

**National Central Cooling Company PJSC**

FINANCIAL STATEMENTS

31 DECEMBER 2002

**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 2002, 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 2002 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

18 March 2003  
Abu Dhabi

# National Central Cooling Company PJSC

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2002

	<i>Notes</i>	<b>2002 AED</b>	<b>2001 AED</b>
Revenues	3	<b>85,380,040</b>	44,577,689
Operating costs	3	<b><u>(55,177,204)</u></b>	<u>(36,648,079)</u>
<b>GROSS PROFIT</b>	3	<b><u>30,202,836</u></b>	<u>7,929,610</u>
Salaries and staff related costs		<b>(8,250,166)</b>	(4,643,544)
Other administrative expenses		<b>(9,281,770)</b>	(5,205,478)
Amortisation of goodwill and trademarks	10	<b><u>(743,106)</u></b>	<u>(1,854,909)</u>
		<b><u>(18,275,042)</u></b>	<u>(11,703,931)</u>
<b>PROFIT (LOSS) FROM OPERATIONS</b>		<b>11,927,794</b>	(3,774,321)
Finance costs		<b>(3,653,129)</b>	(355,974)
Other income	4	<b><u>3,396,042</u></b>	<u>6,894,183</u>
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>11,670,707</b>	2,763,888
Minority interests	16	<b><u>(3,548,679)</u></b>	<u>(55,456)</u>
<b>NET PROFIT FOR THE YEAR</b>		<b><u>8,122,028</u></b>	<u>2,708,432</u>
Basic earnings per share	5	<b><u>0.1624</u></b>	<u>0.0542</u>

The attached notes 1 to 26 form part of these financial statements.

# National Central Cooling Company PJSC

## CONSOLIDATED BALANCE SHEET

31 December 2002

	<i>Notes</i>	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Capital work in progress	7	<b>380,266,733</b>	293,396,204
Plant, furniture and equipment	8	<b>351,592,695</b>	90,446,143
Advance to employee incentive scheme	9	<b>4,059,448</b>	2,662,676
Intangibles	10	<b><u>11,689,503</u></b>	<u>11,988,929</u>
		<b><u>747,608,379</u></b>	<u>398,493,952</u>
<b>Current assets</b>			
Inventories		<b>3,905,981</b>	-
Trade and other receivables	11	<b>118,940,275</b>	33,606,705
Contract work in progress	12	<b>15,504,950</b>	33,636,146
Prepayments		<b>4,151,307</b>	2,752,951
Bank balances and cash	13	<b><u>241,551,605</u></b>	<u>60,526,573</u>
		<b><u>384,054,118</u></b>	<u>130,522,375</u>
<b>TOTAL ASSETS</b>		<b><u>1,131,662,497</u></b>	<u>529,016,327</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	<b>500,000,000</b>	250,000,000
Statutory reserve	15	<b>3,065,840</b>	2,158,716
Accumulated profits		<b>19,559,193</b>	12,344,289
Cumulative changes in fair value of derivatives	26	<b><u>(2,818,429)</u></b>	<u>-</u>
<b>Total equity</b>		<b><u>519,806,604</u></b>	<u>264,503,005</u>
<b>MINORITY INTERESTS</b>	16	<b><u>6,216,595</u></b>	<u>2,667,916</u>
<b>Non-current liabilities</b>			
Term loans	17	<b>132,629,320</b>	89,545,546
Islamic Ijara loans	18	<b>38,210,338</b>	14,914,508
Islamic financing for construction (Istisna'a)	7 & 18	<b>192,470,350</b>	8,586,899
Islamic Muqawala loan	18	<b>30,673,030</b>	-
Trade accounts payable due after more than one year		-	20,340,660
Employees' end of service benefits	19	<b><u>2,068,608</u></b>	<u>1,318,611</u>
		<b><u>396,051,646</u></b>	<u>134,706,224</u>
<b>Current liabilities</b>			
Accounts payable and accruals	20	<b>112,466,065</b>	127,139,182
Current portion of term loans	17	<b>92,934,367</b>	-
Current portion of Muqawala loan	18	<b><u>4,187,220</u></b>	<u>-</u>
		<b><u>209,587,652</u></b>	<u>127,139,182</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>1,131,662,497</u></b>	<u>529,016,327</u>

Mohamed Saif Al Mazrouei  
CHAIRMAN

Dany Safi  
MANAGING DIRECTOR

The attached notes 1 to 26 form part of these financial statements.

