
**Drake & Scull International PJSC
and its Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009



Director's Report

Dear Shareholders,

The Board of Directors of Drake & Scull International PJSC (DSI) has the pleasure in presenting their consolidated financial statements for the period ended 31 December 2009.

Financial Results

During the period ended 31 December 2009, DSI earned revenues amounting to AED 2,211,706 thousand. The profit for the period amounted to AED 336,537 thousand.

We continue to deliver strong financial results and a healthy balance sheet with a low debt-to-equity ratio and a strong cash position, giving us substantial leverage to support the company's development and expansion plan for 2010.

It has been a successful year for DSI despite the challenging economic climate and the company has achieved good financial results. DSI has successfully met a number of the targets and aims that were set before listing mainly through expanding the business streamlines and services and increasing the company's geographical reach. With a rewarding year behind the company has a positive outlook for 2010.

Dividends

The Board of Directors decided to recommend the distribution of 7% of the nominal value of the shares (Total of AED 152,444 thousand) as cash dividends to shareholders for the period ended Dec 31, 2009.

Auditors

Ernst and Young were appointed as external auditors of the Group for the period ended 31 December 2009. Ernst and Young are eligible for reappointment as auditors for 2010 and have expressed their willingness to continue in office.

On behalf of board of directors
15 March 2010
P O Box 65794
Dubai
United Arab Emirates

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DRAKE & SCULL INTERNATIONAL PJSC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Drake & Scull International PJSC ("the PJSC") and its subsidiaries (collectively "the Group") which comprise the consolidated statement of financial position as at 31 December 2009, 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 period from 17 November 2008 to 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the PJSC and the UAE Commercial Companies Law of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

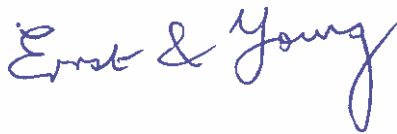
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the PJSC, proper books of account have been kept by the PJSC, an inventory was duly carried out and the contents of the report of the directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations, which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Laws of 1984 (as amended) or of the articles of association of the PJSC have occurred during the period ended 31 December 2009 which would have had a material effect on the business of the PJSC or on its financial position.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Signed by
Edward B. Quinlan
Partner
Registration No. 93

15 March 2010
Dubai

Drake & Scull International PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

Period ended 31 December 2009

	Notes	17 November 2008 to 31 December 2009 AED'000
Contract revenues		2,211,706
Contract costs		(1,775,942)
GROSS PROFIT		435,764
Other income	5	113,835
Selling, general and administrative expenses		(182,640)
Finance cost		(17,119)
Amortisation of intangible assets	9	(37,750)
Management fee	16	(16,650)
PROFIT FOR THE PERIOD BEFORE PRE - INCORPORATION PROFIT		295,440
Pre-incorporation profit	6	41,956
PROFIT FOR THE PERIOD BEFORE TAX	7	337,396
Income tax	22	(859)
PROFIT FOR THE PERIOD		336,537
Attributable to:		
Parent company		334,390
Minority interest		2,147
		336,537
Earnings per share - basic and diluted (AED)	26	0.154

The attached notes 1 to 30 form part of these consolidated financial statements.

Drake & Scull International PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Period ended 31 December 2009

	<i>17 November 2008 to 31 December 2009 AED'000</i>
Profit for the period	336,537
Other comprehensive income	
Exchange differences on translation of foreign operations	(6,710)
Other comprehensive loss for the period	(6,710)
Total comprehensive income for the period	329,827
Attributable to:	
Parent company	327,680
Minority interest	2,147
	329,827

The attached notes 1 to 30 form part of these consolidated financial statements.

