ARAB HEAVY INDUSTRIES P.J.S.C.
AND SUBSIDIARY
AJMAN - UNITED ARAB EMIRATES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2008

Arab Heavy Industries P.J.S.C. and Subsidiary
Ajman - United Arab Emirates

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2008

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Deloitte.

Deloitte & Touche (M.E.)
Corniche Plaza II, Suite 701
P.O. Box 5470, Sharjah
United Arab Emirates
Tel : +971(6) 574 1052
Fax: +971(6) 574 1053
www.deloitte.com

Ref: 32601FS08

Independent Auditor's Report

The Shareholders
Arab Heavy Industries P.J.S.C. and Subsidiary
Ajman
United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Arab Heavy Industries P.J.S.C. (the "Company") and its Subsidiary (together the "Group"), Ajman, United Arab Emirates** which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Deloitte.

Independent Auditor's Report (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Arab Heavy Industries P.J.S.C. and its Subsidiary, Ajman,** as of December 31, 2008, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Company has maintained proper books of account and the physical inventory was properly conducted. The information contained in the directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, or the Articles of Association of group companies which might have materially affected the financial position of the Group or their financial performance.

For Deloitte & Touche

Sharjah
January 19, 2009

Saba Y. Sindaha
Partner
(Registration No. 410)

Arab Heavy Industries P.J.S.C. and Subsidiary
Ajman - United Arab Emirates

Consolidated Balance Sheet
At December 31, 2008
(In Arab Emirates Dirhams)

	Notes	December 31, 2008	December 31, 2007
ASSETS			
Current assets			
Bank balances and cash	5	**120,807,259**	84,017,370
Trade and other receivables	6	**45,560,012**	29,736,812
Inventories	7	**27,378,530**	11,495,539
Due from a related party	8	**1,055**	-
Total current assets		**193,746,856**	125,249,721
Non-current assets			
Goodwill	9	**2,773,497**	2,773,497
Property, plant and equipment	10	**105,917,298**	108,073,944
Total non-current assets		**108,690,795**	110,847,441
Total Assets		**302,437,651**	236,097,162
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	11	**70,366,442**	56,461,900
Due to related parties	8	**294,829**	158,389
Total current liabilities		**70,661,271**	56,620,289
Non-current liabilities			
Provision for employees' end of service benefits	12	**6,472,745**	6,429,173
Total Liabilities		**77,134,016**	63,049,462
Capital and reserves			
Issued capital	13	**67,225,900**	67,225,900
Statutory reserve		**32,861,244**	24,014,421
General reserve		**6,722,590**	6,722,590
Retained earnings		**118,493,901**	75,084,789
Total Equity		**225,303,635**	173,047,700
Total Liabilities and Equity		**302,437,651**	236,097,162

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

Chairman

Managing Director

Arab Heavy Industries P.J.S.C. and Subsidiary
Ajman - United Arab Emirates

Consolidated Income Statement
For the year ended December 31, 2008
(In Arab Emirates Dirhams)

	Notes	**Year ended December 31, 2008**	Year ended December 31, 2007
Revenue		**227,044,533**	195,099,399
Operating expenses	14	**(145,264,681)**	(147,209,450)
Operating profit		**81,779,852**	47,889,949
Interest income		**2,321,513**	2,032,262
Other income		**6,864,815**	3,092,133
Profit for the year		**90,966,180**	53,014,344
Basic earnings per share	15	**135.31**	78.86

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

Arab Heavy Industries P.J.S.C. and Subsidiary
Ajman - United Arab Emirates

Consolidated Statement of Changes in Equity
For the year ended December 31, 2008
(In Arab Emirates Dirhams)

	Issued capital	Statutory reserve	General reserve	Retained earnings	Total
Balance at December 31, 2006	67,225,900	18,998,611	6,722,590	41,875,953	134,823,054
Dividends paid (see Note16)	-	-	-	(14,789,698)	(14,789,698)
Profit for the year	-	-	-	53,014,344	53,014,344
Transfer to statutory reserve	-	5,015,810	-	(5,015,810)	-
Balance at December 31, 2007	67,225,900	24,014,421	6,722,590	75,084,789	173,047,700
Dividends paid (see Note16)	-	-	-	(36,974,245)	(36,974,245)
Directors' remuneration paid (see Note16)	-	-	-	(1,736,000)	(1,736,000)
Profit for the year	-	-	-	90,966,180	90,966,180
Transfer to statutory reserve	-	8,846,823	-	(8,846,823)	-
Balance at December 31, 2008	**67,225,900**	**32,861,244**	**6,722,590**	**118,493,901**	**225,303,635**