# National Central Cooling Company PJSC

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2002

	<i>2002</i>	<i>2001</i>
	<i>AED</i>	<i>AED</i>
<b>OPERATING ACTIVITIES</b>		
Net profit for the year	<b>8,122,028</b>	2,708,432
Adjustment for:		
Depreciation	<b>9,709,120</b>	3,886,336
Amortisation of goodwill and trademarks	<b>743,106</b>	1,854,909
Provision for employees' end of service benefits	<b>773,068</b>	544,316
Decrease (increase) in value of employee incentive scheme	<b>882,768</b>	(493,571)
Interest income	<b>(2,638,833)</b>	(5,506,581)
Employee incentive scheme bonus	<b>220,460</b>	380,895
Loss (profit) on sale of plant, furniture and equipment	<b><u>16,415</u></b>	<u>(35,082)</u>
Operating profit before working capital changes	<b>17,828,132</b>	3,339,654
Inventories	<b>(3,905,981)</b>	-
Receivables	<b>(17,111,903)</b>	(8,898,530)
Contract work in progress	<b>18,131,196</b>	(33,636,146)
Payables	<b><u>(36,275,489)</u></b>	<u>100,034,903</u>
Net cash (used in) from operations	<b>(21,334,045)</b>	60,839,881
Minority interest	<b>3,548,679</b>	55,456
Employees' end of service benefits paid	<b><u>(23,071)</u></b>	<u>(35,501)</u>
Net cash (used in) from operating activities	<b><u>(17,808,437)</u></b>	<u>60,859,836</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of plant, furniture and equipment	<b>(4,745,047)</b>	(47,449,611)
Advance to the employee incentive scheme	<b>(2,500,000)</b>	-
Additions to capital work in progress	<b>(352,997,569)</b>	(234,049,468)
Proceeds from sale of plant, furniture and equipment	-	137,418
Registration of trademarks	<b>(3,680)</b>	(48,069)
Goodwill purchased	<b>(440,000)</b>	-
Interest received	<b><u>2,638,833</u></b>	<u>5,506,581</u>
Net cash used in investing activities	<b><u>(358,047,463)</u></b>	<u>(275,903,149)</u>
<b>FINANCING ACTIVITIES</b>		
Share capital received	<b>178,823,260</b>	-
Term loans received	<b>136,018,141</b>	89,545,546
Islamic Ijara loans received	<b>23,295,830</b>	14,914,508
Muqawala loan	<b>34,860,250</b>	-
Islamic financing for construction received	<b><u>183,883,451</u></b>	<u>8,586,899</u>
Cash from financing activities	<b><u>556,880,932</u></b>	<u>113,046,953</u>
<b>INCREASE (DECREASE) IN BANK BALANCES AND CASH</b>	<b>181,025,032</b>	(101,996,360)
Bank balances and cash at the beginning of the year	<b><u>60,526,573</u></b>	<u>162,522,933</u>
<b>BANK BALANCES AND CASH AT THE END OF THE YEAR</b>	<b><u>241,551,605</u></b>	<u>60,526,573</u>

The attached notes 1 to 26 form part of these financial statements.

