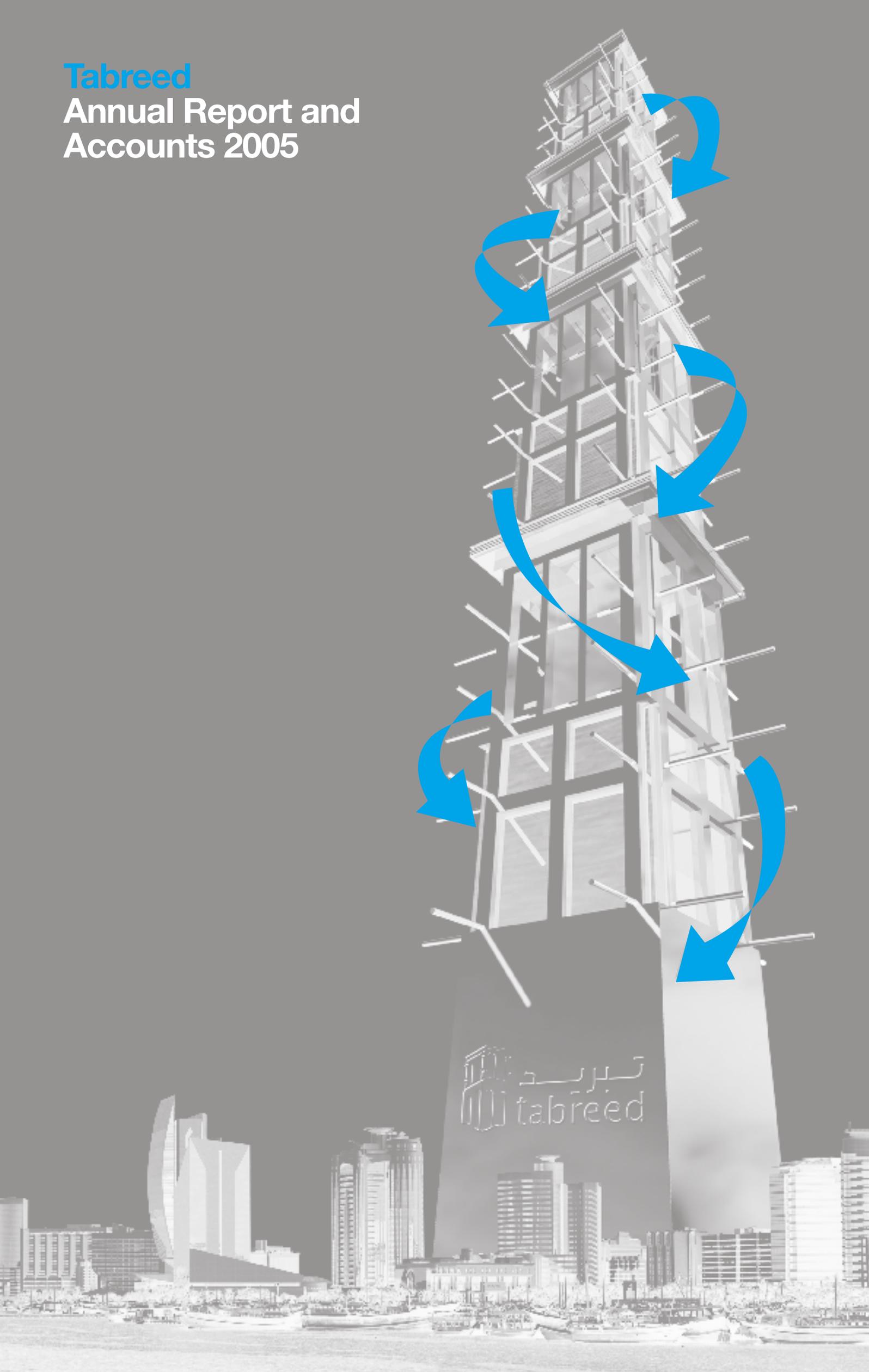


Tabreed
Annual Report and
Accounts 2005





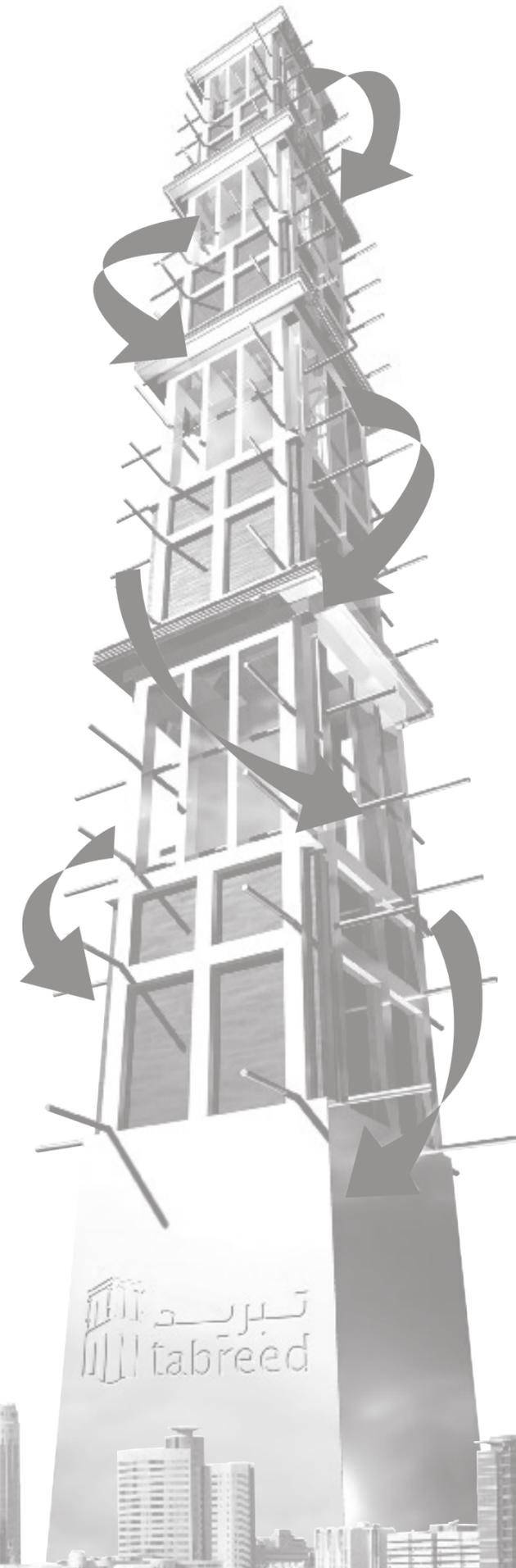
His Highness Sheikh Khalifa Bin Zayed Al Nahyan
*President of the United Arab Emirates and Ruler
of Abu Dhabi*



His Highness Sheikh Mohammed Bin Rashid Al Maktoum
UAE Vice President and Prime Minister and Ruler of Dubai

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Board of Directors



Mohamed Saif Al Mazrouei
Chairman



Khalifa Mohamed Al Kindi
Deputy Chariman



Khalifa Mohamed Al Gobaisi
Board Member



Mubarak Rashed Al Mansouri
Board Member



Ahmed Ateeq Al Mazrouei
Board Member



Mohamed Darwish Al Qamzi
Board Member



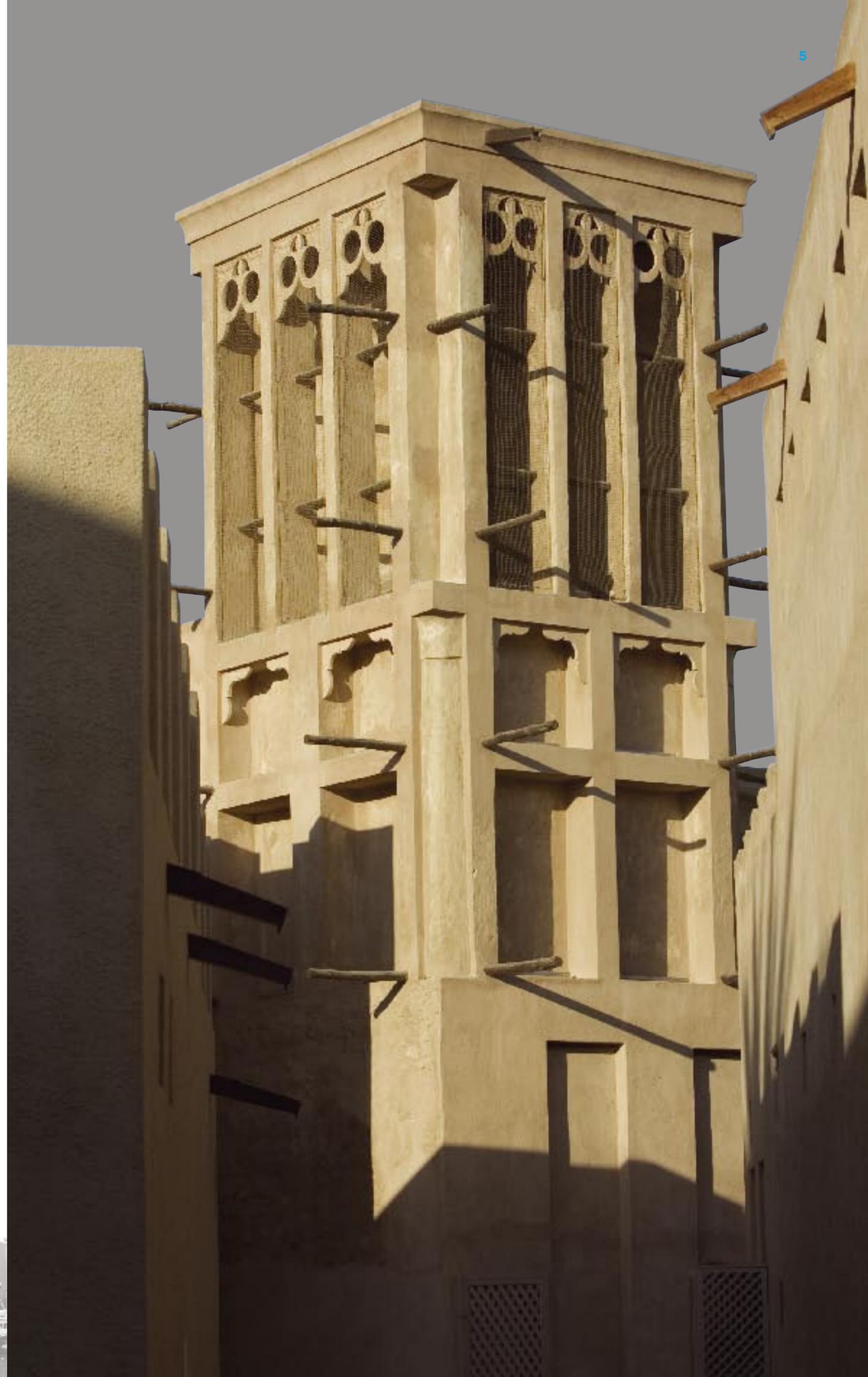
Obaid Ghanim Al Mutaiwei
Board Member



Abdul Raouf W. Al Bitar
Board Member



Dany Joseph Safi
CEO, Board Member



Chairman's Message

Our returns and growth rate are showing our strength and underpinning our bright future.



