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

**Consolidated financial statements and**
**independent auditor's report**
**for the year ended 31 December 2010**

**ARAB HEAVY INDUSTRIES P.J.S.C. AND SUBSIDARY**

**Consolidated financial statements and independent auditor's report for the year ended 31 December 2010**

**Contents** **Pages**


| | |
|---|---|
| **Independent auditor's report** | **1 - 2** |
| **Consolidated statement of financial position** | **3** |
| **Consolidated statement of income** | **4** |
| **Consolidated statement of comprehensive income** | **5** |
| **Consolidated statement of changes in equity** | **6** |
| **Consolidated statement of cash flows** | **7** |
| **Notes to the consolidated financial statements** | **8 - 29** |

Deloitte.

Deloitte & Touche (M.E.)
Corniche Plaza II, 701
P.O. Box 5470
Sharjah, United Arab Emirates
Tel: +971 (0) 6 574 1052
Fax: +971 (0) 6 574 1053
www.deloitte.com

*Ref: 32601FS10*

# 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 statement of financial position as at 31 December 2010, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*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 about 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.

Cont'd.....

Deloitte.

**INDEPENDENT AUDITOR'S REPORT** (continued)

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Arab Heavy Industries P.J.S.C. and its Subsidiary, Ajman, United Arab Emirates** as at 31 December 2010, and their financial performance and their 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.

Deloitte & Touche

Samir Madbak
Registration No. 386
Sharjah
17 January 2011

## Consolidated statement of financial position
## At 31 December 2010

| | Notes | 2010 AED | 2009 AED |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **113,267,552** | 107,664,220 |
| Goodwill | 6 | **2,773,497** | 2,773,497 |
| **Total non-current assets** | | **116,041,049** | 110,437,717 |
| **Current assets** | | | |
| Inventories | 7 | **8,770,817** | 12,238,889 |
| Trade and other receivables | 8 | **28,079,768** | 45,730,712 |
| Bank balances and cash | 9 | **77,881,239** | 131,649,663 |
| **Total current assets** | | **114,731,824** | 189,619,264 |
| **Total assets** | | **230,772,873** | 300,056,981 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 10 | **67,225,900** | 67,225,900 |
| Statutory reserve | 11 | **33,612,950** | 33,612,950 |
| General reserve | 12 | **6,722,590** | 6,722,590 |
| Retained earnings | | **84,855,558** | 132,605,761 |
| **Total equity** | | **192,416,998** | 240,167,201 |
| **Non-current liabilities** | | | |
| Provision for employees' end of service benefits | 13 | **6,479,122** | 6,746,976 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **31,496,763** | 52,847,926 |
| Due to related parties | 15 | **379,990** | 294,878 |
| **Total current liabilities** | | **31,876,753** | 53,142,804 |
| **Total liabilities** | | **38,355,875** | 59,889,780 |
| **Total equity and liabilities** | | **230,772,873** | 300,056,981 |

Chairman

Managing Director

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

**Consolidated statement of income**
**for the year ended 31 December 2010**

| | Notes | 2010<br>AED | 2009<br>AED |
|---|---|---|---|
| Revenue | | **83,087,529** | 220,263,573 |
| Operating expenses | **16** | **(65,996,253)** | (135,719,369) |
| Interest income | | **2,056,952** | 4,097,074 |
| Other income | | **2,306,509** | 2,253,978 |
| **Profit for the year** | | **21,454,737** | 90,895,256 |
| **Basic earnings per share** | **17** | **31.91** | 135.21 |

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

**Consolidated statement of comprehensive income**
**for the year ended 31 December 2010**

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Profit for the year | **21,454,737** | 90,895,256 |
| **Other comprehensive loss** | | |
| Board of Directors' remuneration paid | **(1,979,040)** | (2,083,200) |
| **Total comprehensive income for the year** | **19,475,697** | 88,812,056 |

