PROGRESS

	2003	*2002*
	AED	*AED*
Cost plus attributable profit	**74,500,000**	57,504,950
Less: progress billings	**(45,065,009)**	(42,000,000)
	29,434,991	15,504,950

14 CASH AND CASH EQUIVALENTS

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

	2003	*2002*
	AED	*AED*
Bank balances and cash	**110,600,318**	256,312,425
Bank overdrafts	**(20,464,466)**	(14,760,820)
	90,135,852	241,551,605

Bank balances and cash include bank deposits of AED 40,287,622 (2002: AED 236,062,268) placed with commercial banks in the United Arab Emirates. These are denominated in AED with effective rates in the range of 0.875% to 2.5% (2002: 1.05% to 3.75%). Bank deposits include an amount of AED 2,398,800 (2002: AED 5,076,335) which is held by the Company and its subsidiaries' bankers as security for facilities granted.

15 SHARE CAPITAL

	Authorised, issued and fully paid 2003 & 2002 AED
50,000,000 ordinary shares of AED 10 each	500,000,000

16 STATUTORY RESERVE

As required by the U.A.E. Commercial Companies Law of 1984 (as amended) and the articles of association of the Company and its subsidiaries, 10% of the net profit for the year is transferred to the statutory reserve. The transfer for the year represents 10% of the profit of the Company before accounting for the Company's share in the results of its subsidiaries, and the Company's share in the subsidiaries' statutory reserve transferred for the year. The Company and its subsidiaries may resolve to discontinue such transfers when the reserve equals 50% of the share capital. The reserve is not available for distribution.

17 PROPOSED DIVIDEND

The Board of Directors has proposed a dividend amounting to AED 15,000,000 or AED 0.3 per share (2002: nil). The dividend will be submitted for approval at the Annual General Meeting in 2004.

18 MINORITY INTERESTS

The movement in minority interests recognised in the balance sheet is summarised as follows:

	2003	*2002*
	AED	*AED*
Balance at 1 January	**6,216,595**	2,667,916
Contribution during the year	**160,000**	-
Share of results of subsidiary companies during the year	**1,609,777**	3,548,679
Balance at 31 December	**7,986,372**	6,216,595

19 TERM LOANS

	2003	*2002*
	AED	*AED*
Bridging loan	**-**	80,000,000
Bilateral bridging loan	**44,076,000**	-
Term loans	**140,843,594**	145,563,687
	184,919,594	225,563,687
Due in less than one year		
Bridging loan	**-**	80,000,000
Term loans	**15,680,000**	12,934,367
	15,680,000	92,934,367
Due in more than one year		
Term loans	**169,239,594**	132,629,320
	184,919,594	225,563,687

The bridging loan was secured by a pledge over the plant, a promissory note of AED 80,000,000 and a continuing corporate guarantee. It carried interest at 1% per annum over 3 months DIBOR and was repaid in full on 10 January 2003.

The bilateral bridging loan is secured by cross-corporate guarantee from the Company. It carries interest at IBOR plus 0.75% per annum and is expected to be repaid in full on 31 March 2004 from the new loan facility of AED 700 million which will then be repaid under the new facility terms after 2 draw downs of a new term loan facility (see below).

The term loans are secured by pledges over plant and capital work-in-progress and a corporate guarantee in accordance with the facility agreements and are summarised as follows:

- The first term loan amounting to AED 135,100,000 is repayable in semi annual instalments commencing from 23 May 2004 to 23 May 2011 in accordance with an agreed upon instalments schedule. The loan carries interest at EIBOR plus a margin
- The second term loan amounting to AED 5,743,594 is repayable in 3 equal annual instalments of AED 1,680,000 each with one instalment for the remaining balance. This loan carries interest at 1.5% over 6 month EBOR

19 TERM LOANS continued

On 24 November 2003, the Company entered into a 12 year, AED 700,000,000 term loan facility agreement (the "new facility") with a syndicate of international and UAE based banks. This facility agreement is to acquire new central cooling plants, refinance the term loan amounting to AED 135,100,000, which is secured over previously constructed central cooling plants, along with the repayment of the bilateral bridging loan of AED 44,076,000. As at 31 December 2003, the Company has not drawn down any amounts under the new facility as the security agreements had not been finalised. Consequently, as the term loan and the bilateral bridging loan are to be refinanced under the new facility, the amounts due in less than one year have been calculated in accordance with the repayment schedule of the new facility. Under the new facility 2% (AED 14,000,000) of the new facility is repayable in 2004 and this amount has been disclosed as being due in less than one year.