Mohamed Saif Al Mazrouei
Chairman

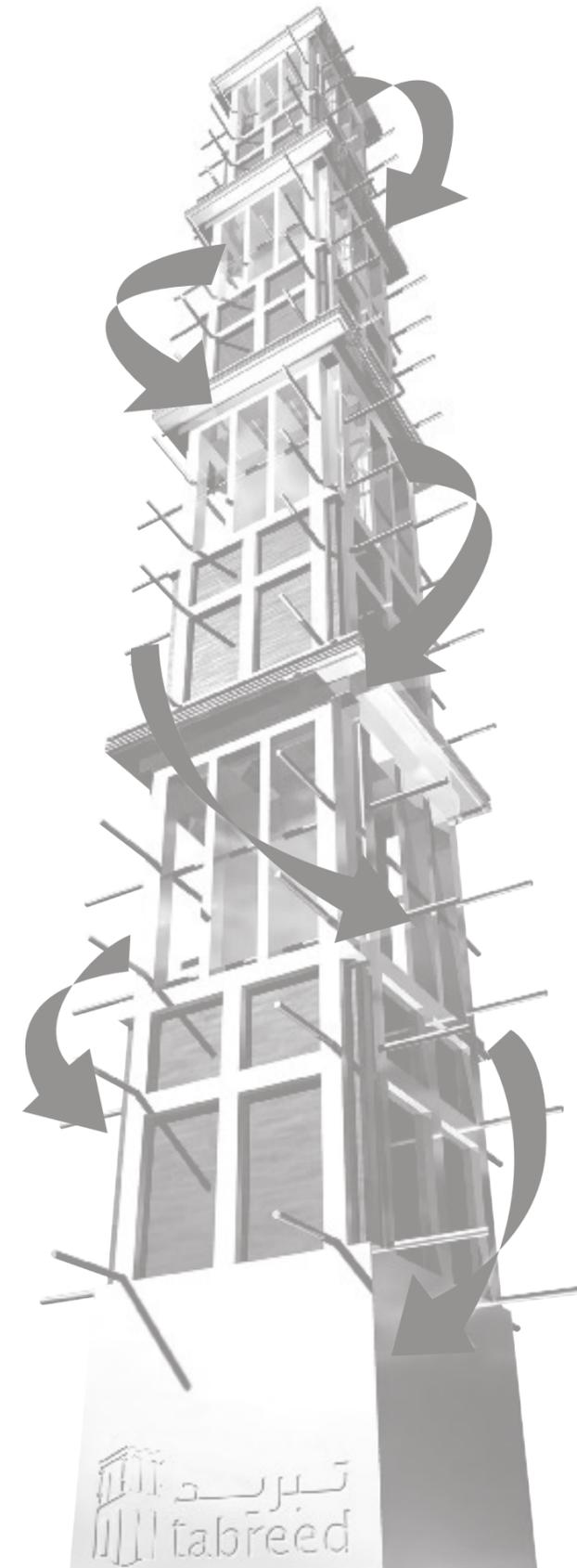
Review of the Year

So far it has been a dream run and a phenomenal achievement – unmatched in the region and one of the best in the world. The achievements go much beyond the number of schemes and production capacity, or the sophistication of services. Tabreed is sowing the seeds for the future of our community. It is at the epicenter of a quantum change, change in business culture, in the economy and in lifestyle.

We will continue working together to deliver the difference-in innovation, earnings growth and return on capital-to become even better. We approach this goal with a solid foundation, a passion for success, and a long track record of accomplishing what we set out to do. The result? Record revenues, record income from operations, and outstanding operating leverage. Revenue increased 66% to 400.9 million and diluted earnings per share increased 65% to 51 million compared with 2004. Tabreed's shareholders realized a 70% return on investment in our common shares for the year, following a 146% return during 2004. Our returns and growth rate are showing our strength and underpinning our bright future.

During the first half of the year, the company has doubled its share capital by issuing additional 50,000,000 shares through a public rights offering. We also enacted a 10-for-one stock split.

Tabreed is moving confidently ahead with major development projects in robust areas of the UAE and GCC Markets. These business developments, combined with an improved economy, have created a very optimistic business outlook unseen in our region before.



Report of the Board

Using our heritage of operational excellence as our foundation, we continued throughout 2005 to build a customer-focused growth company capable of generating superior shareholder returns.

Power the Future

The year 2005 witnessed a very positive performance from Tabreed which continues to grow at an exceptional fast pace with a revenue growth of 66%, resulting in 65% increase in the company's net profit. We expect total chilled water tonnage to keep on rising at a robust rate in the next few years to reach 197,000 R. Tons and 334,000 R. Tons in 2006 and 2007 respectively, in comparison to 97,000 R. Tons of production in 2005.

The year's operating performance was driven by our strategy of focusing on leadership positions in key markets and developments, where we continued building strength and value by doing what we already do well - providing reliable utility services to our existing and new client-base.

During the year, Tabreed managed to sign a number of high profile contracts in the country and abroad. In Dubai, we succeeded to sign a AED 3 billion agreement with Dubai Municipality to provide the entire Dubai Metro Project with district cooling services. This massive project will comprise 43 metro stations that will initially require a cooling

load of 36,000 TR. (tons of refrigeration) and upon completion, the cooling load will peak to 350,000 TR. In addition to this major job, Tabreed has signed other significant long term agreement with ALDAR Properties PJSC to provide district cooling services to all its current and upcoming projects in Abu Dhabi.

Tabreed has signed another 20-year contract with ALDAR Properties PJSC to provide chilled water to its headquarters building "Al Maamoura Tower" located in Al Muroor district in Abu Dhabi. In addition to that, Tabreed signed two major 20-year contracts to provide district cooling services to the latest shopping center in Abu Dhabi "Khalidiyah Mall" and Abu Dhabi University's new campus in Khalifa City. Moreover, Tabreed will be providing district cooling service to Fujairah and Ajman's tallest towers. The company has also signed a contract with Abu Dhabi General Directorate of Police to supply cooling to their newly developed guard's compound in Abu Dhabi. Construction work has already started and the expected date of completion is between 8 to 12 months from the agreement date.

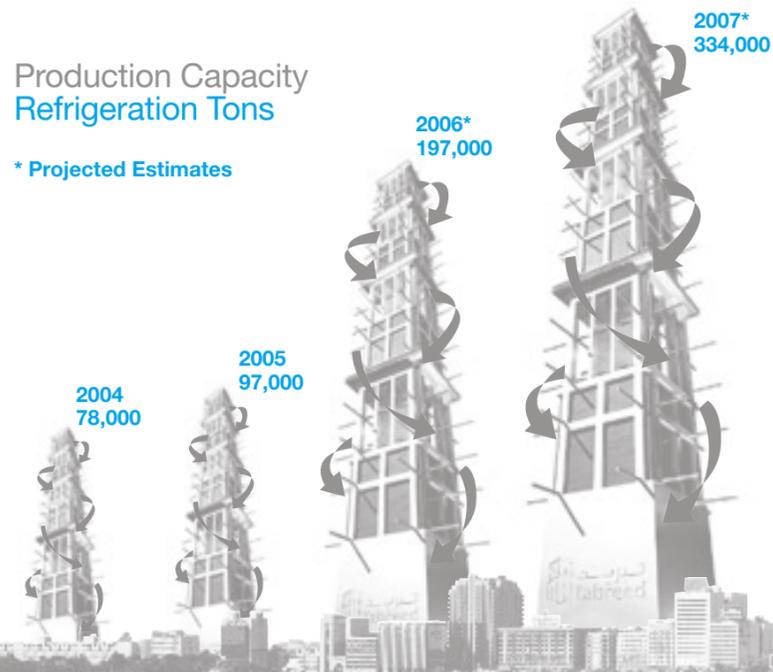
During the past few years, we set our goals and initiatives that aimed at driving excellence in key business and customer service skills that we believe are critical for our success. Part of our strategy is to provide improved customer services, initiating training and development programs and client interaction seminars to facilitate marketing activities that require our people to interface with our customers and build a relationship of mutual trust.

The results were remarkable and achievements were recognized on the international level. In 2005, the company won two gold awards in the United States from IDEA, the International District Energy Association, for having the highest number of spaces cooled and the highest number of buildings connected.

These new developments in addition to the company's robust demand for its services in the local and regional markets will likely carry its contracts volume and backlog to exceed our most optimistic expectations and will definitely accelerate our aggressive profit growth and financial bottom line for many years to come.