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

**Consolidated statement of changes in equity**
**for the year ended 31 December 2010**

| | Share capital AED | Statutory reserve AED | General reserve AED | Retained earnings AED | Total AED |
|---|---|---|---|---|---|
| Balance at 31 December 2008 | 67,225,900 | 32,861,244 | 6,722,590 | 118,493,901 | 225,303,635 |
| Profit for the year | - | - | - | 90,895,256 | 90,895,256 |
| Board of Directors' remuneration | - | - | - | (2,083,200) | (2,083,200) |
| Total comprehensive income for the year | - | - | - | 88,812,056 | 88,812,056 |
| Dividends paid (Note18) | - | - | - | (73,948,490) | (73,948,490) |
| Transfer to statutory reserve | - | 751,706 | - | (751,706) | - |
| Balance at 31 December 2009 | 67,225,900 | 33,612,950 | 6,722,590 | 132,605,761 | 240,167,201 |
| Profit for the year | - | - | - | 21,454,737 | 21,454,737 |
| Board of Directors' remuneration | - | - | - | (1,979,040) | (1,979,040) |
| Total comprehensive income for the year | - | - | - | 19,475,697 | 19,475,697 |
| Dividends paid (Note18) | - | - | - | (67,225,900) | (67,225,900) |
| **Balance at 31 December 2010** | **67,225,900** | **33,612,950** | **6,722,590** | **84,855,558** | **192,416,998** |

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

**Consolidated statement of cash flows**
**for the year ended 31 December 2010**

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| **Cash flows from operating activities** | | |
| Profit for the year | **21,454,737** | 90,895,256 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **7,433,898** | 6,844,360 |
| Provision for employees' end of service benefits | **771,376** | 852,483 |
| Allowance for doubtful debts – net | **388,219** | 830,740 |
| Interest income | **(2,056,952)** | (4,097,074) |
| Loss/(gain) on write-off/disposal of property, plant and equipment | **4,324** | (15,000) |
| **Operating cash flows before changes in operating assets and liabilities** | **27,995,602** | 95,310,765 |
| Decrease/(increase) in trade and other receivables | **17,262,725** | (1,001,440) |
| Decrease in inventories | **3,468,072** | 15,139,641 |
| Decrease in due from a related party | **-** | 1,055 |
| Decrease in trade and other payables | **(21,416,753)** | (17,617,846) |
| Increase in due to related parties | **85,112** | 49 |
| **Cash generated from operations** | **27,394,758** | 91,832,224 |
| Employees' end of service benefits paid | **(1,039,230)** | (578,252) |
| **Net cash from operating activities** | **26,355,528** | 91,253,972 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(13,041,554)** | (8,591,282) |
| Proceeds from disposal of property, plant and equipment | **-** | 15,000 |
| Decrease in fixed deposits | **5,196,309** | 19,770,333 |
| Interest received | **2,056,952** | 4,097,074 |
| **Net cash (used in)/generated from investing activities** | **(5,788,293)** | 15,291,125 |
| **Cash flows from financing activities** | | |
| Dividends paid | **(67,160,310)** | (73,849,160) |
| Board of Directors' remuneration paid | **(1,979,040)** | (2,083,200) |
| **Cash used in financing activities** | **(69,139,350)** | (75,932,360) |
| **Net (decrease)/increase in cash and cash equivalents** | **(48,572,115)** | 30,612,737 |
| Cash and cash equivalents at the beginning of the year | **126,453,354** | 95,840,617 |
| **Cash and cash equivalents at the end of the year (Note 9)** | **77,881,239** | 126,453,354 |

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010**

## 1. General information

Arab Heavy Industries P.J.S.C. (the "Group") 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 Group'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. Adoption of new and revised International Financial Reporting Standards (IFRSs)

### 2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

| New and revised IFRSs | Summary of requirement |
|---|---|
| Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Additional Exemptions for First-Time Adopters* | The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease. |
| Amendments to IFRS 2 *Share-Based Payment – Group Cash-Settled Share-Based Payment Transactions* | The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. |
| Amendment to IFRS 3 (revised) *Business Combinations* and consequential amendments to IAS 27 (revised) *Consolidated and Separate Financial Statements*, IAS 28 (revised) *Investments in Associates* and IAS 31 (revised) *Interests in Joint Ventures* | Comprehensive revision on applying the acquisition method. |
| Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of *Improvements to IFRSs* issued in 2009) | The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale. |
| Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* | The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options. |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

| | |
|---|---|
| IFRIC 17 *Distributions of Non-Cash Assets to Owners* | The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. |
| IFRIC 18 *Transfers of Assets from Customers* | The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 *Revenue*. |
| *Improvements to IFRSs* issued in 2009 | The application of Improvements to IFRSs issued in 2009 which amended IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16 has not had any material effect on amounts reported in the consolidated financial statements. |