## National Central Cooling Company PJSC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

	<i>Share capital AED</i>	<i>Statutory reserve AED</i>	<i>Cumulative changes in fair value of derivatives AED</i>	<i>Accumulated profits AED</i>	<i>Total AED</i>
Balance at 1 January 2001	250,000,000	1,537,628	-	10,256,945	261,794,573
Net profit for the year	-	-	-	2,708,432	2,708,432
Transfer to statutory reserve	-	<u>621,088</u>	-	<u>(621,088)</u>	-
Balance at 31 December 2001	250,000,000	2,158,716	-	12,344,289	264,503,005
Share capital (2 <sup>nd</sup> 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	-	<u>907,124</u>	-	<u>(907,124)</u>	-
Balance at 31 December 2002	<b><u>500,000,000</u></b>	<b><u>3,065,840</u></b>	<b><u>(2,818,429)</u></b>	<b><u>19,559,193</u></b>	<b><u>519,806,604</u></b>

The attached notes 1 to 26 form part of these financial statements.

# National Central Cooling Company PJSC

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### 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 18 March 2003.

The total number of employees as at 31 December 2002 was 144 (2001: 75).

### 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

**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.

**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 between five and twenty years (formerly ten years only).

*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.

**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

**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.

**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.

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### 2 SIGNIFICANT ACCOUNTING POLICIES continued

#### Derivative financial instruments continued

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 or capitalized with other borrowing costs. The gain or loss on effective cash flow hedges recognised initially 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 are either capitalised with other borrowing costs directly attributable to the construction of each plant as part of the capital work in progress until the asset is commissioned for use or 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.

### 3 SEGMENTAL ANALYSIS

	<i>Chilled water AED</i>	<i>Contracting AED</i>	<i>Manufacturing AED</i>	<i>Total AED</i>
<b>2002:</b>				
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	<u>17,071,285</u>	<u>2,966,319</u>	<u>10,165,232</u>	<u>30,202,836</u>
<b>2001:</b>				
Revenues	9,338,758	35,238,931	-	44,577,689
Operating costs	(7,161,474)	(29,486,605)	-	(36,648,079)
Gross profit	<u>2,177,284</u>	<u>5,752,326</u>	<u>-</u>	<u>7,929,610</u>

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### 4 OTHER INCOME

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Interest income	2,638,833	5,506,581
Miscellaneous	<u>757,209</u>	<u>1,387,602</u>
	<u><b>3,396,042</b></u>	<u><b>6,894,183</b></u>

### 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:

	<i>2002</i>	<i>2001</i>
Net profit for the year ( <i>AED</i> )	<u><b>8,122,028</b></u>	<u>2,708,432</u>
Ordinary shares issued	<u><b>50,000,000</b></u>	<u>50,000,000</u>
Earnings per share ( <i>AED</i> )	<u><b>0.1624</b></u>	<u>0.0542</u>

### 6 RESULTS OF SUBSIDIARIES

Included in the consolidated income statement for the year ended 31 December 2001 and 2002 are the following relating to the operations of subsidiaries:

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Revenues (includes interest)	55,603,263	36,814,888
Expenses	<u>(43,919,283)</u>	<u>(31,209,980)</u>
Net profit for the year	<u><b>11,683,980</b></u>	<u><b>5,604,908</b></u>

### 7 CAPITAL WORK IN PROGRESS

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

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Balance at 1 January	293,396,204	87,024,131
Additions during the year	352,997,569	234,049,468
Transfer to plant, furniture and equipment (note 8)	<u>(266,127,040)</u>	<u>(27,677,395)</u>
Balance at 31 December	<u><b>380,266,733</b></u>	<u><b>293,396,204</b></u>

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### 7 CAPITAL WORK IN PROGRESS continued

Included in capital work in progress is AED 192,470,350 (2001: AED 8,586,899) for plants which have been funded under an Islamic financing arrangement (Istisna'a). Upon completion of the construction of the plants subsequent to the year end, the total cost of the plants will be financed under an Islamic Ijara agreement and the repayments under this arrangement will commence after 31 December 2002.

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 34,860,250 (2001:AED nil) 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 19,178,964 (2001: AED 3,335,592).