Production Capacity Refrigeration Tons

* Projected Estimates



Financial Highlights

Gross Profit in AED Thousands

2005
Operations 151,916
Other Income 20,000

2004
Operations 91,297
Other Income 7,800

2003
Operations 62,400
Other Income 2,100

2002
Operations 30,200
Other Income 3,200



CEO's Message

In our business that thrives on the trust and confidence of its clients, innovativeness and a common sense approach are keys to continued commercial viability.



Dany Joseph Safi
CEO, Board Member

Built to last

Tabreed enters 2006 with the greatest financial strength in our history, an excellent base of core assets and a loaded pipeline that provides a stable and substantial foundation of production and an opportunity portfolio with the potential to sustain our success as a world-class company.

Tabreed, however, did not attain this position through our 2005 efforts alone. Indeed, the process began more than seven years ago with a strategic decision to focus our investments to pursue opportunities that offered both attractive returns on capital as well as volume growth.

We are not resting on our laurels. We explore all possibilities for growth while strengthening our culture of teamwork, with the goal of elevating our efficiency and effectiveness. This strong team spirit is paying off now and creating a solid platform for cutting edge management. We believe in providing clear objectives, as we empower our people towards assuming expanded responsibilities, bestowing authority and creating a system for rewards and recognition. Implementing this strategy has instigated a profound impact on our results. Our leadership team is better aligned, our total team is more informed and motivated and we are successfully balancing the needs of all of our stakeholders. Continu-

ous improvement of these management skills will ultimately distinguish us from other companies and benefit shareholders significantly.

Tabreed has always adopted a stance of collective management, thriving on the contribution and efforts of our people as we withstand the scrutiny of our shareholders, working collectively and individually sound. We strongly believe that to become a high-performer company, we must evolve into a company of high performance business people.

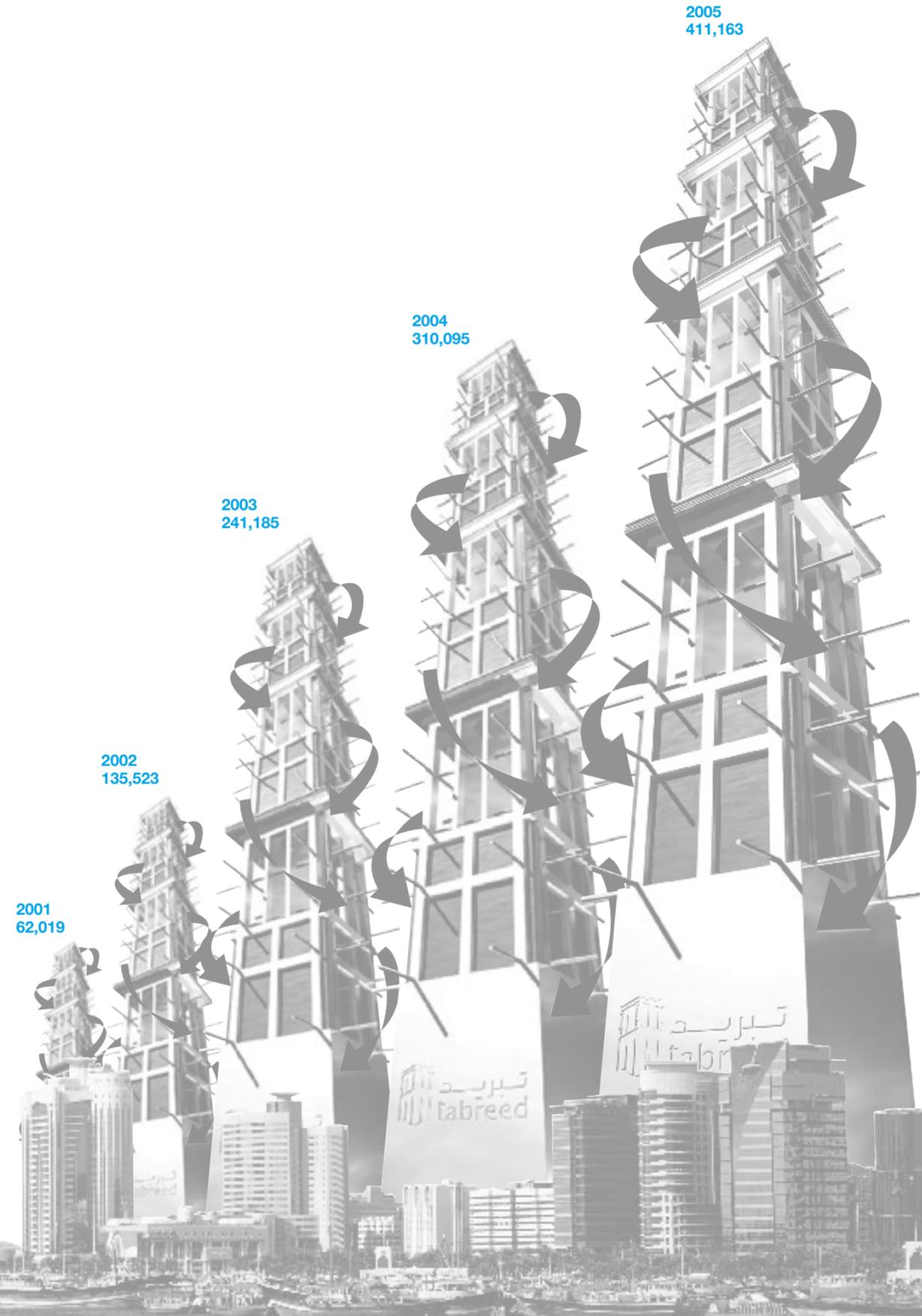
A clearer path ahead

The pace of change in the cooling industry has been as rapid as ever and the challenges just as demanding. The good news is that Tabreed at this maturing stage with its dedicated staff, experienced management, clear investment policy and outlook is now in an enviable position of strength.

This, however, means that there is a heavy responsibility on our shoulders, but we have great confidence that we will measure up to the aspirations of the entire nation in its march to achieve even higher targets.

As we meet on mutual grounds of interests, we endeavor to develop relationships with our stakeholders, progressing towards closer and more profitable interaction in the future.

Safety Performance Total of Man-hours in Thousands



Safety Performance

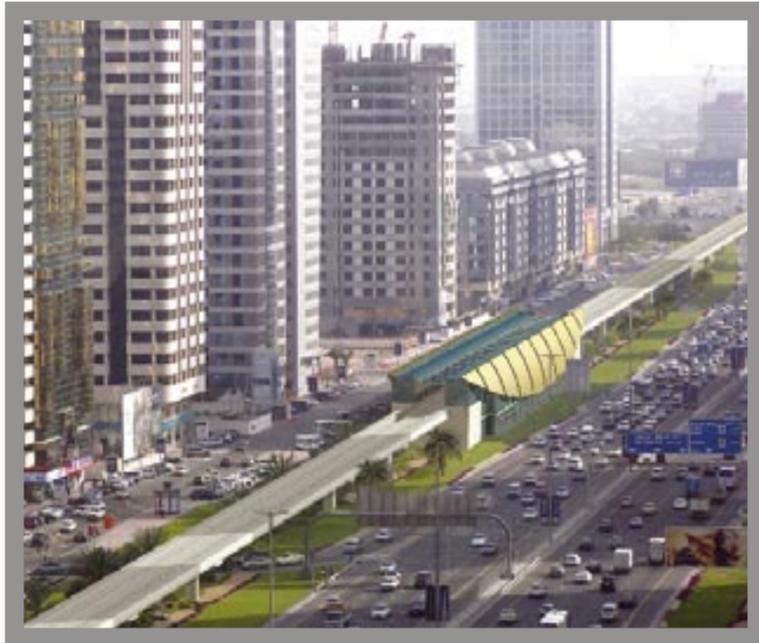
Year:	2001	2002	2003	2004	2005
Operational Facilities	3	5	13	15	18
Operation Maintenance Personnel	27	59	105	135	179
Total Man-hours in thousands	62,019	135,523	241,185	310,095	411,163
No. of Recordable Accidents	15	10	8	7	5
No. of Fatalities	0	0	0	0	0

Tabreed Schemes

Tabreed has 36 district cooling schemes in the UAE with over 282,300 tons of contracted cooling capacity. 18 of these schemes are currently operational with the earliest started in 1999. 15 schemes are under different stages of construction and 3 more are under design stage.

Dubai Metro - Dubai

This massive 3 billions AED project will comprise 47 metro stations that will initially require a cooling load of 36,000 TR, and upon completion, the cooling load will peak to 350,000 TR.



Al Kheeli Complex - AUH

The complex is located in Sas Al Nakhl in Abu Dhabi and is comprised of four residential towers and shopping center that will host two underground floors, cinema theatres and an Ice Skating rink.



Al Khaleej Hospital - Al Ain

Al Khaleej is the latest medical development in Al Ain and will host 1 Royal and 7 VIP wards, 24 pediatric rooms and 46 general rooms. The hospital will also have 3 operational theatres that will be equipped with the latest technology.



Abu Dhabi University - AUH

The new campus will accommodate 10,000 students, and will host two additional colleges to the university's already existing ones. It will also represent a milestone in the world of higher education through its exquisite design and modern educational facilities which include auditoriums and laboratories.



ALDAR – AUH

ALDAR signed a master contract with Tabreed to provide district cooling services for all its upcoming and future projects in Abu Dhabi. Al Maamoura Tower, ALDAR's headquarters in Abu Dhabi, will be the first projects to benefit from this agreement.



Dubai Pearl - Dubai

Dubai Pearl is a 10 million square feet multi-purpose development, which encompasses three hotel towers, an 1,800-seat performing Dubai Royal Hall, a galleria, six residential towers and over 1.2 million square feet of shops, restaurants and promenades, a TecnoWorld, and two office towers.



Six Towers - AUH

This Abu Dhabi scheme will serve cooling to a number of commercial and residential developments, starting by the Six Towers Development which is comprised of 2 towers owned by the Private Building Est. and another 4 towers that are owned by International Capital Trading.



