ARAB HEAVY INDUSTRIES P.J.S.C.
AND SUBSIDIARY

Review report and consolidated interim financial information
for the period ended 30 September 2010

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REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors of
Arab Heavy Industries P.J.S.C. and Subsidiary
Ajman
United Arab Emirates

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Arab Heavy Industries P.J.S.C. and Subsidiary as of 30 September 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine month period then ended. Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with International Accounting Standard 34, *"Interim Financial Reporting"*. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, *"Interim Financial Reporting"*.

Deloitte & Touche

Samir Madbak
Registration No. 386
Sharjah
3 November 2010

Condensed consolidated statement of financial position as at 30 September 2010

	Notes	30 September 2010 (unaudited) AED	31 December 2009 (audited) AED
ASSETS			
Non-current assets			
Property, plant and equipment	4	**104,545,567**	107,664,220
Goodwill		**2,773,497**	2,773,497
Total non-current assets		**107,319,064**	110,437,717
Current assets			
Inventories		**9,601,598**	12,238,889
Trade and other receivables		**42,631,344**	45,730,712
Bank balances and cash	5	**74,094,181**	131,649,663
Total current assets		**126,327,123**	189,619,264
Total assets		**233,646,187**	300,056,981
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	6	**67,225,900**	67,225,900
Statutory reserve	7	**33,612,950**	33,612,950
General reserve	8	**6,722,590**	6,722,590
Retained earnings		**82,958,787**	132,605,761
Total capital and reserves		**190,520,227**	240,167,201
Non-current liabilities			
Provision for employees' end of service indemnity		**6,645,260**	6,746,976
Current liabilities			
Trade and other payables		**36,013,251**	52,847,926
Due to related parties		**467,449**	294,878
Total current liabilities		**36,480,700**	53,142,804
Total liabilities		**43,125,960**	59,889,780
Total equity and liabilities		**233,646,187**	300,056,981

Chairman **Managing Director**

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

Condensed consolidated statement of income (unaudited) for the period ended 30 September 2010

	Nine month period ended September 30,		Three month period ended September 30,	
	2010	2009	**2010**	2009
	AED	AED	**AED**	AED
Revenue	**67,637,103**	177,364,508	**20,487,405**	46,559,698
Operating expenses	**(51,278,375)**	(109,631,313)	**(16,545,866)**	(25,822,053)
Interest income	**1,666,195**	3,338,957	**383,714**	728,178
Other income	**1,533,043**	2,135,651	**171,621**	519,977
Profit for the period	**19,557,966**	73,207,803	**4,496,874**	21,985,800
Basic earnings per share (Note 10)	**29.09**	108.90	**6.69**	32.70

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

Condensed consolidated statement of comprehensive income (unaudited) for the period ended 30 September 2010

	Nine month period ended 30 September		Three month period ended 30 September	
	2010	2009	**2010**	2009
	AED	AED	**AED**	AED
Profit for the period	**19,557,966**	73,207,803	**4,496,874**	21,985,800
Other comprehensive income				
Board of Directors' remuneration paid	**(1,979,040)**	(2,083,200)	**-**	-
Total comprehensive income for the period	**17,578,926**	71,124,603	**4,496,874**	21,985,800

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

Condensed consolidated statement of changes in equity (unaudited) for the period ended 30 September 2010

	Share capital AED	Statutory reserve AED	General reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2009 (audited)	67,225,900	32,861,244	6,722,590	118,493,901	225,303,635
Profit for the period	-	-	-	73,207,803	73,207,803
Directors' remuneration	-	-	-	(2,083,200)	(2,083,200)
Total comprehensive income for the period	-	-	-	71,124,603	71,124,603
Dividends paid (Note 11)	-	-	-	(73,948,490)	(73,948,490)
Balance at 30 September 2009	67,225,900	32,861,244	6,722,590	115,670,014	222,479,748
Balance at 1 January 2010 (audited)	67,225,900	33,612,950	6,722,590	132,605,761	240,167,201
Profit for the period	-	-	-	19,557,966	19,557,966
Directors' remuneration	-	-	-	(1,979,040)	(1,979,040)
Total comprehensive income for the period	-	-	-	17,578,926	17,578,926
Dividends paid (Note 11)	-	-	-	(67,225,900)	(67,225,900)
Balance at 30 September 2010	**67,225,900**	**33,612,950**	**6,722,590**	**82,958,787**	**190,520,227**