### 8 PLANT, FURNITURE AND EQUIPMENT

	<i>Plant and buildings AED</i>	<i>Furniture and fixtures AED</i>	<i>Office equipment and instruments AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:					
At 1 January 2002	90,879,945	2,090,788	2,825,891	1,054,050	96,850,674
Additions	2,792,776	744,934	699,937	507,400	4,745,047
Transfer from capital work in progress (note 7)	266,127,040	-	-	-	266,127,040
Disposals	-	(20,000)	-	(50,000)	(70,000)
At 31 December 2002	<b><u>359,799,761</u></b>	<b><u>2,815,722</u></b>	<b><u>3,525,828</u></b>	<b><u>1,511,450</u></b>	<b><u>367,652,761</u></b>
Depreciation:					
At 1 January 2002	2,886,495	1,499,141	1,467,886	551,009	6,404,531
Charge for the year	8,227,802	514,726	670,987	295,605	9,709,120
Relating to disposals	-	(10,828)	-	(42,757)	(53,585)
At 31 December 2002	<b><u>11,114,297</u></b>	<b><u>2,003,039</u></b>	<b><u>2,138,873</u></b>	<b><u>803,857</u></b>	<b><u>16,060,066</u></b>
Net carrying amount					
At 31 December 2002	<b><u>348,685,464</u></b>	<b><u>812,683</u></b>	<b><u>1,386,955</u></b>	<b><u>707,593</u></b>	<b><u>351,592,695</u></b>
At 31 December 2001	<u>87,993,450</u>	<u>591,647</u>	<u>1,358,005</u>	<u>503,041</u>	<u>90,446,143</u>

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 8 PLANT, FURNITURE AND EQUIPMENT continued

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

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Included in direct operating costs	<b>8,030,072</b>	2,718,738
Included in other administrative expenses	<b>1,544,363</b>	797,264
Included in capital work in progress	<b><u>134,685</u></b>	<u>370,334</u>
	<b><u>9,709,120</u></b>	<u>3,886,336</u>

At 31 December 2002, the net book value of plant financed by an Islamic Ijara loan under a sale and leaseback Ijara financing arrangement amounted to AED 68,221,182 (2001: AED 24,519,766).

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

### 9 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. The incentive scheme held 443,656 shares (2001: 429,464 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:

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Balance at 1 January	<b>2,662,676</b>	2,550,000
Employees' incentive scheme award during the year	<b>(220,460)</b>	(380,895)
Advance made during the year	<b>2,500,000</b>	-
(Decrease) increase in value of advance in the year due to movements in the market value of the Company's shares	<b><u>(882,768)</u></b>	<u>493,571</u>
Balance at 31 December	<b><u>4,059,448</u></b>	<u>2,662,676</u>

### 10 INTANGIBLES

	<i>Goodwill</i>		<i>Trademarks</i>		<i>Total</i>	
	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Balance at 1 January	<b>11,870,560</b>	13,696,800	<b>118,369</b>	98,969	<b>11,988,929</b>	13,795,769
Additions during the year	<b>440,000</b>	-	<b>3,680</b>	48,069	<b>443,680</b>	48,069
Amortisation for the year	<b><u>(719,430)</u></b>	<u>(1,826,240)</u>	<b><u>(23,676)</u></b>	<u>(28,669)</u>	<b><u>(743,106)</u></b>	<u>(1,854,909)</u>
Balance at 31 December	<b><u>11,591,130</u></b>	<u>11,870,560</u>	<b><u>98,373</u></b>	<u>118,369</u>	<b><u>11,689,503</u></b>	<u>11,988,929</u>

During the year, the management have re-assessed the useful economic life of goodwill which arose on the acquisition of one of its subsidiaries to 20 years. Previously, goodwill was amortised over a period of ten years. As a result of the change, the charge to the income statement for the year has been reduced by AED 1,106,810 for the year.