Al Emara Tower

Al Emara Tower is Ajman's tallest tower and is being developed in Al Nakheel Area. This commercial and residential tower is 62-storey high and is comprised of a businessmen floor, a health club, a multi-purpose hall, and 5 parking levels.



Zakat (ALMS) Report

We have analyzed the data stated in the financial lists of National Central Cooling Company "Tabreed" and the subsidiary companies for the year ending Dec.31, 2005 for the purpose of assessing and determining the amount of Zakat payable by laws of Islam against each share.

We have obtained the data and notes we deemed appropriate for same. The scope of our mission has been represented in examining the financial lists and their annexes prepared with the approval of the Company Management and audited by the Auditor in accordance with the accounting principles and criteria applied in the United Arab Emirates.

In assessing and determining the amount of Zakat, we relied upon the provisions and

legal opinions "fatawa" pertaining to the calculation of the Zakat as issued by the International Sharia Association of Zakat and the Companies Zakat Guide in addition to Zakat Calculation Criteria issued by Auditing and Controlling Body of the Islamic financial establishments.

In light of the above, it is our opinion that the Zakat calculation list attached herewith is in compliance with the Zakat provisions, fatawa and criteria. Each shareholder may refer to the Shareholders Department of the Company to be informed of the amount of Zakat payable against each share.

Praise be to Allah with whom grace good deeds are accomplished.



CFO's Message

The company's excellent performance has reinforced our position as the world's largest operator in the district cooling business.



Karl Marietta
Chief Financial Officer

Financial Results

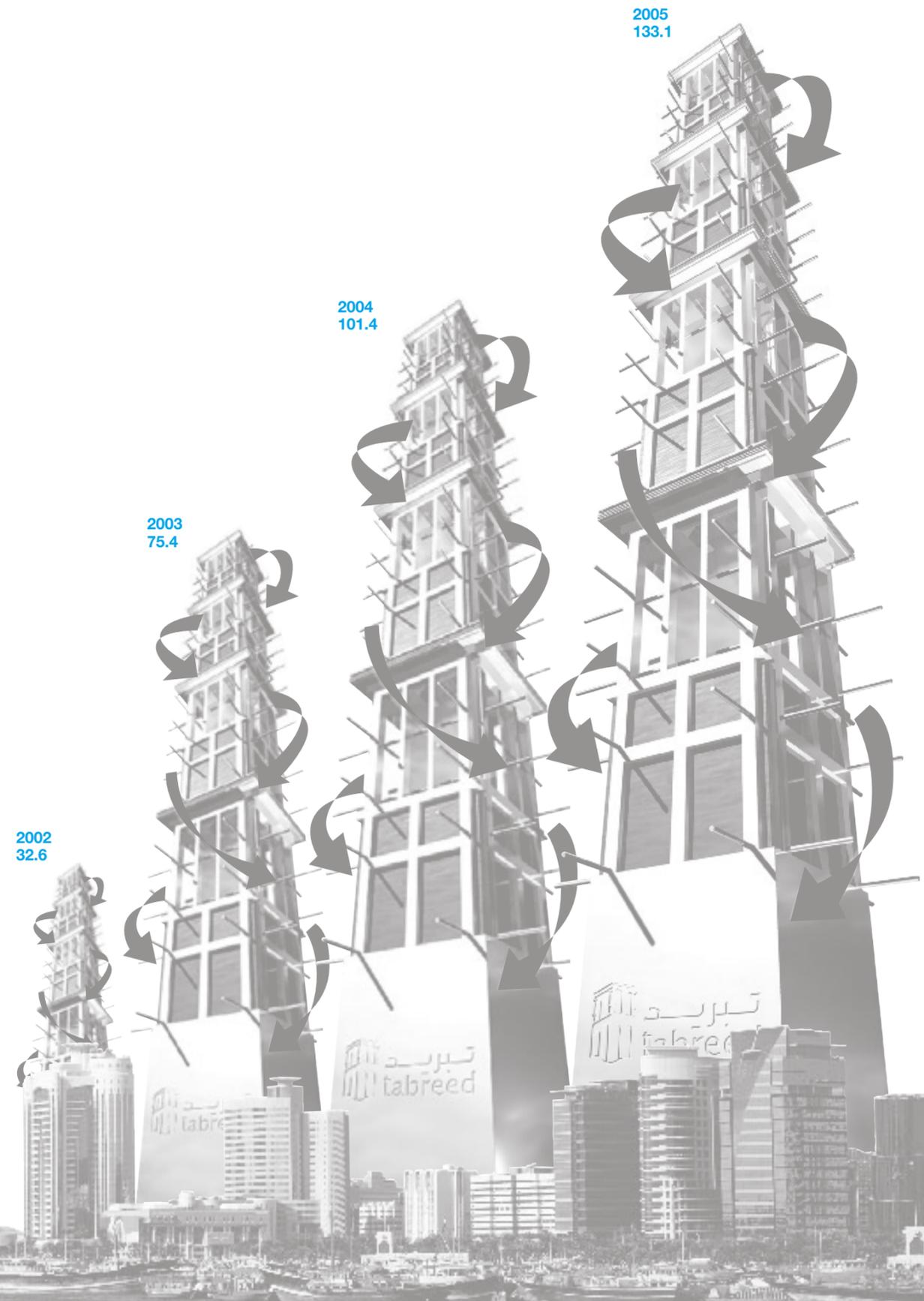
The year 2005 operating performance was driven by our strategy of focusing on leadership positions in key markets and developments. The company's excellent performance reinforced our position as the world's largest operator in the district cooling sector.

Our financial capabilities grew as total debt to total capitalization declined to 1.52 from 2.16 in 2004. At year-end 2005, our balance sheet included 520 million in cash and cash equivalents, compared to 255 million at the close of 2004.

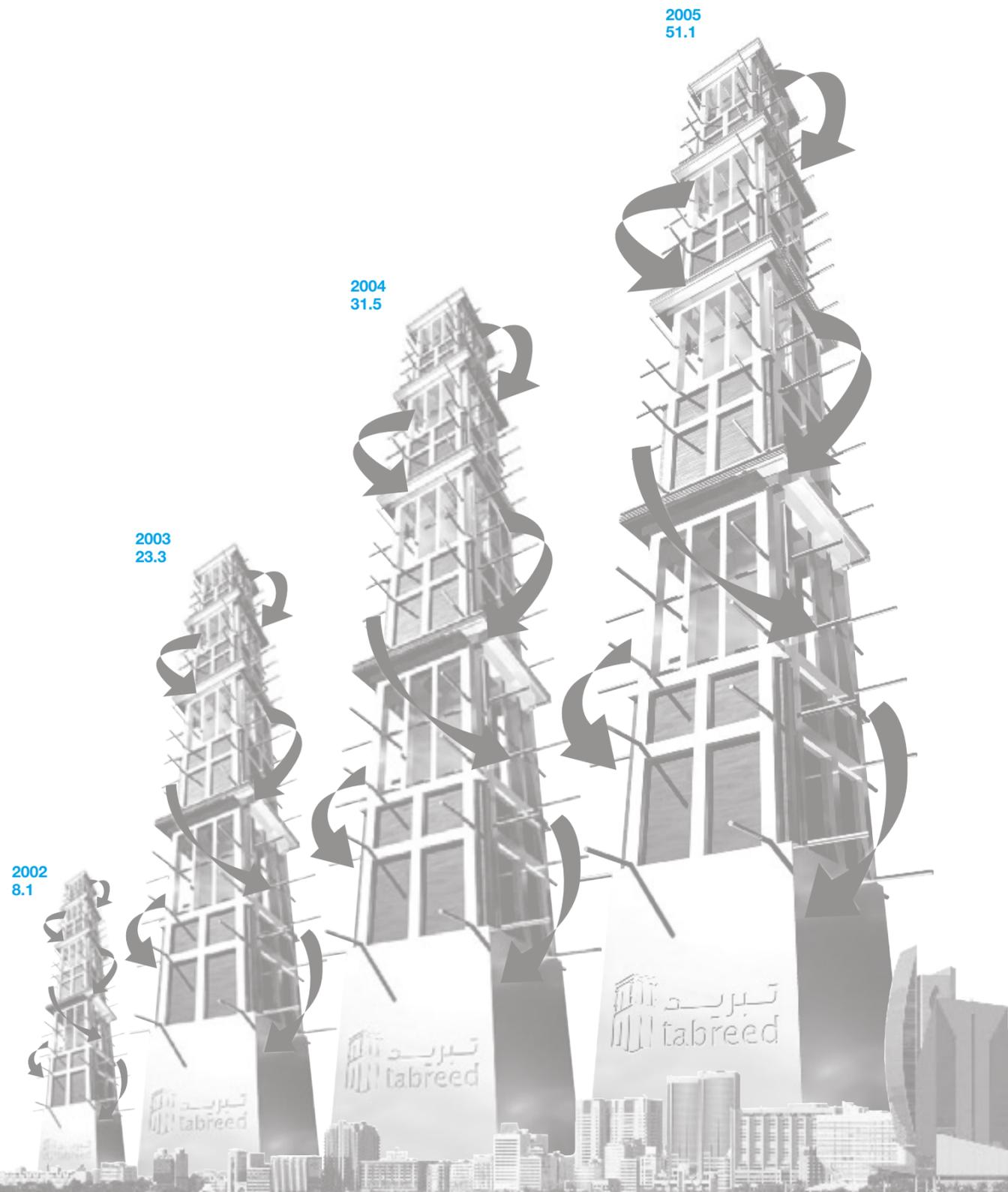
Financial Results Comments

For the year 2005, Tabreed reported record financial results. Earnings from continuing operations climbed 63% from 2004. Revenues increased 66% over 2004 to AED 400,904,000. Gross profit has increased to AED 151,916,000, up from AED 91,297,000 last year. As a result, net profit amounted to AED 51,140,000 in comparison to AED 31,585,000 for 2004. At the yearend, total equity stood at AED 1,145,776,000 and total assets reached AED 2,665,206,000 increased by AED 1,021,416,000 from the previous year.