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

Consolidated Cash Flow Statement
For the year ended December 31, 2008
(In Arab Emirates Dirhams)

	Year ended December 31, 2008	Year ended December 31, 2007
Operating activities		
Profit for the year	**90,966,180**	53,014,344
Adjustments for:		
Depreciation of property, plant and equipment	**6,233,066**	5,939,208
Provision for employees' end of service benefits	**797,853**	671,536
Allowance for doubtful debts (written back)/provided	**(3,137,371)**	1,859,225
Interest income	**(2,321,513)**	(2,032,262)
Gain on disposal of property plant and equipment	**(124,396)**	(70,869)
Operating cash flows before movements in working capital	**92,413,819**	59,381,182
Increase in trade and other receivables	**(12,685,829)**	(4,883,331)
(Increase)/decrease in inventories	**(15,882,991)**	3,382,650
(Increase)/decrease in due from a related party	**(1,055)**	7,075,919
Increase in trade and other payables	**12,140,965**	139,198
Increase in due to related parties	**136,440**	154,547
Cash generated from operations	**76,121,349**	65,250,165
Employees' end of service benefits paid	**(754,281)**	(756,406)
Net cash generated from operating activities	**75,367,068**	64,493,759
Investing activities		
Purchase of property, plant and equipment	**(4,076,460)**	(4,888,068)
Proceeds from disposal of property, plant and equipment	**124,436**	75,082
Increase in fixed deposits	**(10,966,642)**	(14,000,000)
Interest received	**2,321,513**	2,032,262
Net cash used in investing activities	**(12,597,153)**	(16,780,724)
Financing activities		
Dividend paid	**(36,946,668)**	(14,778,466)
Cash used in financing activities	**(36,946,668)**	(14,778,466)
Net increase in cash and cash equivalents	**25,823,247**	32,934,569
Cash and cash equivalents at the beginning of the year	**70,017,370**	37,082,801
Cash and cash equivalents at the end of the year (Note 17)	**95,840,617**	70,017,370

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

1. General information

Arab Heavy Industries P.J.S.C. (the "Company") is a public joint stock company incorporated in the Emirate of Ajman, United Arab Emirates, pursuant to a decree issued by H.H. the Ruler of Ajman in 1975. The "Group" comprises Arab Heavy Industries P.J.S.C. and Arab Eagle Marine Engineering L.L.C. (see Note 3). The address of the Company's registered office is P. O. Box 529, Ajman, United Arab Emirates.

The principal activities of the Company are ship repair and steel fabrication.

2. Standards and Interpretations in issue but not yet effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

Effective from January 1 , 2009

IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 16 (Revised)	*Property, plant and equipment*
IAS 19 (Revised)	*Employees Benefits*
IAS 20 (Revised)	*Government grants and disclosure of government assistance*
IAS 23 (Revised)	*Borrowing Costs*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 28 (Revised)	*Investments in Associates*
IAS 29 (Revised)	*Financial Reporting in Hyper Inflationary Economies*
IAS 31 (Revised)	*Interest in Joint Ventures*
IAS 32 (Revised)	*Financial Instruments: Presentation*
IAS 36 (Revised)	*Impairment of Assets*
IAS 38 (Revised)	*Intangible Assets*
IAS 39 (Revised)	*Financial Instruments: Recognition and Measurement*
IAS 40 (Revised)	*Investment Property*
IAS 41 (Revised)	*Agriculture*
IFRS 1 (Revised)	*First time adoption of International Financial Reporting Standards*
IFRS 2 (Revised)	*Share-based Payment*
IFRS 8	*Operating Segments*
IFRIC 15	*Agreements for Construction of Real Estate*

2. Standard and Interpretations in issue but not yet effective (continued)

Others:

IFRS 3 (Revised)	*Business Combinations* (effective for accounting periods beginning on or after July 1, 2009)
IFRS 5 (Revised)	*Non Current Assets Held for Sale and Discontinued Operations* (effective for accounting periods beginning on or after July 1, 2009)
IFRIC 13	*Customer Loyalty Programmes* (effective for accounting periods beginning on or after July 1, 2008)
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation* (effective from annual period beginning on or after October 1, 2008)
IFRIC 17	*Distributions of non-cash assets to Owners* (effective for accounting periods beginning on or after July 1, 2009)

The directors anticipate that all of the above Standards and Interpretations as applicable will be adopted in the Group's financial statements for the period commencing January 1, 2009 or as and when it is applicable, and that the adoption of those Standards and Interpretations may have no material impact on the consolidated financial statements of the Group in the period of initial application.

3. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements of Arab Heavy Industries P.J.S.C. and Subsidiary (the "Group") incorporate the financial statements of the Company and entity controlled by the Company (its Subsidiary). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. Significant accounting policies (continued)

Basis of consolidation (continued)

Subsidiary:

Details of the Company's subsidiary at December 31, 2008 is as follows:

Name of subsidiary	Proportion of ownership interest	Proportion of voting power held	Country of incorporation and operation	Principal activity
Arab Eagle Marine Engineering L.L.C.	99.9%	100 %	UAE	Engaged in the activity of afloat repair.

The remaining equity in the above subsidiary is held by the Company beneficially through nominee arrangements.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

3. Significant accounting policies (continued)

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Rendering of services

Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the balance sheet date.

Interest

Interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

3. Significant accounting policies (continued)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Arab Emirates Dirhams ("AED"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Defined contribution plan

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to profit or loss.

3. Significant accounting policies (continued)

Provision for employees' end of service benefits

Provision for employees' end of service benefits is made in accordance with the U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the balance sheet date.

Statutory reserve

In accordance with United Arab Emirates Federal Companies Law Number 8 of 1984, as amended, each entity in the Group has established a statutory reserve by appropriation of 10% of its net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution except as stipulated by the Law.

General reserve

The Company's Articles of Association require that 10% of the annual net profit be appropriated to a general reserve until such reserve equals 10% of paid-up share capital. As the general reserve is equal to 10% of paid-up share capital, no further appropriation has been made during the year. This reserve is distributable in accordance with the Articles of Association of the Company.

Property, plant and equipment

Freehold land is stated at cost.

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is charged so as to write off the cost of assets, other than freehold land and capital work in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Spares, consumables and supplies

Spares, consumables and supplies are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing them to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

3. Significant accounting policies (continued)

Inventories (continued)

Work-in-progress

Work-in-progress is stated at lower of cost (comprising direct labour, material cost, direct expenses and an appropriate allocation of production overheads) and the net realisable value, which is arrived at after providing for anticipated losses, if any, when the possibility of loss is ascertained.

Progress claims made against work-in-progress are offset against the cost of work-in-progress and the profits recognised on partly completed long-term contracts less any provision required reducing cost to estimated realisable value.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provision for warranty is made on the completion of a job to cover any liability which may arise during the warranty period, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial assets

The Group's financial assets include bank balances and cash and trade and other receivables. These are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3. Significant accounting policies (continued)

Financial assets (continued)

Trade and other receivables

Trade and other receivables that have fixed or determinable payments are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. Significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Trade and other payables, due to related parties and provision for employees' end of service benefits are classified as 'other financial liabilities'.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Trade payables

Trade payables are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

3. Significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Financial liabilities (continued)

Due to related parties

Due to related parties are initially measured at fair value, net of transaction cost and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

In the process of applying Group's accounting policies, the management is of the opinion that there is no instance of application of judgements which is expected to have a significant effect on the amounts recognised in the financial statements, apart from those involving estimations described below.

Key sources of estimation uncertainty

The following are 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.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Revenue recognition

The Group recognises services revenue based on the stage of completion method. Significant assumption is required in determining the stage of completion, the extent of the service cost incurred, the estimated total service revenue and service cost and the recoverability of the service contracts.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Provision for warranty

A provision is recognised for expected warranty claims on ship repairs and fabrication jobs performed during the year, based on past experience of repairs. It is expected that most of these costs will probably be incurred in the next financial year and all will probably have been incurred within one year of the balance sheet date. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the one-year warranty period for all the services provided.