As the term loans attract interest at rates which vary with market movements, the fair value of the term loans approximates their carrying value.

At 31 December 2003, unutilised term loan facilities available to the Company amounted AED 520,824,000 (2002: AED 1,239,908).

20 ISLAMIC FINANCING ARRANGEMENTS

	2003	*2002*
	AED	*AED*
Ijara loans	**241,000,000**	38,210,338
Istisna'a loans	-	192,470,350
Muqawala loan (net of deferred margin)	**46,383,126**	34,860,250
	287,383,126	265,540,938
Due in more than one year:		
Ijara loans	**241,000,000**	38,210,338
Istisna'a loans	**-**	192,470,350
Muqawala loans	**42,195,906**	30,673,030
	283,195,906	261,353,718
Due in less than one year:		
Muqawala loans	**4,187,220**	4,187,220
	287,383,126	265,540,938

Ijara and Istisna'a loans:
The Islamic Ijara and Istisna'a loans consist of two facilities, which are secured by an assignation of the plant purchased under the Islamic financing arrangement and a joint credit and Islamic loan facility agreement. The first facility of AED 150,000,000 (2002: AED 173,964,651) is repayable in 16 fixed semi-annual instalments commencing from 21 May 2005 and a fluctuating profit charge is paid under the Islamic financing agreements, which is based on EIBOR plus a margin. In 2003, the remaining portion of the loan was converted to Ijara as the construction of the related plants were completed and additional new Ijara agreements were signed.

The second facility of AED 91,000,000 (2002: AED 56,716,037) is repayable in 12 semi-annual instalments commencing from 1 February 2005 and a fluctuating profit charge is paid under the Islamic financing agreement, which is based on market rates.

As explained in note 7, the construction of the plants previously funded under Istisna'a arrangements have been completed during the year and are now financed under Ijara loan arrangements.

As the Islamic loan arrangements attract a fluctuating profit charge which varies with market interest rate movements, the fair value of the Islamic loans approximates their carrying value.

20 ISLAMIC FINANCING ARRANGEMENTS continued

Muqawala loans:
The Company has entered into two Islamic Muqawala loan arrangements as follows:

- The first Muqawala loan amounting to AED 27,181,601 (2002 : AED 34,860,250) is in respect of the procurement and manufacturing of certain items for use in the construction of plants under an Islamic loan facility agreement dated 31 July 2002. The facility is repayable in 14 semi-annual instalments commencing from 29 January 2003. A fluctuating profit charge is paid under the Islamic financing agreement which is based on market rates.
- The second Muqawala loan amounting to AED 15,014,305 (2002: nil) is in respect of the construction of a project under an Islamic loan facility dated 25 March 2003. The facility is repayable in 16 semi-annual rental instalments commencing on 1 May 2006. A variable element is payable with each instalment which is based on market rates plus a mark up.

At 31 December 2003, unutilised Islamic funding available to the Company amounted to AED 109,985,695 (2002: AED 61,029,961).

21 EMPLOYEES' END OF SERVICE BENEFITS

The Company and its subsidiaries provide for employees' end of service benefits in accordance with the employees' contracts of employment. The movements in the provision recognised in the balance sheet are as follows:

	2003 ***AED***	*2002* *AED*
Balance at 1 January	**2,068,608**	1,318,611
Provided during the year	**1,419,181**	773,068
Paid during the year	**(36,045)**	(23,071)
Balance at 31 December	**3,451,744**	2,068,608

22 ACCOUNTS PAYABLE AND ACCRUALS

Amounts due in less than one year	***2003*** ***AED***	*2002* *AED*
Accounts payable	**81,023,813**	86,760,310
Retentions payable	**12,174,210**	18,071,696
Negative fair value of derivatives	**2,386,142**	1,261,712
Other payables	**14,720,055**	1,779,144
Payable to former shareholders	**23,910,180**	-
Accrued expenses	**17,947,762**	4,593,203
	152,162,162	112,466,065

Trade accounts payable are normally settled within 60 to 90 days.