Financial Highlights Chilled Water Revenue in AED Millions



Financial Highlights
Net Income Chart in AED Millions



Financial Highlights
Cash Flow Chart in AED Millions



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 2005, 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 2005 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 consolidated 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

February 12, 2006
Abu Dhabi

Consolidated Income Statement Year ended 31 December 2005

	Notes	2005 AED '000	2004 AED'000
Revenues	3	400,904	242,085
Operating costs		(248,988)	(150,788)
GROSS PROFIT		151,916	91,297
Salaries and staff related costs		(30,753)	(21,753)
Other administrative expenses		(37,989)	(20,319)
Amortisation and impairment of goodwill and trademarks	12	(606)	(862)
Finance costs		(35,433)	(20,401)
Other income	4	20,034	7,759
Share of results of associates	10	478	(228)
PROFIT FOR THE YEAR		67,647	35,493
Attributable to:			
Equity holders of the parent		51,140	31,585
Minority interests		16,507	3,908
		67,647	35,493
Basic earnings per share	6	0.05	0.04

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Balance Sheet At 31 December 2005

	Notes	2005 AED '000	2004 AED '000 (Restated)
ASSETS			
Non-current assets			
Capital work in progress	8	642,921	331,962
Property, plant and equipment	9	1,004,108	772,894
Investments in associates	10	46,002	18,519
Intangibles	12	38,336	30,044
Prepayments		18,349	21,988
		1,749,716	1,175,407
Current assets			
Inventories		17,651	8,418
Trade and other receivables	14	207,007	125,934
Financial assets carried at fair value through income statement		76,269	-
Contract work in progress	15	69,211	70,457
Prepayments		7,453	8,184
Bank balances and cash	16	520,032	255,390
		897,623	468,383
Assets classified as held for sale	2.2 & 9	17,867	-
		915,490	468,383
TOTAL ASSETS		2,665,206	1,643,790
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	1,000,000	500,000
Treasury shares	18	(10,050)	(5,050)
Statutory reserve	19	14,544	7,914
Retained earnings		22,881	28,371
Cumulative changes in fair value of derivatives	26	3,800	(6,419)
Reserve for proposed bonus issue	20	50,000	-
Proposed dividend	20	-	25,000
		1,081,175	549,816
Minority interests		64,601	14,530
Total equity		1,145,776	564,346
Non-current liabilities			
Accounts payable and accruals	24	10,604	1,194
Term loans	21	393,836	213,680
Islamic Ijara loans	22	308,809	324,323
Islamic Istisna'a loans	22	180,075	180,075
Islamic Muqawala loans	22	132,263	121,826
Employees' end of service benefits	23	7,884	5,604
		1,033,471	846,702
Current liabilities			
Accounts payable and accruals	24	318,919	161,211
Bank overdrafts	16	111,933	27,501
Current portion of term loans	21	25,416	26,313
Current portion of Ijara loans	22	15,514	9,396
Current portion of Muqawala loans	22	14,177	8,321
		485,959	232,742
Total liabilities		1,519,430	1,079,444
TOTAL EQUITY AND LIABILITIES		2,665,206	1,643,790

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows At 31 December 2005

	Notes	2005 AED '000	2004 AED '000 (Restated)
OPERATING ACTIVITIES			
Profit for the year attributable to equity holders of the parent		51,140	31,585
Adjustment for:			
Depreciation	9	43,404	36,415
Amortisation of goodwill and trademarks	12	12	862
Provision for impairment losses relating to goodwill	12	594	-
Provision for employees' end of service benefits	23	2,280	2,152
Interest income	4	(9,764)	(3,962)
Finance costs		35,433	20,401
Revaluation gain on financial assets carried at fair value through income statement	4	(5,486)	-
Profit on sale of property, plant and equipment		(84)	(746)
		117,529	86,707
WORKING CAPITAL CHANGES			
Inventories		(9,233)	(3,613)
Accounts receivable and prepayments		(66,484)	(76,725)
Contract work in progress		1,246	(41,022)
Accounts payable and accruals		167,118	(21,686)
Net cash from (used in) operations		210,176	(56,339)
Minority interests		50,071	6,543
Finance costs		(35,433)	(20,401)
Net cash from (used in) operating activities		224,814	(70,197)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(26,088)	(5,701)
Proceeds from sale of property, plant and equipment		193	76,565
Additional goodwill arising on acquisition of subsidiary	12	(8,898)	-
Investments in associates		(27,483)	(13,541)
Purchase of financial assets carried at fair value through income statement		(70,783)	-
Additions to capital work in progress		(577,465)	(219,813)
Acquisition of subsidiaries, net of cash acquired		-	(25,103)
Interest received	4	9,764	3,962
Net cash used in investing activities		(700,760)	(183,631)
FINANCING ACTIVITIES			
Share capital received	17	500,000	-
Contribution to Treasury shares	18	(5,000)	(5,050)
Dividends paid		(25,000)	(15,000)
Term loans received		208,081	250,040
Term loans repaid		(28,822)	(194,966)
Islamic Ijara loans received		-	187,425
Islamic Ijara loans repaid		(9,396)	(94,706)
Muqawala loans received		18,757	86,228
Muqawala loans repaid		(2,464)	(2,465)
Islamic Istisna'a loans received		-	180,075
Net cash from financing activities		656,156	391,581
INCREASE IN CASH AND CASH EQUIVALENTS		180,210	137,753
Cash and cash equivalents at 1 January	16	227,889	90,136
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	16	408,099	227,889
Significant non-cash transactions, which have been excluded from the statement of cash flows, are as follows:			
Accounts payable and accruals – fair value adjustment for derivatives		-	1,248
Accounts receivable and prepayments – fair value adjustment for derivatives		10,219	(3,352)
Transfer from capital work in progress to property, plant and equipment		266,506	17,025
Transfer from property, plant and equipment to assets held for sale		17,867	-

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

Attributable to equity holders of the parent

	Share capital AED 000	Treasury shares AED 000	Statutory reserve AED 000	Retained earnings AED 000	Cumulative changes in fair value of derivatives AED 000	Reserve for proposed bonus issue AED 000	Proposed dividend AED 000	Total AED 000	Minority interests AED 000	Total equity AED 000
Balance at 1 January 2004 (as previously stated)	500,000	-	5,160	25,838	(4,315)	-	15,000	541,683	7,986	549,669
Effect of adopting IFRS 2 (note 18)	-	-	-	(1,298)	-	-	-	(1,298)	-	(1,298)
Reclassification from advance to employee incentive scheme (note 18)	-	(5,050)	-	-	-	-	-	(5,050)	-	(5,050)
At 1 January 2004 (restated)	500,000	(5,050)	5,160	24,540	(4,315)	-	15,000	535,335	7,986	543,321
Net movement in fair value of cash flow hedges	-	-	-	-	(2,104)	-	-	(2,104)	-	(2,104)
Total expense for the year recognised directly in equity	-	-	-	-	(2,104)	-	-	(2,104)	-	(2,104)
Profit for the year	-	-	-	31,585	-	-	-	31,585	3,908	35,493
Total income and expense for the year	-	-	-	31,585	(2,104)	-	-	29,481	3,908	33,389
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	4,877	4,877
Transfer to statutory reserve	-	-	2,754	(2,754)	-	-	-	-	-	-
Purchase of minority interests during the year	-	-	-	-	-	-	-	-	(1,041)	(1,041)
Dividend paid	-	-	-	-	-	-	(15,000)	(15,000)	(1,200)	(16,200)
Dividend proposed	-	-	-	(25,000)	-	-	25,000	-	-	-
Balance at 31 December 2004 (restated)	500,000	(5,050)	7,914	28,371	(6,419)	-	25,000	549,816	14,530	564,346
Net movement in fair value of cash flow hedges	-	-	-	-	10,219	-	-	10,219	-	10,219
Total income for the year recognised directly in equity	-	-	-	-	10,219	-	-	10,219	-	10,219
Profit for the year	-	-	-	51,140	-	-	-	51,140	16,507	67,647
Total income and expense for the year	-	-	-	51,140	10,219	-	-	61,359	16,507	77,866
Increase in share capital	500,000	-	-	-	-	-	-	500,000	36,264	536,264
Transfer to statutory reserve	-	-	6,630	(6,630)	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(25,000)	(25,000)	(2,700)	(27,700)
Contribution to treasury shares	-	(5,000)	-	-	-	-	-	(5,000)	-	(5,000)
Proposed bonus issue	-	-	-	(50,000)	-	50,000	-	-	-	-
Balance at 31 December 2005	1,000,000	(10,050)	14,544	22,881	3,800	50,000	-	1,081,175	64,601	1,145,776

The attached notes 1 to 32 form part of these consolidated financial statements.

Notes To The Consolidated Financial Statements

31 December 2005

01 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 12 February 2006.

02 Significant Accounting Policies

2.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the UAE Commercial Companies Law of 1984 (as amended).

The consolidated financial statements have been presented in United Arab Emirates Dirhams (AED) which is the functional currency of the Company. All values are rounded to the nearest thousand (AED '000) except when otherwise indicated.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments, share-based payments and financial assets carried at fair value through income statement.

2.2 Changes in Accounting Policies

The accounting policies are consistent with those used in the previous year except that the Company has adopted those new / revised standards mandatory for financial years beginning on or after 1 January 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 2 Share-based payment
- IFRS 3 Business Combinations and IAS 36 (revised) Impairment of Assets
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The principal effects of these changes in policies are discussed below:

- **IFRS 2 Share-based Payment**
The accounting policy for share based payment transactions is described in the summary of significant accounting policies. The main impact of IFRS 2 on the Company is the recognition of an expense and a corresponding entry to liability for cash settled notional units of Company's ordinary shares granted to qualifying employees of the Company. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

The Company has applied IFRS 2 retrospectively and the effect of the policy has

decreased consolidated current year profits by AED 1.8 million and retained earnings at 1 January 2004 by AED 1.3 million. A liability of AED 7.2 million representing the fair value of the outstanding cash settled notional units of Company's ordinary shares granted as at 31 December 2005 is carried in the balance sheet (refer to note 18).