### 2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| **New and revised IFRSs** | **Effective for annual periods beginning on or after** |
|---|---|
| Amendments to IFRS 1 relating to *Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters* | 1 July 2010 |
| Amendments to IFRS 7 *Financial Instruments: Disclosures*, relating to Disclosures on Transfers of Financial Assets | 1 July 2011 |
| IFRS 9 *Financial Instruments* (as amended in 2010) | 1 January 2013 |
| IAS 24 *Related Party Disclosures* (revised in 2009) | 1 January 2011 |
| Amendments to IAS 32 *Financial Instruments: Presentation*, relating to Classification of Rights Issues | 1 February 2010 |
| Amendments to IFRIC 14 relating to *Prepayments of a Minimum Funding Requirement* | 1 January 2011 |
| IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* | 1 July 2010 |
| *Improvements to IFRSs* issued in 2010 covering amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13 | 1 January 2011, except IFRS 3 and IAS 27 which are effective 1 July 2010 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2011 or as and when they are applicable and adoption of these 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

### 3.1 Statement of compliance

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

### 3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted are set out below.

### 3.3 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 the 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.

Subsidiary:

Details of the Company's subsidiary at 31 December 2010 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 % | United Arab Emirates | Engaged in the activity of afloat repair. |

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 3. Significant accounting policies (continued)

### 3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

### 3.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see 3.4 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, 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 based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 3. Significant accounting policies (continued)

### 3.6 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 (ship repair and steel fabrication) is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the end of each reporting period.

*Interest income*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 that assets net carrying amount on initial recognition.

### 3.7 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 Group 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 recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 3. Significant accounting policies (continued)

### 3.8 Property, plant and equipment

Freehold land is stated at cost and not depreciated.

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, plant 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any 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.

The useful lives considered in the calculation of depreciation for the assets are 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 |

### 3.9 Inventories

*Spares, consumables and supplies*

Spares, consumables and supplies are stated at the lower of cost and net realisable value. Costs 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 for inventories less all estimated cost of completion and costs necessary to make the sale.

*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.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 3. Significant accounting policies (continued)

### 3.10 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, 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.

### 3.11 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 end of the reporting period, 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, (where the effect of time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 3. Significant accounting policies (continued)

### 3.12 Employee benefits

*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.

*Annual leave and leave passage*

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

*Provision for employees' end of service benefits*

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period.

The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefit is disclosed as a non-current liability.

### 3.13 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### 3.14 Financial assets

The Group's financial assets include bank balances and cash and trade and other receivables (excluding prepaid expenses). Trade and other receivables (excluding prepaid expenses) 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, to the net carrying amount on initial recognition.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 3. Significant accounting policies (continued)

### 3.14 Financial assets (continued)

*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.

*Loans and receivables*

Loans and receivables that have fixed or determinable payments are initially measured at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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 affected. 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.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 3. Significant accounting policies (continued)

### 3.14 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.

### 3.15 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 and the definitions of a financial liabilities and an equity instrument.

*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 and due to related parties 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 to the net carrying amount on initial recognition.

*Other financial liabilities*

Other financial liabilities 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 except for short term payable when the recognition of interest would be immaterial.

*Dividend distribution*

Dividend distribution to the Shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Shareholders.

*Derecognition of financial liabilities*

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 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 to these consolidated financial statements, management is required to make judgments, 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.

### 4.1 Critical judgments in applying accounting policies

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

### 4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Inventories*

Inventories are stated at the lower of cost and net realisable value. Adjustments to reduce the cost of inventory to its realisable value are made at the product level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, product pricing, physical deterioration and quality issues. Based on the above factors, the Group has arrived at certain percentages for allowance for slow moving and obsolete inventories. Revisions to these adjustments would be required if these factors differ from the estimates.

*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 management to estimate the future cash flows expected to generate 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. Assumptions used to calculate the provision for warranties were based on current revenue and current information available about repairs based on the one-year warranty period for all the services provided.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

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

### 4.2 Key sources of estimation uncertainty (continued)

*Allowance for doubtful debts*

Allowance for doubtful debts is determined using a combination of factors to ensure that the trade receivables are not overstated due to uncollectibility. The allowance for doubtful debts for all customers is based on a variety of factors, including the overall quality and ageing of the receivables, continuing credit evaluation of the customers' financial conditions and collateral requirements from customers in certain circumstances.