Amounts due in more than one year	***2003*** ***AED***	*2002* *AED*
Accounts payable	**38,933,434**	-
Retentions payable	**5,822,418**	-
	44,755,852	-

23 RELATED PARTY TRANSACTIONS

These represent transactions with related parties ie. shareholders, senior management of the Company and companies of which they are principal owners. Pricing policies and terms of these transactions are made on a commercial basis and approved by senior management.

Included in capital work in progress is AED 1,750,000 (2002: AED 1,500,000) in respect of transactions with related parties. Included in trade and other receivables is AED 635,536 representing expenses which have been incurred on behalf of a related party.

24 CONTINGENT LIABILITIES

The Company's and its subsidiaries' bankers have issued guarantees on their behalf as follows:

	2003 ***AED***	*2002* *AED*
Performance guarantees	**13,050,000**	13,181,800
Advance payment guarantees	**3,916,730**	304,000
Retention release guarantees	**5,234,250**	**-**
Financial guarantees	**13,921,600**	-
	36,122,580	13,485,800

25 FINANCIAL INSTRUMENTS

Fair values
The fair values of the financial assets and liabilities of the Company and its subsidiaries are not materially different from their carrying values.

26 CAPITAL COMMITMENTS

The Board of Directors have authorised future capital expenditure amounting to AED 762.3 million (2002: AED 650.8 million). Included in this amount is AED 390 million (2002: AED 295.5 million) which is expected to be incurred within one year of the balance sheet date.

27 SUBSIDIARIES

	Country of incorporation	*Percentage of holding*
Gulf Energy Systems LLC	U.A.E.	100
National Central Cooling Company Ras Al Khaimah LLC	U.A.E.	60
Emirates Preinsulated Pipes Industries LLC	U.A.E.	60
Installation Integrity 2000 LLC	U.A.E.	60
BAC Balticare Gulf LLC	U.A.E.	100

Gulf Energy Systems LLC was registered on 15 April 1995 and commenced its commercial activities thereafter.

National Central Cooling Company Ras Al Khaimah LLC was registered on 22 November 1999 and commenced its commercial activities thereafter.

Emirates Preinsulated Pipes Industries LLC was registered on 13 December 2000 and commenced its commercial activities in May 2002.

Installation Integrity 2000 LLC was registered on 15 May 2000 and commenced its commercial activities thereafter.

BAC Balticare Gulf LLC was registered on 7 April 2003 and commenced its commercial activities thereafter.

28 RISK MANAGEMENT

Interest rate risk
The Company and its subsidiaries are exposed to interest rate risk on their interest bearing assets and liabilities (bank overdrafts and loans). Whilst current interest rates are low, management has sought to limit the exposure of the Company and its subsidiaries to any adverse future movements in interest rates by entering into various interest rate swap and cap deals during the year. The notional amount outstanding at 31 December 2003 was AED 220.5 million (2002: 147 million). The derivative financial instruments entered into for the purposes of a cash flow hedge had negative changes in their values (unrealised losses) amounting to AED 4,315,300 (2002: AED 2,818,429) which has been recognised within equity under cumulative changes in fair values of derivatives. Management is therefore of the opinion that the Company's and its subsidiaries' exposure to interest rate risk is limited.

Credit risk
The Company and its subsidiaries seek to limit their credit risk with respect to customers by monitoring outstanding receivables. The Company and its subsidiaries sell their services and products to a number of institutions in the UAE. Their three largest customers account for approximately 60% of outstanding accounts receivable at 31 December 2003 (2002: 2 customers, 95%).

Liquidity risk
The Company and its subsidiaries limit their liquidity risk by monitoring their current financial position in conjunction with their cash flow forecasts on a regular basis to ensure funds are available to meet their commitments for liabilities as they fall due. The Company's and the subsidiaries' terms of sale require amounts to be paid within 60 to 90 days of the date of sale. Trade payables are normally settled within 60 days of the date of purchase.

Currency risk
The management consider that the Company and its subsidiaries are not exposed to significant currency risk. The majority of their transactions and balances are in either UAE Dirhams or US Dollars. As the UAE Dirham is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

29 COMPARATIVE FIGURES

Certain of the comparative figures of the prior year have been reclassified, in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or equity.