5. Bank balances and cash

	December 31,	
	2008	2007
	AED	AED
Cash on hand	**30,000**	30,000
Bank balances:		
Current accounts	**2,256,878**	10,998,173
Fixed deposits	**118,520,381**	72,989,197
	120,807,259	84,017,370

Bank balances are maintained with banks in the United Arab Emirates.

6. Trade and other receivables

	December 31,	
	2008	2007
	AED	AED
Trade receivables	**43,153,878**	32,047,682
Allowance for doubtful debts	**(117,291)**	(3,254,662)
	43,036,587	28,793,020
Prepaid expenses	**188,259**	229,821
Other receivables	**2,335,166**	713,971
	45,560,012	29,736,812

The average credit period is 90 days. Trade receivables between 90 days and 180 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

Analysis of receivables over 180 days are as follows:

	December 31,	
	2008	2007
	AED	AED
Allowance made for	**117,291**	3,254,662
Receivables expected to be recovered	**804,764**	-
Post dated cheques received	**121,500**	3,584,334
	1,043,555	6,838,996

Before accepting any new customer the Group assesses the potential customers credit quality and defines credit limits by customer. Of the trade receivable balance at the end of year, AED 9.8 million (2007: AED 9.6 million) is due from the Group's largest customer. There are 5 (2007: 3) other customers who represent more than 5% (2007: 5%) of the total balance of trade receivables.

6. Trade and other receivables (continued)

Movement in the allowance for doubtful debts is as follows:

	2008	2007
	AED	AED
Balance at the beginning of the year	**3,254,662**	1,641,215
Impairment loss recognised during the year	**-**	1,859,225
Amounts written off as uncollectible	**-**	(245,778)
Provision reversed during the year	**(3,137,371)**	-
Balance at the end of the year	**117,291**	3,254,662

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted upto the reporting date. The concentration of credit risks is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

7. Inventories

	December 31,	
	2008	2007
	AED	AED
Spares, consumables and supplies	**16,161,671**	8,259,411
Allowance for slow moving items	**(1,268,870)**	(1,229,262)
	14,892,801	7,030,149
Work in progress	**12,485,729**	4,465,390
	27,378,530	11,495,539

8. Related party transactions

At the balance sheet date, amounts due from/to related parties were as follows:

	December 31,	
	2008	2007
	AED	AED
Due from a related party		
Al Futtaim Willis Co. L.L.C.	**1,055**	-
Due to related parties		
Al Futtaim Auto & Machinery Company L.L.C.	**166,057**	1,344
Trading Enterprises Company L.L.C.	**-**	7,740
Keppel Shipyard Limited	**122,181**	149,305
Keppel Corporation Limited	**6,591**	-
	294,829	158,389

The amounts outstanding are unsecured and will be settled in cash.

8. Related party transactions (continued)

Transactions:

During the year, the Group entered into the following transactions with related parties who are not members of the Group:

	Year ended December 31	
	2008	2007
	AED	AED
Sales	-	15,792,148
Purchases	**785,770**	646,424
Management fees to Keppel Group	**11,231,328**	6,657,646
Other expenses	**2,020,535**	4,011,314

Transactions with related parties were entered into on terms agreed with the management.

The Group is managed by a member of the Keppel Group. As per the management agreement, the Group is charged a fee of Singapore Dollars 450,000 (2007: Singapore Dollars 300,000) per annum plus 10% (2007: 10%) of the profit.

Compensation of directors / key management personnel:

	Year ended December 31	
	2008	2007
	AED	AED
Directors' remuneration	**1,736,000**	868,000

9. Goodwill

	December 31,	
	2008	2007
	AED	AED
Goodwill recognised on acquisition	**2,773,497**	2,773,497

During the financial year, the Group assessed the recoverable amount of goodwill, and determined that no impairment is required. The recoverable amount of relevant cash-generating unit was assessed by reference to value in use. A discount factor of 5% per annum (2007: 5% per annum) was applied in the value in use model.