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### 11 TRADE AND OTHER RECEIVABLES

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Trade accounts receivable	<b>33,418,503</b>	6,260,861
Interest receivable	-	949,373
Share capital receivable (note 14)	<b>71,176,740</b>	-
Advance payment to contractors	<b>11,756,355</b>	25,591,515
Other receivables	<b><u>2,588,677</u></b>	<u>804,956</u>
	<b><u>118,940,275</u></b>	<u>33,606,705</u>

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

### 12 CONTRACT WORK IN PROGRESS

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Cost plus attributable profit	<b>57,504,950</b>	35,238,931
Less: progress billings	<b><u>(42,000,000)</u></b>	<u>(1,602,785)</u>
	<b><u>15,504,950</u></b>	<u>33,636,146</u>

### 13 BANK BALANCES AND CASH

Bank balances and cash include bank deposits of AED 236,062,268 (2001 : AED 57,365,860) placed with commercial banks in the United Arab Emirates. These are denominated in AED with an effective rates in the range of 1.05% to 3.75% (2001 : 1.78%). Bank deposits include an amount of AED 5,076,335 (2001 : AED 7,408,100) which is held by the Company and its subsidiaries' bankers as security for facilities granted.

### 14 SHARE CAPITAL

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
<b><i>Authorised share capital:</i></b>		
50,000,000 ordinary shares of AED 10 each	<b><u>500,000,000</u></b>	<u>500,000,000</u>
<b><i>Issued share capital:</i></b>		
50,000,000 ordinary shares of AED 10 each	<b><u>500,000,000</u></b>	<u>250,000,000</u>

Under the terms of the public offer for subscription for shares in the Company dated March 1998 and in accordance with the Company's articles of association, the paid up value of the ordinary shares was payable in two instalments, one instalment of AED 5 for each share was due on application and the second instalment of AED 5 for each share is due within five years from the date of formation of the Company at a date and by means to be fixed by the Board of Directors of the Company.

The Board of Directors in their meeting held on 11 March 2002 has resolved to call for the payment of the second instalment during 2002 and the amounts were called on 25 September 2002. At 31 December 2002, AED 178,823,260 had been paid by shareholders and the remaining balance is principally subject to sale by a series of auctions. Consequently, the outstanding balance of AED 71,176,740 has been included within Trade and Other Receivables (note 11). The first auction took place on 17 March 2003 and the outstanding balance as at that date of AED 22,819,635, representing 4,563,927 shares, is expected to be received through future auction sales.

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### 15 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.

### 16 MINORITY INTERESTS

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

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Balance at 1 January	<b>2,667,916</b>	2,612,460
Share of results of subsidiary companies during the year	<b><u>3,548,679</u></b>	<u>55,456</u>
Balance at 31 December	<b><u>6,216,595</u></b>	<u>2,667,916</u>

### 17 TERM LOANS

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Bridging loan	<b>80,000,000</b>	-
Term loans	<b><u>145,563,687</u></b>	<u>89,545,546</u>
	<b><u>225,563,687</u></b>	<u>89,545,546</u>
<i><b>Due in less than one year</b></i>		
Bridging loan	<b>80,000,000</b>	-
Term loans	<b><u>12,934,367</u></b>	<u>-</u>
	<b>92,934,367</b>	-
<i><b>Due in more than one year</b></i>		
Term loans	<b><u>132,629,320</u></b>	<u>89,545,546</u>
	<b><u>225,563,687</u></b>	<u>89,545,546</u>

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

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### 17 TERM LOANS continued

The term loans are secured by a pledge over the plant and capital work-in-progress and corporate guarantee in accordance with the facility agreements. They carry interest at a variable rates of EIBOR plus a margin. The repayment terms of the loans are as follows:

- AED 4,380,000 is repayable within six months of the year end
- AED 7,423,595 is repayable in 5 equal annual instalments
- AED 133,769,092 is repayable in semi annual instalments commencing from 23 December 2003 to 23 June 2011 in accordance with an agreed upon instalments schedule.