Drake & Scull International PJSC and its Subsidiaries
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2009

	<i>Notes</i>	<i>2009 AED'000</i>
ASSETS		
Non current assets		
Property, plant and equipment	8	211,529
Goodwill and other intangible assets	9	821,828
Investments	10	197,713
Loans and advances	11	21,727
Long term prepayments	16	29,600
		<u>1,282,397</u>
Current assets		
Development properties	12	39,363
Inventories		12,884
Contract receivables and retentions	13	983,866
Contract work-in-progress	14	405,143
Prepayments and other receivables	15	245,994
Due from related parties	16	39,559
Loans and advances	11	95,929
Investments	10	135,143
Bank balances and cash	17	1,160,310
		<u>3,118,191</u>
TOTAL ASSETS		<u><u>4,400,588</u></u>
EQUITY AND LIABILITIES		
Equity		
Share capital	18	2,177,778
Treasury shares	18	(28,622)
Statutory reserve	19	33,654
Retained earnings		300,736
Foreign currency translation reserve		(6,710)
		<u>2,476,836</u>
Minority interest		38,587
		<u>2,515,423</u>

The attached notes 1 to 30 form part of these consolidated financial statements.

Drake & Scull International PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2009

	<i>Notes</i>	2009 AED '000
Non-current liabilities		
Employees' end of service benefits	20	34,551
Term loans	21	159,882
Deferred tax liability	22	29,795
		<u>224,228</u>
Current liabilities		
Accounts payable and accruals	23	785,503
Due to related parties	16	75,151
Advances received from customers		198,498
Excess billings	14	98,317
Term loans	21	381,281
Due to banks	24	122,187
		<u>1,660,937</u>
Total liabilities		<u>1,885,165</u>
TOTAL EQUITY AND LIABILITIES		<u><u>4,400,588</u></u>

These financial statements were approved by the Board of Directors on 15 March 2010 and signed on its behalf by:


Chairman


Chief Executive Officer

Drake & Scull International PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 31 December 2009

Attributable to equity holders of the parent

	Share capital AED '000	Treasury shares AED '000	Statutory reserve AED '000	Retained earnings AED '000	Foreign currency translation reserve AED '000	Total AED '000	Minority interest AED '000	Total AED '000
Capital introduced	2,177,778	-	-	-	-	2,177,778	-	2,177,778
Minority interest arising on business combinations (note 3)	-	-	-	-	-	-	28,440	28,440
Minority interest contribution to subsidiary's capital	-	-	-	-	-	-	8,000	8,000
Profit for the period	-	-	-	334,390	-	334,390	2,147	336,537
Other comprehensive loss	-	-	-	-	(6,710)	(6,710)	-	(6,710)
Total comprehensive income for the period	-	-	-	334,390	(6,710)	327,680	2,147	329,827
Transfer to statutory reserve	-	-	33,654	(33,654)	-	-	-	-
Purchase of treasury shares	-	(28,622)	-	-	-	(28,622)	-	(28,622)
Balance at 31 December 2009	2,177,778	(28,622)	33,654	300,736	(6,710)	2,476,836	38,587	2,515,423

The Board of Directors has proposed a cash dividend of AED 152,444 thousand at the rate of AED 0.07 per share through board resolution dated 15 March 2010. This dividend is subject to the approval of the shareholders at the Annual General Meeting.

Drake & Scull International PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Period ended 31 December 2009

		<i>17 November 2008 to 31 December 2009 AED'000</i>
	<i>Notes</i>	
ACTIVITIES		
Profit for the period		337,396
Adjustments for:		
Depreciation	8	32,338
Amortisation of intangible assets	9	37,750
Gain on sale of trading securities		(124)
Change in fair value of trading securities		(194)
Provision for employees' end of service benefits	20	13,506
Management fee expense		16,670
Interest income	5	(138,949)
Negative goodwill		(9,478)
Impairment loss on available-for-sale investments		2,208
Finance charges		17,119
		<u>308,242</u>
Working capital changes:		
Development properties		(15,307)
Inventories		54,879
Contract work-in-progress		(8,534)
Contract receivables and retentions		(296,276)
Due from related parties		(18,553)
Prepayments and other receivables		(31,424)
Accounts payable and accruals		(64,707)
Due to related parties		(18,050)
Advances received from customers		(96,564)
Excess billings		70,769
		<u>(115,525)</u>
Net cash used in operations		(115,525)
Management fee paid		(74,000)
Employees' end of service benefits paid	20	(3,596)
Income tax paid		(1,391)
		<u>(194,512)</u>
Net cash used in operating activities		(194,512)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	8	(20,870)
Proceeds from disposal of property, plant and equipment		1,894
Trading securities – net		5,721
Investments		(315,795)
Loans and advances		(117,656)
Interest received		78,727
Net cash inflow on business combination	3	53,760
Purchase of treasury shares	18	(28,622)
		<u>(342,841)</u>
Net cash used in investing activities		(342,841)

The attached notes 1 to 30 form part of these consolidated financial statements.