- **IFRS 3 Business Combinations and IAS 36 (revised) Impairment of Assets**
IFRS 3 has been applied for business combinations for which the agreement date is on or after 31 March 2004. Additionally, the adoption of IFRS 3 and IAS 36 (revised) has resulted in the Company ceasing annual goodwill amortisation and commencing testing for impairment at the cash generating unit level annually from 1 January 2005. The transitional provisions of IFRS 3 have required the Company to eliminate at 1 January 2005 the carrying amount of the accumulated amortisation by AED 8.6 million with a corresponding entry to goodwill.

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
IFRS 5 requires a component of an entity to be classified as discontinued when the criteria to be classified as held for sale have been met or it has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The effect of the policy has resulted in the reclassification of the net carrying amount of AED 17.9 million representing a district cooling plant from non-current assets to the heading of 'assets classified as held for sale' under current assets. The Company has committed to a third party for the sale of the plant at a value expected by the management to be in excess of its carrying amount at 31 December 2005.

2.3 Significant Accounting Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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Impairment of goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was AED 38 million (2004: AED 30 million). More details are given in note 12.

Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the balance sheet date, gross trade accounts receivable were AED 168.4 million (2004: AED 114.5 million), and the provision for doubtful debts was AED 7.8 million (2004: AED 6 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

2.4 Significant Accounting Policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and each of its controlled subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Where subsidiary financial statements are drawn up to different reporting dates, adjustments are made. All significant inter-company balances, transactions and profits have been eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Minority interest principally represents

the interest in subsidiaries not held by the Company and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Revenue recognition

Sales are recognised when the significant risks and rewards of ownership of the goods and services have passed to the buyer and the amount of revenue can be measured reliably. For sale of chilled water, revenue comprises of available capacity and variable output provided to customers and is recognised when services are provided.

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 the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instruments to the net carrying amount of the financial asset).

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.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Plant and buildings	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 property, plant 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.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

The Company performs regular major overhaul of its district cooling plants. When each major overhaul is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. The cost recognised is depreciated over the period till the next planned major overhaul.

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 and which is neither a subsidiary nor a joint venture. 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.

The reporting dates of the associates and the Company are identical and the associates' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

Interest in joint venture

The Company's interest in its joint venture is accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

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Intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Company's primary or secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised (net of interest income on

temporary investment of borrowings) as part of the cost of the asset until the asset is commissioned for use. Borrowing costs in respect of completed assets or not attributable to assets 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 specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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 when there is no possibility of recovery.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three

months or less, net of outstanding bank overdrafts.

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 or capitalised as part of capital work in progress in accordance with International Accounting Standard No 23 as they accrue, with unpaid amounts included in "accounts payable and accruals".

Financial assets at fair value through income statement

Investments are classified as financial assets at fair value through income statement if the fair value of the investment can be reliably measured. These are re-measured at fair value with all changes in fair value being recorded in the income statement.

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.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as

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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.

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 capitalised 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.

Share-based payment transactions

Qualifying employees (including senior executives) of the Company receive part of their remuneration in the form of share-based payment transactions. The employees are granted notional units of Company's ordinary shares which are settleable in cash ('cash-settled transactions'). The cost of the cash settled transactions is measured initially at fair value at the grant date based on the unit value determined by management of the Company. The fair value is expensed to the income statement in the year of grant with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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

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 flows 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.

2.5 IASB Interpretation Issued But Not Adopted

The following Interpretation has been issued but is not yet mandatory, and has not yet been adopted by the Company:

IFRIC 4 Determining Whether an Arrangement Contains a Lease

Management is aware of the application of the above interpretation, which will take place during 2006. The Management is in the process of assessing the applicability of the interpretation, if any, to its operations at the balance sheet date.

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03 Segmental Analysis

	Services AED '000	Chilled water AED '000	Contracting AED'000	Manufacturing AED'000	Eliminations AED'000	Total AED'000
2005						
Revenue						
External revenue	37,838	133,128	109,317	120,621	-	400,904
Inter-segment sales	9,690	-	-	-	(9,690)	-
Total revenue	47,528	133,128	109,317	120,621	(9,690)	400,904
Result						
Segment result	15,647	21,058	21,395	32,163	(2,911)	87,352
Finance costs	-	-	-	-	-	(35,433)
Interest income	-	-	-	-	-	15,250
Share of results of associates	-	478	-	-	-	478
Minority interests	-	-	-	-	-	(16,507)
Profit for the year						51,140
2004						
Revenue						
External revenue	13,606	101,494	83,988	42,997	-	242,085
Inter-segment sales	1,526	-	-	-	(1,526)	-
Total revenue	15,132	101,494	83,988	42,997	(1,526)	242,085
Result						
Segment result	2,803	23,364	16,499	9,540	(46)	52,160
Finance costs	-	-	-	-	-	(20,401)
Interest income	-	-	-	-	-	3,962
Share of results of associates	-	(228)	-	-	-	(228)
Minority interests	-	-	-	-	-	(3,908)
Profit for the year						31,585

	Services AED '000	Chilled water AED'000	Contracting AED'000	Manufacturing AED'000	Total AED'000
2005					
Other information					
Segment assets	57,405	2,304,390	183,319	74,090	2,619,204
Investments in associates	-	46,002	-	-	46,002
Total assets	57,405	2,350,392	183,319	74,090	2,665,206
Segment liabilities	9,627	1,349,683	138,492	21,628	1,519,430
2004					
Segment assets	17,729	1,429,748	140,145	37,649	1,625,271
Investments in associates	-	18,519	-	-	18,519
Total assets	17,729	1,448,267	140,145	37,649	1,643,790
Segment liabilities	6,233	968,534	90,118	14,559	1,079,444

Notes To The Consolidated Financial Statements

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03 Segmental Analysis continued

	Services AED '000	Chilled water AED'000	Contracting AED'000	Manufacturing AED'000	Total AED'000
Other information continued					
2005					
Capital expenditure:					
Tangible fixed assets	615	22,353	79	3,041	26,088
Depreciation	358	41,947	216	883	43,404
Amortisation	-	12	-	-	12
2004					
Capital expenditure:					
Tangible fixed assets	23	3,511	1,765	402	5,701
Depreciation	160	35,387	-	868	36,415
Amortisation	-	862	-	-	862

The Company is organised as one geographical segment and consequently, no secondary information is required to be provided.

04 Other Income

	2005 AED '000	2004 AED'000
Bank interest	9,764	3,962
Investment income	5,486	-
Miscellaneous income	4,784	3,797
	20,034	7,759

05 Profit for the Year

The profit for the year is stated after charging:

	2005 AED '000	2004 AED'000
Inventories recognised as expense upon sale of finished goods	82,696	29,884

Notes To The Consolidated Financial Statements

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06 Basic Earnings Per Share

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year as follows:

	2005	2004
Profit for the year (AED '000)	51,140	31,585
Weighted average number of ordinary shares issued ('000)	945,205	814,800
Basic earnings per share (AED '000)	0.05	0.04

The weighted average number of ordinary shares in issue used in the determination of the earnings per share for the year ended 31 December 2004 have been adjusted for the effect of the split of the nominal value of the Company's ordinary shares from AED 10 to AED 1 per share.

07 Results of Subsidiaries

Included in the consolidated income statement for the years ended 31 December 2005 and 2004 are the following in respect of subsidiary operations:

	2005 AED'000	2004 AED'000
Revenues	281,360	144,019
Expenses	(215,001)	(116,578)
Profit for the year before minority interest	66,359	27,441

The above balances represent results prior to eliminations for intercompany transactions.

08 Capital Work In Progress

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

	2005 AED'000	2004 AED'000 (Restated)
Balance at 1 January	306,106	117,357
Additions during the year	555,777	205,774
Transfer to property, plant and equipment (note 9)	(266,506)	(17,025)
Balance at 31 December	595,377	306,106
Advances to contractors	47,544	25,856
	642,921	331,962

A substantial portion of capital work in progress has been funded under Islamic financing arrangements and term loans (notes 21 and 22). Upon completion of the construction of plants under Istisna'a financing arrangements, the total cost of the plant thereafter 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.

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08 Capital Work In Progress continued

In addition, AED 178.3 million (2004: AED 220.4 million) is included in capital work in progress which has been funded under a separate Islamic financing arrangement.

Included in additions to capital work in progress are capitalised financing costs amounting to AED 29.5 million (2004: AED 23.3 million).

09 Property, Plant and Equipment

	Plant and buildings AED	Furniture and fixtures AED	Office equipment and instruments AED	Motor vehicles AED	Total AED
Cost:					
At 1 January 2005	825,495	5,242	11,641	2,031	844,409
Additions	23,328	1,369	1,198	193	26,088
Transfer from capital work in progress (note 8)	264,155	-	2,351	-	266,506
Transfer of assets held for sale (note 2.2)	(19,748)	-	-	-	(19,748)
Disposals	(96)	(12)	(21)	(125)	(254)
At 31 December 2005	1,093,134	6,599	15,169	2,099	1,117,001
Depreciation:					
At 1 January 2005	(63,159)	(2,779)	(4,675)	(902)	(71,515)
Charge for the year	(40,275)	(1,117)	(1,651)	(361)	(43,404)
Transfer of assets held for sale	1,881	-	-	-	1,881
Disposals	5	7	8	125	145
At 31 December 2005	(101,548)	(3,889)	(6,318)	(1,138)	(112,893)
Net carrying amount:					
At 31 December 2005	991,586	2,710	8,851	961	1,004,108
At 31 December 2004	762,336	2,463	6,966	1,129	772,894

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

	2005 AED '000	2004 AED '000
Included in operating costs	39,401	32,981
Included in other administrative expenses	3,630	3,343
Included in capital work in progress	373	91
	43,404	36,415

At 31 December 2005, the net book value of plants financed by an Islamic Ijara loan under sale and leaseback Ijara financing arrangements amounted to AED 563.9 million (2004: AED 407.9 million). 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.