10. Property, plant and equipment

	Freehold land	Buildings and structure	Plant and machinery	Vehicles, vessels and moving equipment	Tools, computers and furniture and fixture	Capital work in progress	Total
	AED	AED	AED	AED	AED	AED	AED
Cost							
At December 31, 2006	17,500,000	114,837,371	57,143,562	21,177,508	8,177,131	297,281	219,132,853
Additions	-	2,767,402	1,521,132	205,756	220,046	173,732	4,888,068
Disposals	-	-	(1,371,822)	(144,250)	(560,601)	-	(2,076,673)
At December 31, 2007	17,500,000	117,604,773	57,292,872	21,239,014	7,836,576	471,013	221,944,248
Additions	-	993,883	376,132	634,148	141,506	1,930,791	4,076,460
Disposals	-	-	(136,706)	(332,700)	(26,380)	-	(495,786)
At December 31, 2008	**17,500,000**	**118,598,656**	**57,532,298**	**21,540,462**	**7,951,702**	**2,401,804**	**225,524,922**
Accumulated depreciation							
At December 31, 2006	-	50,259,444	40,198,588	12,272,996	7,272,528	-	110,003,556
Charge for the year	-	3,240,456	1,531,471	691,211	476,070	-	5,939,208
Eliminated on disposals	-	-	(1,368,957)	(144,248)	(559,255)	-	(2,072,460)
At December 31, 2007	-	53,499,900	40,361,102	12,819,959	7,189,343	-	113,870,304
Charge for the year	-	3,567,324	1,618,120	758,111	289,511	-	6,233,066
Eliminated on disposals	-	-	(136,692)	(332,696)	(26,358)	-	(495,746)
At December 31, 2008	**-**	**57,067,224**	**41,842,530**	**13,245,374**	**7,452,496**	-	**119,607,624**
Carrying amount							
At December 31, 2008	**17,500,000**	**61,531,432**	**15,689,768**	**8,295,088**	**499,206**	**2,401,804**	**105,917,298**
At December 31, 2007	17,500,000	64,104,873	16,931,770	8,419,055	647,233	471,013	108,073,944

10. Property, plant and equipment (continued)

At December 31, 2008, the cost of fully depreciated property, plant and equipment that was still in use amounted to AED 72,586,941 (December 31, 2007: AED 71,994,772).

The useful life considered in the calculation of depreciation for all the assets is as follows:

	Years
Buildings and structure	3 to 35
Plant and machinery	3 to 35
Vehicles, vessels and moving equipment	3 to 20
Tools, computers and furniture and fixture	3 to 5

Capital work in progress represents cost incurred for manufacturing of slipway trolley, shore gangway, steel shot blasting shop and seawater desalination plant.

11. Trade and other payables

	December 31,	
	2008	2007
	AED	AED
Trade payables	**14,458,618**	7,816,773
Provision for warranties	**9,907,963**	9,566,624
Accruals for jobs	**23,347,549**	25,070,943
Other accruals and payables	**22,652,312**	14,007,560
	70,366,442	56,461,900

The average credit period on purchase of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within credit time frame.

The movements in provision for warranties were as follows:

	2008	2007
	AED	AED
Balance at the beginning of the year	**9,566,624**	3,347,723
Provision made during the year	**10,967,715**	8,955,944
Provision reversed during the year	**(10,626,376)**	(2,737,043)
Balance at the end of the year	**9,907,963**	9,566,624

12. Provision for employees' end of service benefits

Movements in the net liability were as follows:

	2008	2007
	AED	AED
Balance at the beginning of the year	**6,429,173**	6,514,043
Amounts charged to income	**797,853**	671,536
Amounts paid	**(754,281)**	(756,406)
Balance at the end of the year	**6,472,745**	6,429,173

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

13. Issued capital

	December 31,	
	2008	2007
	AED	AED
Issued and fully paid:		
672,259 (2007: 672,259) ordinary shares of AED 100 each	**67,225,900**	67,225,900

14. Operating expenses

	Year ended December 31,	
	2008	2007
	AED	AED
Material and subcontractor cost	**84,457,881**	83,821,121
Payroll and related expenses	**21,342,879**	23,544,617
Depreciation on property, plant and equipment	**6,233,066**	5,939,208
Other operating expenses	**33,230,855**	33,904,504
	145,264,681	147,209,450

15. Basic earnings per share

	Year ended December 31,	
	2008	2007
Profit for the year (in AED)	**90,966,180**	53,014,344
Number of shares	**672,259**	672,259
Basic earnings per share (in AED)	**135.31**	78.86

16. Dividends

During the year 2008, a dividend of AED 55 for 2007 (for 2006: AED 22) per share was paid to the Shareholders.