Interest accrues on a monthly basis in accordance with the contractual interest terms

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

At 31 December 2002, unutilised term loan facilities available to the Company amounted to AED 1,239,908 (2001: AED 35,454,454).

### 18 ISLAMIC FINANCING ARRANGEMENTS

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Ijara loans	<b>38,210,338</b>	14,914,508
Istisna'a loans	<b>192,470,350</b>	8,586,899
Muqawala loan (net of deferred margin)	<b><u>34,860,250</u></b>	<u>-</u>
	<b><u>265,540,938</u></b>	<u>23,501,407</u>
 <i>Due in more than one year:</i>		
Ijara loans	<b>38,210,338</b>	14,914,508
Istisna'a loans	<b>192,470,350</b>	8,586,899
Muqawala loan	<b><u>30,673,030</u></b>	<u>-</u>
	<b>261,353,718</b>	23,501,407
 <i>Due in less than one year:</i>		
Muqawala loan	<b><u>4,187,220</u></b>	<u>-</u>
	<b><u>265,540,938</u></b>	<u>23,501,407</u>

#### *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 agreements dated 23 May 2001 and 30 July 2002 respectively. The first facility of AED 173,964,651 is repayable in 16 fixed semi-annual instalments commencing from 17 September 2005 and a fluctuating profit charge is paid under the Islamic financing agreement which is based on EIBOR plus a margin. The second facility of 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 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.

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### 18 ISLAMIC FINANCING ARRANGEMENTS continued

#### *Muqawala loan:*

	<i>AED</i>
Gross loan amount	<b>59,259,375</b>
Deferred margin (profit charge)	<b>(24,399,125)</b>
	<b><u>34,860,250</u></b>

The Muqawala loan 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.

At 31 December 2002, unutilised Islamic funding available to the Company amounted to AED 61,029,961 (2001: AED 101,498,593).

### 19 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:

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Balance at 1 January	<b>1,318,611</b>	809,796
Provided during the year	<b>773,068</b>	544,316
Paid during the year	<b><u>(23,071)</u></b>	<b><u>(35,501)</u></b>
Balance at 31 December	<b><u>2,068,608</u></b>	<b><u>1,318,611</u></b>

### 20 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Accounts payable	<b>86,760,310</b>	115,297,913
Retentions payable	<b>18,071,696</b>	8,325,385
Negative fair value of derivatives	<b>1,261,712</b>	-
Other payables	<b>1,779,144</b>	811,804
Accrued expenses	<b><u>4,593,203</u></b>	<b><u>2,704,080</u></b>
	<b><u>112,466,065</u></b>	<b><u>127,139,182</u></b>

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

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### 21 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 1,500,000 (2001: AED 1,000,000) in respect of transactions with related parties.

### 22 CONTINGENT LIABILITIES

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

	<i>2002</i> <i>AED</i>	<i>2001</i> <i>AED</i>
Performance guarantee	<b>13,181,800</b>	10,755,156
Advance payment guarantee	<b>304,000</b>	-
Retention release guarantee	<u>-</u>	<u>4,664,471</u>
	<b><u>13,485,800</u></b>	<b><u>15,419,627</u></b>

### 23 SUBSIDIARIES

	<i>Country of incorporation</i>	<i>Percentage of holding</i>
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

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 which was acquired in 2002, was registered on 15 May 2000 and commenced its commercial activities thereafter.

### 24 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

### **25 CAPITAL COMMITMENTS**

The Board of Directors have authorised future capital expenditure amounting to AED 650.8 million (2001 : AED 259 million). Included in this amount is AED 295.5 million (2001 : AED 173 million) which is expected to be incurred within one year of the balance sheet date.

### **26 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 2002 was AED 147 million (2001: nil). 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 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 95% of outstanding accounts receivable at 31 December 2002 (2001: 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.