Drake & Scull International PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Period ended 31 December 2009

	<i>Notes</i>	<i>17 November 2008 to 31 December 2009 AED'000</i>
FINANCING ACTIVITIES		
Loan to a shareholder recovered		45,000
Movement in time deposits under lien		(281,442)
Share capital received in cash		1,197,778
Movement in due to banks		(21,290)
Proceeds from term loans		491,457
Repayments of term loans		(138,871)
Interest paid		(17,119)
Minority interest		8,000
Net cash from financing activities		<u>1,283,513</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<u>746,160</u>
Net foreign currency translation difference		(2,949)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2009	17	<u><u>743,214</u></u>

The attached notes 1 to 30 form part of these consolidated financial statements.

Drake & Scull International PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

1 ACTIVITIES

Drake & Scull International PJSC (the "PJSC") was incorporated on 17 November 2008 and registered on 21 January 2009 as a Public Joint Stock Company in accordance with UAE Federal Law No. 8 of 1984 (as amended). The PJSC is primarily engaged in carrying out contracting work relating to the construction industry, such as electrical, plumbing, air-conditioning and sanitation work. The PJSC's registered head office is at P.O. Box 65794, Dubai, United Arab Emirates.

The PJSC and its following subsidiaries are referred to as "the Group" in the consolidated financial statements.

<i>Name</i>	<i>Beneficial ownership</i>	<i>Country of incorporation</i>	<i>Principal activities</i>
Drake & Scull International L.L.C. (Abu Dhabi)	100%	UAE	Contracting work relating to construction industry
Gulf Technical Construction Company L.L.C.	80%	UAE	Mechanical, electrical and civil construction work
Drake & Scull International for Electrical Contracting WLL	75%	Kuwait	Electrical contracting and repairing work relating to construction industry
Passavant Engineering Limited and Subsidiary	100%	BVI	Holding company
Drake & Scull Contracting S.P.C.	100%	Bahrain	Contracting work relating to construction industry
Drake & Scull International (Thailand) Limited	100%	Thailand	Contracting work relating to construction industry

The Group, through Gulf Technical Construction Company L.L.C., also has a 50% interest in Ranya Test Joint Venture, a joint venture with Ranya General Contracting Company (L.L.C.) under a joint venture agreement dated 12 August 2005; and through Drake and Scull International L.L.C (Abu Dhabi), a 50% interest in King Abdullah University of Science and Technology project, a joint venture with Drake & Scull (W.L.L) –Saudi Arabia under a joint venture agreement dated 15 January 2008.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the UAE laws.

The consolidated financial statements have been presented in United Arab Emirates Dirhams and all values are rounded to the nearest thousand (AED'000), except where otherwise stated.

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the PJSC and its subsidiaries as at 31 December 2009. The financial statements of the subsidiaries are prepared for the same reporting period as the PJSC, using consistent accounting policies.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the PJSC.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. All intra-group balances, income and expenses and unrealised gains or losses are eliminated in full on consolidation.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in consolidated statement of income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgment

In the process of applying the Group's accounting policies, the management has made the following judgment, apart from those involving estimates, which has the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of investments

At the time of acquisition of investments, the management makes judgment, based on their intention, of the nature of investment. The classification of investment will change its treatment in the financial statements.