*Property, plant and equipment*

The cost of property, plant and equipment is depreciated over the estimated useful lives of assets, which are based on expected usage of the assets, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. Management has not considered any residual value, as it is deemed immaterial.

**Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)**

## 5. Property, plant and equipment

| | Freehold land AED | Buildings and structure AED | Plant and machinery AED | Vehicles, vessels and moving equipment AED | Tools, computers, furniture and fixture AED | Capital work in progress AED | Total AED |
|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | |
| Balance at 31 December 2008 | 17,500,000 | 118,598,656 | 57,532,298 | 21,540,462 | 7,951,702 | 2,401,804 | 225,524,922 |
| Additions | - | 81,703 | 3,818,289 | - | 261,424 | 4,429,866 | 8,591,282 |
| Disposals | - | - | (188,715) | (244,229) | - | - | (432,944) |
| Transfers | - | - | 43,404 | - | (43,404) | - | - |
| Balance at 31 December 2009 | 17,500,000 | 118,680,359 | 61,205,276 | 21,296,233 | 8,169,722 | 6,831,670 | 233,683,260 |
| Additions | - | 9,429,660 | 139,832 | 261,000 | 516,901 | 2,694,161 | 13,041,554 |
| Written off | - | (571,041) | (3,493,363) | (677,441) | (2,499,596) | - | (7,241,441) |
| Transfers | - | 6,784,543 | - | - | 47,127 | (6,831,670) | - |
| **Balance at 31 December 2010** | **17,500,000** | **134,323,521** | **57,851,745** | **20,879,792** | **6,234,154** | **2,694,161** | **239,483,373** |
| ***Accumulated depreciation*** | | | | | | | |
| Balance at 31 December 2008 | - | 57,067,224 | 41,842,530 | 13,245,374 | 7,452,496 | - | 119,607,624 |
| Charge for the year | - | 3,683,105 | 2,118,683 | 809,004 | 233,568 | - | 6,844,360 |
| Eliminated on disposals | - | - | (188,715) | (244,229) | - | - | (432,944) |
| Balance at 31 December 2009 | - | 60,750,329 | 43,772,498 | 13,810,149 | 7,686,064 | - | 126,019,040 |
| Charge for the year | - | 3,997,033 | 2,276,398 | 807,624 | 352,843 | | 7,433,898 |
| Written off | - | (571,041) | (3,489,291) | (677,435) | (2,499,350) | - | (7,237,117) |
| **Balance at 31 December 2010** | - | 64,176,321 | 42,559,605 | 13,940,338 | 5,539,557 | - | 126,215,821 |
| ***Carrying amount*** | | | | | | | |
| **Balance at 31 December 2010** | **17,500,000** | **70,147,200** | **15,292,140** | **6,939,454** | **694,597** | **2,694,161** | **113,267,552** |
| Balance at December 31 2009 | 17,500,000 | 57,930,030 | 17,432,778 | 7,486,084 | 483,658 | 6,831,670 | 107,664,220 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 5. Property, plant and equipment (continued)

At 31 December 2010, the cost of fully depreciated property, plant and equipment that was still in use amounted to AED 68,672,437 (31 December 2009: AED 72,656,788).

Capital work in progress mainly represents cost incurred for construction of mosque and canteen.

## 6. Goodwill

| | **2010** | 2009 |
|---|---|---|
| | **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 15% per annum (2009: 15% per annum) was applied in the value in use model.