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

Condensed consolidated statement of cash flows (unaudited) for the period ended 30 September 2010

	Nine month ended 30 September	
	2010	2009
	AED	AED
Cash flows from operating activities		
Profit for the period	**19,557,966**	73,207,803
Adjustments for:		
Depreciation of property, plant and equipment	**5,547,549**	5,114,117
Provision for employees' end of service indemnity	**635,647**	705,609
Interest income	**(1,666,195)**	(3,338,957)
Operating cash flows before changes in operating assets and liabilities	**24,074,967**	75,688,572
Decrease/(increase) in trade and other receivables	**3,099,368**	(10,633,104)
Decrease in inventories	**2,637,291**	11,010,587
Decrease in trade and other payables	**(16,834,675)**	(11,359,487)
Increase in due to related parties	**172,571**	353,990
Cash generated from operations	**13,149,522**	65,060,558
Employees' end of service indemnity paid	**(737,363)**	(452,866)
Net cash from operating activities	**12,412,159**	64,607,692
Cash flows from investing activities		
(Increase)/decrease in fixed deposits	**(5,409,531)**	14,633,113
Purchase of property, plant and equipment - net	**(2,428,896)**	(8,327,330)
Interest received	**1,666,195**	3,338,957
Net cash (used in)/from investing activities	**(6,172,232)**	9,644,740
Cash flows from financing activities		
Dividends paid	**(67,225,900)**	(73,948,490)
Directors' remuneration paid	**(1,979,040)**	(2,083,200)
Cash used in financing activities	**(69,204,940)**	(76,031,690)
Net decrease in cash and cash equivalents	**(62,965,013)**	(1,779,258)
Cash and cash equivalents at the beginning of the period	**126,453,354**	95,840,617
Cash and cash equivalents at the end of the period (note 12)	**63,488,341**	94,061,359

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

Notes to the condensed consolidated financial statements for the period ended 30 September 2010

1. General

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 3.3). The address of the Company's registered office is P. O. Box 529, Ajman, United Arab Emirates.

The principal activity of the Company is ship repair and steel fabrication.

2. Standards and Interpretations in issue not yet effective and not early adopted

At the date of authorisation of the condensed consolidated financial statements, the following Standards, Amendments and Interpretations which have not been applied in the condensed consolidated financial statements were in issue but not yet effective and not early adopted.

New Standards and amendments to Standards:	**Effective for annual periods beginning on or after**
• IAS 32 (revised) *Financial Instruments: Presentation* – Amendments relating to classification of Rights Issue	1 February 2010
• IAS 24 *Related Party Disclosures* – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	1 January 2011
• IFRS 9 Financial Instruments: *Classification and Measurement* (intended as complete replacement for IAS 39 and IFRS 7)	1 January 2013
New Interpretations and amendments to Interpretations:	
• IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
• Amendment to IFRIC 14: *IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirement and Their Interaction*	1 January 2011

Management anticipates that these amendments will be adopted in the Group's condensed consolidated financial statements from the initial period when they become effective and adoption of these standards and interpretations may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

Notes to the condensed consolidated financial statements for the period ended 30 September 2010 (continued)

3. Summary of significant accounting policies

3.1 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) No. 34, *"Interim Financial Reporting"* and also comply with the applicable requirements of the laws in the U.A.E.

The condensed consolidated financial statements are presented in U.A.E. Dirhams (AED) since that is the currency in which the majority of the Group's transactions are denominated.

These condensed consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The accounting policies, presentation and methods in these condensed consolidated financial statements are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2009.