Included in land, plant and buildings is an amount of AED 11.1 million relating to freehold land purchased by the Company in the Emirate of Ajman for the purpose of constructing a district cooling plant.

Notes To The Consolidated Financial Statements

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10 Investments in Associates

The Company has the following investments in associates:

	Country of incorporation	Ownership	
		2005	2004
Industrial City Cooling Company	Emirate of Abu Dhabi	20%	20%
Qatar Central Cooling Company PJSC	State of Qatar	44.5%	44.5%
Tabreed District Cooling Company (Saudi)	Kingdom of Saudi Arabia	25%	-

The associates are involved in the same business activity as the Company. The reporting dates for the associates are identical to the Company.

The following illustrates summarised information of the Company's investments in associates:

	2005 AED'000	2004 AED'000
Share of the associates' balance sheets:		
Current assets	38,239	12,856
Non-current assets	75,446	18,315
Current liabilities	(21,068)	(1,402)
Non-current liabilities	(46,615)	(11,250)
Net assets	46,002	18,519
Share of the associates' revenues and results:		
Revenues	2,791	839
Results	478	(228)
Carrying amount of the investments	46,002	18,519

Management believe that the carrying value of the investments will be realised in full.

The Company invested an amount of AED 27.4 million representing its share of additional share capital issued by the associates during the year as follows:

	AED'000
Qatar Central Cooling Company PJSC	26,980
Tabreed District Cooling Company (Saudi)	491

Tabreed District Cooling Company (Saudi) was incorporated during the year and recently commenced operations. Hence, there were no significant operating activities during the year ended 31 December 2005.

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11 Interest in Joint Venture

The Company's share of the assets and liabilities of the joint venture, SNC – Lavalin Gulf Contractors, a limited liability company incorporated in the Emirate of Abu Dhabi, included in the consolidated financial statements are as follows:

	2005 AED'000	2004 AED'000
Current assets	140,342	20,392
Non-current assets	572	2,599
	140,914	22,991
Current liabilities	125,147	17,774
Non-current liabilities	226	58
	125,373	17,832

There are no revenues or expenses of the joint venture for the years ended 31 December 2005 and 2004 included in the consolidated financial statements.

12 Intangibles

	Goodwill		Trademarks		Total	
	2005 AED'000	2004 AED'000	2005 AED'000	2004 AED'000	2005 AED'000	2004 AED'000
Balance at 1 January	30,030	11,059	14	75	30,044	11,134
Additions during the year	8,898	19,772	-	-	8,898	19,772
Provision for impairment losses	(594)	-	-	-	(594)	-
Amortisation for the year	-	(801)	(12)	(61)	(12)	(862)
Balance at 31 December	38,334	30,030	2	14	38,336	30,044

13 Impairment Testing of Goodwill

Goodwill acquired through business combinations has been allocated to the following individual cash-generating units, for impairment testing:

- Ian Banham & Associates cash-generating unit relating to goodwill arising from acquisition of equity interest in Ian Banham & Associates; and
- Tabreed 1 District Cooling Plant relating to goodwill arising from acquisition of Gulf Energy Systems.

Ian Banham & Associates

The recoverable amount of Ian Banham & Associates unit has been determined based on a value in use calculation using cash flow projections prepared by an external consultant in the year ended 31 December 2004 and extrapolated by the senior management using a stable growth rate to cover a five-year period. The discount rate applied to the cash flow projections is 25%.

Notes To The Consolidated Financial Statements

31 December 2005

13 Impairment Testing of Goodwill continued

Tabreed 1 District Cooling Plant

The recoverable amount of Tabreed 1 District Cooling Plant unit is also determined based on a value in use calculation using cash flow projections. The revenue included in the cash flow projections is based on a contractual agreement for the sale of chilled water to a customer for a period of 20 years. The operating costs are determined based on management's approved financial forecast. The discount rate applied to the cash flow projections is 9.4%.

Carrying amount of goodwill allocated to each of the cash generating units is as follows:

	2005 AED'000	2004 AED'000
Ian Banham & Associates	27,711	18,811
Tabreed 1 District Cooling Plant	9,712	9,712

Key assumptions used in value in use calculation of Ian Banham & Associates and Tabreed 1 District Cooling Plant for the years ended 31 December 2005 and 2004:

The following describes each key assumption on which management has based its cash flows projections to undertake impairment testing of goodwill:

Ian Banham & Associates:

Terminal Value of business is based on the estimate provided by the external consultant in the year ended 31 December 2004 and updated by the management as at 31 December 2005.

Tabreed 1:

Price Inflation: A general price inflation level of 3% has been applied to the cash flows. The basis used to determine the value assigned to the price inflation is management's estimate of the long term average forecast for the United Arab Emirates.

Residual Value: An estimate of 20% of the original cost of the plant is used as an estimate of the residual value of the plant at the end of the term of the agreement. The useful life of the plant is in excess of the period of the contractual agreement with the customer.

14 Trade and Other Receivables

	2005 AED'000	2004 AED'000 (Restated)
Trade accounts receivable	160,617	108,523
Other receivables	46,390	17,411
	207,007	125,934

15 Contract Work in Progress

	2005 AED'000	2004 AED'000
Cost plus attributable profit	261,291	158,844
Less: progress billings	(192,080)	(88,387)
	69,211	70,457

Notes To The Consolidated Financial Statements

31 December 2005

16 Cash and Cash Equivalents

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

	2005 AED'000	2004 AED'000
Bank balances and cash	520,032	255,390
Bank overdrafts	(111,933)	(27,501)
	408,099	227,889

Bank balances and cash include bank deposits of AED 104.2 million (2004: AED 144.1 million) placed with commercial banks in the United Arab Emirates. These are denominated in AED with effective rates in the range of 1.7% to 5.0% (2004: 0.875% to 3.5%).

17 Share Capital

	2005 AED'000	2004 AED'000
Authorised and issued share capital		
1,000,000,000 ordinary shares at AED 1 each (31 December 2004: 500,000,000 ordinary shares of 1 each)	1,000,000	500,000

The Company's authorised share capital was increased to 100,000,000 ordinary shares at the Extra-Ordinary General Meeting held in March 2005 by way of a rights issue. The rights issue was fully subscribed to at 19 April 2005.

Further, at the Extra-Ordinary General meeting held in July 2005, the shareholders approved the split of the nominal value of the Company's ordinary shares from AED 10 to AED 1. The comparative figures have been adjusted accordingly.

18 Treasury Shares and Share-Based Payments

Treasury shares

The Company set up an employee incentive scheme in accordance with the Board of Directors resolution dated 17 December 2000. The Company subsequently contributed an amount of AED 10.05 million to a shareholder for the purchase of the Company's ordinary shares and to act as a custodian for such shares analysed as follow

	AED'000
Balance at 1 January 2004 (as previously reported)	-
Amount reclassified from advance to employee incentive scheme	5,050
	5,050
Balance at 1 January 2004 and 31 December 2004 (restated)	5,050
Contribution during the year	5,000
	10,050
Balance at 31 December 2005	10,050

Notes To The Consolidated Financial Statements

31 December 2005

18 Treasury Shares and Share-Based Payments continued

Previously the balance at 31 December 2004 was shown as an advance to employee incentive scheme under non-current assets. The Company retains the significant risks and rewards associated with the Company's ordinary shares held by a custodian. Accordingly, the amount of AED 5.05 million has been reclassified from advance to employee incentive scheme to treasury shares (shown under equity) as restatement of the balance at 1 January 2004.

The advance during the year represents the consideration paid by the Company to the custodian in respect of the rights issue (refer to note 17).

Share based payments

The employee incentive scheme ('the scheme') grants notional units of the Company's ordinary shares to qualifying employees on recommendation of the remuneration committee of the Company. These notional units of the Company's ordinary shares can be settled in cash in accordance with the terms of the scheme.

At 31 December 2005, the employee incentive scheme had outstanding notional units of the Company's ordinary shares analysed as follows:

	No. of shares
At 1 January 2005	1,254,485
Notional units of the Company's ordinary shares granted during the year	517,990
Exercised during the year	(568,935)
At 31 December 2005	1,203,540

The weighted average fair value of notional units granted during the year was AED 3.6 (2004: AED 1.24).

IFRS 2 became effective from 1 January 2005. The main impact of IFRS 2 on the Company is that the fair value of cash settled notional units of Company's ordinary shares granted to qualifying employees during the year is expensed with recognition of a liability (note 2.2). The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement and capital work in progress, as applicable (refer below).

The portion of expense arising from the grant and subsequent remeasurement at each balance sheet is included in the consolidated financial statements as follows:

	2005
	AED '000
Other administrative expenses (included under income statement)	1,815
Capital work in progress	2,268

The amount capitalised under capital work in progress relates to employees who are directly attributable to the construction activity of the Company's property, plant and equipment.

Notes To The Consolidated Financial Statements

31 December 2005

18 Treasury Shares and Share-Based Payments continued

The Company has applied IFRS 2 retrospectively and the effect of the policy has been recorded as restatement of the following prior year balances:

	AED '000
Advance to employee incentive scheme	(7,366)
Retained earnings at 1 January 2004	(1,298)
Capital work in progress at 1 January 2004	1,093
Liability for cash settled notional units of Company's ordinary shares	4,158
Other payables	(9,133)

The amount of AED 9.1 million represents the reversal of the cumulative changes in value of advance to employee incentive scheme due to movements in the market value of the Company's ordinary shares. The changes in value were previously recorded under the balance sheet headings of 'advance to employee incentive scheme' and 'accounts payable and accruals'.