## 7. Inventories

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Spares, consumables and supplies | **9,181,105** | 11,744,152 |
| Allowance for slow-moving items | **(1,360,932)** | (1,286,899) |
| | **7,820,173** | 10,457,253 |
| Work in progress | **950,644** | 1,781,636 |
| | **8,770,817** | 12,238,889 |

## 8. Trade and other receivables

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Trade receivables | **28,583,554** | 45,660,202 |
| Allowance for doubtful debts | **(1,336,250)** | (948,031) |
| | **27,247,304** | 44,712,171 |
| Prepaid expenses | **264,132** | 221,040 |
| Other receivables | **568,332** | 797,501 |
| | **28,079,768** | 45,730,712 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 8. Trade and other receivables (continued)

The average credit period is 90 (2009: 90) days. Trade receivables above average credit period are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

Analysis of receivables past due but not impaired:

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| 90 – 120 days | **2,363,967** | 3,551,565 |
| Above 120 days | **15,111,662** | 18,481,694 |
| | **17,475,629** | 22,033,259 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limit. Of the trade receivable balance at the end of year, AED 4.5 million (2009: AED 7.2 million) is due from the Group's largest customer. There are 4 (2009: 6) other customers who represent more than 5% (2009: 5%) of the total balance of trade receivables at the end of the reporting period.

Movement in the allowance for doubtful debts is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Balance, at the beginning of the year | **948,031** | 117,291 |
| Allowance made during the year | **1,245,000** | 856,781 |
| Provision reversed during the year | **(856,781)** | (26,041) |
| Balance, at the end of the year | **1,336,250** | 948,031 |

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 up to the reporting date. The concentration of credit risks is limited due to the customer base being large and unrelated. Accordingly, management believes that no further provision is required in excess of the allowance for doubtful debts.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 9. Bank balances and cash

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Cash on hand | **30,000** | 30,000 |
| Bank balances | | |
| Current accounts | **5,153,041** | 12,789,388 |
| Fixed deposits | **72,698,198** | 118,830,275 |
| Total bank balances and cash | **77,881,239** | 131,649,663 |
| Less: Bank fixed deposits with maturity greater than three months | **-** | (5,196,309) |
| Cash and cash equivalents | **77,881,239** | 126,453,354 |

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

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 statement of cash flows can be reconciled to the related items in the statement of financial position as above.

## 10. Share capital

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Issued and fully paid: | | |
| 672,259 (2009: 672,259) ordinary shares of AED 100 each | **67,225,900** | 67,225,900 |

## 11. 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. As the statutory reserve is equal to 50% of the share capital, no further appropriation has been made during the year. This reserve is not available for distribution except as stipulated by the Law.

## 12. 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.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 13. Provision for employees' end of service benefits

Movements in the net liability were as follows:

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Balance, at the beginning of the year | **6,746,976** | 6,472,745 |
| Amounts charged to income during the year | **771,376** | 852,483 |
| Amounts paid during the year | **(1,039,230)** | (578,252) |
| Balance, at the end of the year | **6,479,122** | 6,746,976 |

## 14. Trade and other payables

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Trade payables | **6,821,588** | 7,232,447 |
| Provision for warranties | **2,220,278** | 7,682,879 |
| Accruals for jobs | **7,485,368** | 14,754,854 |
| Other accruals and payables | **14,969,529** | 23,177,746 |
| | **31,496,763** | 52,847,926 |

The average credit period on purchase of goods is 60 days (2009: 60 days). The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 15. Related party transactions

Related parties include the Group's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

At the end of the reporting period, amounts due to related parties were as follows:

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Al Futtaim Group of Companies | **19,958** | 17,055 |
| Keppel Shipyard Limited | **352,612** | 270,508 |
| Keppel Corporation Limited | **7,420** | 7,315 |
| | **379,990** | 294,878 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 15. Related party transactions (continued)

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

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

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Purchases | **3,102,596** | 2,990,323 |
| Management fees to Keppel Group | **3,699,190** | 11,179,473 |
| Other expenses | **1,849,697** | 1,719,581 |

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

The Group is managed by a member of Keppel Group. As per the management agreement, the Group is charged a fixed management fee of Singapore Dollars 450,000 (2009: Singapore Dollars 450,000) per annum plus variable management fee of 10% (2009: 10%) of the profit for the year.

Compensation of Directors / key management personnel:

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Directors' remuneration | **1,979,040** | 2,083,200 |

## 16. Operating expenses

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| Material and subcontractor cost | **16,433,655** | 77,634,892 |
| Payroll and related expenses | **17,856,690** | 20,968,288 |
| Depreciation on property, plant and equipment | **7,433,898** | 6,844,360 |
| Other operating expenses | **24,272,010** | 30,271,829 |
| | **65,996,253** | 135,719,369 |

## 17. Basic earnings per share

| | **2010** | 2009 |
|---|---|---|
| Profit for the year (in AED) | **21,454,737** | 90,895,256 |
| Number of shares | **672,259** | 672,259 |
| Basic earnings per share (in AED) | **31.91** | |
| 135.21 | | |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 18. Dividends

During the year 2010, a dividend of AED 100 per share was paid to the Shareholders for 2009 (for 2008: AED 110).