As required by the Securities and Commodities Authority ("SCA") notification dated 12 October 2008, accounting policies relating to property, plant and equipment have been disclosed in the condensed consolidated financial statements.

3.2 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.

3.3 Basis of consolidation

The condensed consolidated financial statements of Arab Heavy Industries P.J.S.C. and Subsidiary (the "Group") incorporate the financial information of the Company and enterprise 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 significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the condensed consolidated financial statements for the period ended 30 September 2010 (continued)

3.3 Basis of consolidation (continued)

Subsidiary:

Details of the Company's subsidiary at 30 September 2010 are as follows:

Name of subsidiary	Proportion of ownership interest	Country of incorporation	Principal activities
Arab Eagle Marine Engineering L.L.C.	99.9%	UAE	Engaged in the activity of ship repair.

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

4. Property, plant and equipment

During the period, the addition to property, plant and equipment was AED 2,428,896 (30 September 2009: AED 8,327,330) and depreciation charged was AED 5,547,549 (30 September 2009: AED 5,114,117). All property, plant and equipment of the Group are located in the U.A.E.

5. Bank balances and cash

	30 September 2010 (unaudited) AED	31 December 2009 (audited) AED
Cash on hand	**30,000**	30,000
Bank balances:		
Current accounts	**9,278,411**	12,789,388
Fixed deposits	**64,785,770**	118,830,275
	74,094,181	131,649,663

Bank balances are maintained with banks in U.A.E.

Notes to the condensed consolidated financial statements for the period ended 30 September 2010 (continued)

6. Share capital

	30 September 2010 (unaudited) AED	31 December 2009 (audited) AED
Authorised:		
(672,259 ordinary shares of AED 100 each)	**67,225,900**	67,225,900
Allotted, issued and fully paid:		
(672,259 ordinary shares of AED 100 each)	**67,225,900**	67,225,900

7. Statutory reserve

In accordance with United Arab Emirates Federal Companies Law Number 8 of 1984, as amended, the Company 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.

8. 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. This reserve is distributable in accordance with the Articles of Association of the Company.

9. Related party transactions

Related parties are those entities in which the Shareholders, Directors, key management personnel of the Group and entities they control, have a significant interest.

During the period, the Group entered into the following transactions with related parties:

	Nine month period ended 30 September		**Three month period ended 30 September**	
	2010 (unaudited) AED	2009 (unnaudited) AED	**2010 (unaudited) AED**	2009 (unaudited) AED
Purchases	**620,324**	194,929	**156,923**	9,816
Management fees to Keppel Group	**2,983,107**	8,674,200	**769,652**	2,982,866
Board of Directors' remuneration	**1,979,040**	2,083,200	**-**	-
Other expenses	**1,299,210**	1,430,022	**518,860**	278,085

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 (2009: Singapore Dollars 450,000) per annum plus 10% of the net profit.

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

Notes to the condensed consolidated financial statements
for the period ended 30 September 2010 (continued)

10. Basic earnings per share

	Nine month period ended 30 September		Three month period ended 30 September	
	2010 (unaudited)	2009 (unnaudited)	**2010 (unaudited)**	2009 (unaudited)
Net profit for the period (in AED)	**19,557,966**	73,207,803	**4,496,874**	21,985,800
Number of shares	**672,259**	672,259	**672,259**	672,259
Basic earnings per share (in AED)	**29.09**	108.90	**6.69**	32.70

11. Dividends

At the annual general meeting held on 24 March 2010, the Shareholders approved a dividend of AED 67,225,900 (AED 100 per share) for 2009 (2008: dividend of AED 73,948,490, AED 110 per share).

12. Cash and cash equivalents

	30 September 2010 (unaudited) AED	30 September 2009 (unaudited) AED
Bank balances and cash	**74,094,181**	104,394,888
Bank fixed deposits with maturity greater than three months	**(10,605,840)**	(10,333,529)
	63,488,341	94,061,359

13. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated statement of income for the nine month period ended 30 September 2010 and 2009.

14. Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 3 November 2010.