19 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 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 reserves 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.

20 Proposed Bonus Share Dividend

The Board of Directors has proposed a bonus share dividend (2004: cash dividend) amounting to AED 50 million (2004: AED 25 million). The bonus share dividend will be submitted for approval at the Annual General Meeting in 2006.

Notes To The Consolidated Financial Statements

31 December 2005

21 Term Loans

	2005 AED '000	2004 AED '000
Term loans	419,097	239,705
Other loan	155	288
	419,252	239,993
<i>Due in less than one year:</i>		
Term loans	25,291	26,180
Other loan	125	133
	25,416	26,313
<i>Due in more than one year:</i>		
Term loans	393,806	213,525
Other loan	30	155
	393,836	213,680
	419,252	239,993

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:

On 24 November 2003, the Company entered into a 12 year, AED 700 million 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, and was used to refinance the term loan amounting to AED 135 million, which is secured over previously constructed central cooling plants (Note 9), along with the repayment of the bilateral bridging loan of AED 44 million. As at 31 December 2005, the Company has drawn down an amount of AED 424 million under the new facility, repayable in 24 semi annual instalments commencing 1 October 2004 in accordance with an agreed upon schedule.

On 26 April 2005, one of the subsidiaries of the Company entered into an 11.5 year, US \$20.8 million (AED: 76.4 million) term loan facility agreement with Sumitomo Mitsui Banking Corporation. This facility agreement is to construct a new central cooling plant. As at 31 December 2005 the Company has drawn an amount of AED 32.6 million under the facility, repayable in 20 semi annual instalments commencing 24 months after the date of agreement, in accordance with an agreed upon schedule.

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 2005, unutilised term loan facilities available to the Company amounted to AED 319.8 million (2004: AED 450 million).

Notes To The Consolidated Financial Statements

31 December 2005

22 Islamic Financing Arrangements

	2005 AED '000	2004 AED '000
Ijara loans	324,323	333,719
Istisna'a loans	180,075	180,075
Muqawala loans	146,440	130,147
	650,838	643,941
<i>Due in more than one year:</i>		
Ijara loans	308,809	324,323
Istisna'a loans	180,075	180,075
Muqawala loans	132,263	121,826
	621,147	626,224
<i>Due in less than one year:</i>		
Ijara loans	15,514	9,396
Muqawala loans	14,177	8,321
	29,691	17,717
	650,838	643,941

Ijara and Istisna'a loans:

The Islamic Ijara and Istisna'a loans consist of a number of 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.

Facility 1

The first facility of AED 150 million is repayable in 16 fixed semi-annual instalments commencing from 18 March 2004 and a fluctuating profit charge is paid under the Islamic financing agreements, which is based on EIBOR plus a margin. The amount outstanding at 31 December 2005 is AED 136.9 million (2004: AED 146.3 million).

Facility 2 (Sukuk Financing)

On 2 March 2004, the Company entered into Purchase and Ijara Agreements ('the Agreement') with Tabreed Financing Corporation for the sale and leaseback of certain assets of the Company as specified in the Agreement with a total cost of US \$51 million (AED 187.4 million).

Furthermore, the Company entered into an Istisna'a Agreement dated 2 March 2004 with Tabreed Financing Corporation for the manufacture and commission of certain assets as specified in the Istisna'a Agreement amounting to US \$49 million (AED 180 million). On completion, the specified assets will be sold and leased back from Tabreed Financing Corporation under similar arrangements as specified in the existing Ijara Agreement above.

In March 2009, the Company will purchase the assets leased back under the Ijara Agreement from Tabreed Financing Corporation for an amount of US \$100 million, which is the full repayment of the Ijara and Istisna'a loans referred to above.

The Ijara Agreement carries 10 semi-annual rental payments of AED 5.1 million commencing 2 September 2004. In respect of the Istisna'a assets, the Company is obligated to make 10 semi-annual pre-rental payments of AED 4.9 million commencing 2 September 2004.

Notes To The Consolidated Financial Statements

31 December 2005

22 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 26.4 million (31 December 2004: AED 28.9 million) 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 120 million (31 December 2004: AED 101.2 million) 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 2005, unutilised Islamic funding available to the Company amounted to nil (31 December 2004: AED 18.7 million).

23 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:

	2005 AED '000	2004 AED '000
Balance at 1 January	5,604	3,452
Net movement during the year	2,280	2,152
Balance at 31 December	7,884	5,604

An actuarial valuation has not been performed as the net impact of discount rates and future increases in benefits is not likely to be material.

Notes To The Consolidated Financial Statements

31 December 2005

24 Accounts Payable and Accruals

	2005 AED '000	2004 AED '000 (Restated)
<i>Amounts due in more than one year:</i>		
Retentions payable	10,604	1,194
<i>Amounts due in less than one year:</i>		
Accounts payable	153,339	70,545
Retentions payable	20,790	17,798
Negative fair value of derivatives	-	1,248
Other payables	48,159	47,349
Payable to former shareholders	6,906	13,006
Due to related parties	5,076	1,693
Accrued expenses	84,649	9,572
	318,919	161,211

25 Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the income statement are as follows:

	2005			2004	
	Income AED'000	Expenses AED'000	Fees for management services AED'000	Expenses AED'000	Fees for management services AED'000
Associated companies	840	-	2,447	-	1,252
Other related parties	-	18,330	-	9,439	-
	840	18,330	2,447	9,439	1,252

Balances with related parties included in the balance sheet are as follows:

	2005		2004	
	Trade receivables AED'000	Accounts payable AED'000	Trade receivables AED'000	Accounts payable AED'000
Associated companies	5,456	-	1,794	-
Other related parties	4,853	5,076	-	1,693
	10,309	5,076	1,794	1,693

Notes To The Consolidated Financial Statements

31 December 2005

25 Related Party Transactions continued

Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2005 AED'000	2004 AED'000
Short-term benefits	20,815	11,968
Employees' end of service benefits	1,495	1,369
	22,310	13,337
Number of key management personnel	49	39

26 Derivative Financial Instruments

The movement in fair value of cash flow hedges was as follows:

	2005 AED'000	2004 AED'000
Fair value included in equity at 1 January	(6,419)	(4,315)
Movement in fair value of cash flow hedges	10,219	(2,104)
Fair value included in equity at 31 December	3,800	(6,419)

27 Contingencies

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

	2005 AED'000	2004 AED'000 (Restated)
Performance guarantees	22,728	18,756
Advance payment guarantees	70	1,525
Letter of credit	40,699	10,785
Retention release guarantees	-	4,507
Financial guarantees	3,617	13,204
	67,114	48,777

28 Capital Commitments

The Board of Directors have authorised future capital expenditure amounting to AED 1,393 million (2004: AED 1,179.3 million). Included in this amount is AED 1,255 million (2004: AED 778.8 million) which is expected to be incurred within one year from the balance sheet date.

Notes To The Consolidated Financial Statements

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29 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.	100
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
Summit District Cooling Company	U.A.E.	51
Bahrain District Cooling Company	Bahrain	55
Ian Banham and Associates	U.A.E.	70
Tabreed Holdings WLL	Bahrain	100
Tabreed LLC Oman	Oman	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. Effective 1 July 2004, the Company became a wholly owned subsidiary. Prior to that date it was a 60% owned subsidiary.

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.

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

The Company acquired a 51% interest in Summit District Cooling Company (SDCC) on 29 May 2004. SDCC commenced its commercial activities thereafter. During the year, the Company invested an additional amount of AED 7.6 million representing its share of the additional share capital issued by the Company.

The Company acquired a 55% interest in Bahrain District Cooling Company (BDCC) on 31 October 2004. BDCC commenced its commercial activities thereafter. During the year, the Company invested an additional amount of AED 25.6 million representing its share of the additional share capital issued by the Company.

The Company acquired a 70% interest in Ian Banham and Associates on 27 October 2004. Ian Banham and Associates is already engaged in commercial activities.

Tabreed Holdings WLL was incorporated in the Kingdom of Bahrain registered as a limited liability company. The Company has a 100% equity interest in Tabreed Holdings WLL. Tabreed Holdings WLL has recently commenced commercial activities.

Tabreed LLC Oman was incorporated in the Sultanate of Oman registered as a limited liability company. The Company has a 100% equity interest in Tabreed LLC Oman. Tabreed LLC Oman has not started commercial activities as at 31 December 2005.

Notes To The Consolidated Financial Statements 31 December 2005

30 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 and fluctuating profit on Islamic loans (rates) are low, management has sought to limit the exposure of the Company and its subsidiaries to any adverse future movements in rates by entering into various interest rate swap and cap deals during the year. The notional amount outstanding at 31 December 2005 was AED 1,062 million (2004: AED 1,080 million). Included in this amount is AED 601 million (2004: AED 619 million) relating to instruments which have effective dates after 31 December 2005. The derivative financial instruments entered into for the purposes of a cash flow hedge had positive (2004: negative) changes in their values amounting to AED 3.8 million (2004: Unrealised losses of AED 6.4 million) which have been recognised within equity under cumulative changes in fair values of derivatives. Management is therefore of the opinion that the Company 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 69% of outstanding accounts receivable at 31 December 2005 (2004: 3 customers - 63%). As amounts receivable are stated net of any required provision and are short term in nature, fair value approximates carrying value. The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks. Credit risk is limited to the carrying values of financial assets in the balance sheet.

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 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 considers 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.

31 Fair Values of Financial Instruments

Financial assets consist of cash and bank balances and receivables. Financial liabilities consist of bank overdrafts, term loans, payables, and accrued expenses. Derivatives consist of interest rate swap and cap deals.

The fair values of the financial assets and liabilities of the Company and its subsidiaries, are not materially different from their carrying values at the balance sheet date except for certain Islamic financing arrangements (facility 2 – Sukuk financing) as more detailed in note 22.

32 Comparative Information

Refer to note 18 for the balances which have been restated in light of changes in International Financial Reporting Standards and to improve the quality of information presented.