In respect of the current year, the Directors propose that a dividend of AED 16,806,475 (2009: AED 67,225,900) be paid to the Shareholders in 2011. 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 900,000 (2009: AED 1,979,040).

## 19. Commitments and contingent liabilities

Commitments and contingent liabilities at the end of the reporting period are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| **Commitments** | | |
| Commitments for the acquisition of property, plant and equipment | **3,488,750** | 13,200,000 |
| **Contingent liabilities** | | |
| Letters of guarantee | **162,069** | 37,160 |

## 20. 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 return to the Shareholders. The Group's overall strategy remains unchanged from 2009.

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

## 21. Financial instruments

### 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.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 21. Financial instruments (continued)

### Categories of financial instruments

| | **2010** | 2009 |
|---|---|---|
| | **AED** | AED |
| **Financial assets** | | |
| Loans and receivables (including bank balances and cash ) | **105,696,875** | 177,159,335 |
| Financial liabilities | **31,876,753** | |
| 53,142,804 | | |

Management considers that the carrying amounts of the financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values**.**

### Financial risk management objectives

The Group's Finance Department monitors and manages the financial risks relating to the operations of the Group through internal risk reports. 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 and interest rates.

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

There are no significant foreign currency risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams or United State Dollars to which Dirham is fixed.

### Interest rate risk management

The Group's exposure to interest rate risk relates to its fixed deposits with banks. At 31 December 2010, fixed deposits carried an interest rate of 1.4% to 4.3% per annum (2009: 2.1% to 6% per annum).

The sensitivity analysis below, have been determined based on the exposure to interest rates on the Group's deposits with banks at the end of reporting period. A 15 basis point increase or decrease 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 increase/decrease by AED 0.1 million (2009: AED 0.2 million).

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 21. Financial instruments (continued)

### Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit quality 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 management.

Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of receivables.

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 26% (2009: 35%) of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates.

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 to ensure that funds are available to meet its commitments for liabilities as they fall due.

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 end of the reporting period to the contractual maturity date. The maturity profile is monitored by management to ensure that adequate liquidity is maintained. The maturity profile of the financial assets and financial liabilities at the end of the reporting period based on contractual repayment arrangements was as follows**:**

**Notes to the consolidated financial statements**
**for the year ended 31 December 2010 (continued)**

## 21. Financial instruments (continued)

### Liquidity risk management (continued)

| | 0 to 60 days AED | 60 to 120 days AED | 120 to 180 days AED | Above 180 days AED | Total AED |
|---|---|---|---|---|---|
| **31 December 2010:** | | | | | |
| **Financial assets** | | | | | |
| Trade and other receivables | 10,530,980 | 12,730,896 | 4,553,760 | - | 27,815,636 |
| Bank balances and cash | 77,881,239 | - | - | - | 77,881,239 |
| **Total** | **88,412,219** | **12,730,896** | **4,553,760** | **-** | **105,696,875** |
| **Financial liabilities** | | | | | |
| Trade and other payables | 21,791,118 | 7,485,368 | - | 2,220,277 | 31,496,763 |
| Due to related parties | 379,990 | - | - | - | 379,990 |
| **Total** | **22,171,108** | **7,485,368** | **-** | **2,220,277** | **31,876,753** |
| 31 December 2009: | | | | | |
| Financial assets | | | | | |
| Trade and other receivables | 12,776,600 | 26,230,477 | 6,502,595 | - | 45,509,672 |
| Bank balances and cash | 131,649,663 | - | - | - | 131,649,663 |
| Total | 144,426,263 | 26,230,477 | 6,502,595 | - | 177,159,335 |
| Financial liabilities | | | | | |
| Trade and other payables | 30,410,197 | 14,754,854 | - | 7,682,879 | 52,847,930 |
| Due to related parties | 294,874 | - | - | - | 294,874 |
| Total | 30,705,071 | 14,754,854 | - | 7,682,879 | 53,142,804 |

## 22. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 17 January 2011.