In respect of the current year, the directors propose that a dividend of AED 73,948,490 (2007: AED 36,974,245) be paid to the Shareholders in 2009. This dividend is subject to approval by the Shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

It has been proposed that the board of directors remuneration for the year be AED 2,083,200 (2007: AED 1,736,000).

17. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks net of fixed deposits in banks with maturity over three months. Cash and cash equivalents at the end of the year as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows:

	December 31,	
	2008	2007
	AED	AED
Bank balances and cash (Note 5)	**120,807,259**	84,017,370
Bank fixed deposits with maturity greater than three months	**(24,966,642)**	(14,000,000)
	95,840,617	70,017,370

18. Commitments and contingent liabilities

Commitments and contingent liabilities as of the balance sheet date are as follows:

	December 31,	
	2008	2007
	AED	AED
Commitments		
Commitments for the acquisition of property, plant and equipment	**17,512,256**	197,366
Contingent liabilities		
Letters of guarantee	**37,160**	157,160

19. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders. The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of bank balances and cash and equity, comprising issued capital, reserves and retained earnings.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the consolidated financial statements.

Categories of financial instruments

	December 31,	
	2008	2007
	AED	AED
Financial assets		
Loans and receivables (including cash and cash equivalents)	**163,844,901**	112,810,390
Financial liabilities		
At amortised cost	**77,134,016**	63,049,462

Financial risk management objectives

The Group's Finance Department, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

19. Financial instruments (continued)

Market risk (continued)

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	December 31,		December 31,	
	2008	2007	**2008**	2007
	AED	AED	**AED**	AED
US Dollars	**254,345**	172,006	**18,147,972**	18,524,823

Foreign currency sensitivity analysis

The Group is mainly exposed to United States Dollars (USD) and Singapore Dollars (SGD). Based on the sensitivity analysis to a 10% increase and decrease in the AED against the relevant foreign currencies, there is no impact on USD because of dollar peg and there is no significant impact on SGD. 10% is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

Bank deposit interest rate risk management

The Group's exposure to interest rate risk relate to its fixed deposits with banks. At December 31, 2008, fixed deposits carried an interest rate of 1.08% to 6.1% per annum (2007: 3.1% to 5.2% per annum).

19. Financial instruments (continued)

Bank deposit interest rate risk management (continued)

The sensitivity analysis below, have been determined based on the exposure to interest rates on Group's deposits with banks at the balance sheet date. A 15 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 15 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by AED 0.1 million (2007: AED 0.08 million).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 8% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date.

The Group manages the liquidity risk through risk management framework for the Group's short, medium and long-term funding and liquidity management requirements by maintaining adequate reserves, sufficient cash and cash equivalent and the availability of financing through banking arrangements to ensure funds are available to meet its commitments for liabilities as they fall due.

19. Financial instruments (continued)

Liquidity risk management (continued)

The table below includes the maturity profile of the Group's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the financial assets and financial liabilities at the balance sheet date based on contractual repayment arrangements was as follows:

Year 2008:
Financial assets

	Within 1 year	2 years - 5 years	Total
	AED	AED	AED
Bank balances and cash	120,807,259	-	120,807,259
Trade and other receivables	43,036,587	-	43,036,587
Due from a related party	1,055	-	1,055
Total	**163,844,901**	**-**	**163,844,901**

Financial liabilities

	Within 1 year	2 years - 5 years	Total
	AED	AED	AED
Trade and other payables	70,366,442	-	70,366,442
Due to related parties	294,829	-	294,829
Provision for employees' end of service benefits	-	6,472,745	6,472,745
Total	**70,661,271**	**6,472,745**	**77,134,016**

19. Financial instruments (continued)

Liquidity risk management (continued)

Year 2007:
Financial assets

	Within 1 year	2 years - 5 years	Total
	AED	AED	AED
Bank balances and cash	84,017,370	-	84,017,370
Trade and other receivables	28,793,020	-	28,793,020
Total	112,810,390	-	112,810,390

Financial liabilities

	Within 1 year	2 years - 5 years	Total
	AED	AED	AED
Trade and other payables	56,461,900	-	56,461,900
Due to related parties	158,389	-	158,389
Provision for employees' end of service benefits	-	6,429,173	6,429,173
Total	56,620,289	6,429,173	63,049,462

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

20. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on January 19, 2009.

21. Comparative amounts

Certain amounts for the prior year were reclassified to conform to current year presentation.