Use of estimates

The preparation of the consolidated financial statements, in conformity with International Financial Reporting Standards, requires that management make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- *Percentage of completion:* The Group uses the percentage of completion method when accounting for contracting revenue. Use of the percentage of completion method requires the Group to estimate the costs incurred to date on contracts as a proportion of the total contract costs to be incurred. The accuracy of this estimate has a material impact on the amount of revenue and related profits recognised. Any revision to profit arising from changes in estimates is accounted for in the period when the changes become known.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Use of estimates (continued)

- *Useful lives and depreciation of property, plant and equipment:* The management periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the assets.
- *Purchase price allocation:* The Group allocates the cost of business combinations by recognising the acquiree's identifiable assets, liabilities, and contingent liabilities that satisfy the recognition criteria, at their fair values on the date of acquisition. The Group uses third party experts to establish the estimated fair value of the acquiree's property, plant and equipment, and intangibles. The fair values of other assets, liabilities and contingent liabilities are estimated by the management based on the discounted cash flow projections of future expected cash inflows arising as a result of realising such assets and cash outflows expected on settlement of liabilities and contingent liabilities.
- *Impairment indicators:* The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption used to calculate the value-in-use may change which may then require a material adjustment to the carrying value of goodwill, intangible and tangible assets. The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.
- *Impairment of accounts receivable:* An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.
- *Impairment of inventories:* Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence based on historical selling prices.
- *Income taxes:* The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the statement of financial position date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

- *Impairment of non-financial assets:* The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Use of estimates (continued)

- *Determination of fair values:* A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement purposes based on the following methods:

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(b) Trade and other receivables / payables

The fair value of trade and other receivables and trade and other payables approximates to book value due to the short term maturity of these instruments.

2.3 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Group has early adopted the following IFRS and IFRIC interpretations as of 17 November 2008:

IAS 1 Presentation of Financial Statements

A revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for the annual periods commencing on or after 1 January 2009. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income. It presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IFRS 8 Operating Segments

IFRS 8 *Operating Segments* was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. IFRS 8 replaces IAS 14 *Segment Reporting* (IAS 14) upon its effective date.

The Group has not adopted other accounting standards and interpretations which have been issued but are not yet effective. The following changes are relevant to the Group:

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

IFRS 3 Business Combinations and IAS 27 Consolidated and separate financial statements

A revised IFRS 3 Business Combinations and a revised IAS 27 Consolidated and separate financial statements are effective from 1 July 2009. These revisions to IFRS 3 and IAS 27 impact the manner in which business combinations are identified and accounted for. The revised IAS 27 will impact the Group, when its percentage holdings in subsidiaries decrease or increase without resulting in a loss of control, by taking the gains and losses directly to equity instead of through the consolidated income statement. Further, there is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply these revisions prospectively to all business combinations from 1 January 2010.

2.3 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is complete. Furthermore the Interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 does not have an impact on the current consolidated financial statement because the Group has not recognised any profit on development properties.

IFRS 9 Financial instruments

On 12 November 2009, the IASB published the first phase of IFRS 9 Financial Instruments, the accounting standard that will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. This standard becomes effective from 1st January 2013 and is applicable to all financial assets within the scope of IAS 39.

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its Standards primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each Standard. All such improvements are applicable from future dates and none of them are considered significant by the Group. The Group has also concluded that there is no significant impact of any changes made by IASB in its Standards as part of such improvements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue

Contract revenues and cost

Revenue on contracts is recognised using the percentage of completion method. When the outcome of the contract can be reasonably estimated, revenue is recognised by reference to the proportion of the costs incurred to the period end as compared to the estimated total contract costs. When the contract is at an early stage or its outcome cannot be reliably estimated, contract revenue is recognised to the extent of contract costs that are considered recoverable. Provisions for foreseeable losses are made in full as soon as they are anticipated. The excess of costs over progress billings on individual jobs in progress is recorded as contract work-in-progress. Where the payments received and receivable for any contract exceed the cost plus attributable profit or less anticipated losses, the excess is shown as excess billings. Claims are only recognised when the outcome can be determined with reasonable certainty.

Costs include direct materials, subcontractors' costs and labour plus attributable overheads based on a normal level of activity.

Interest

Interest income is recognised as the interest accrues (using the effective interest rate that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Taxes

Income tax expense represents the sum of the current tax and deferred tax. Income tax expense also includes any interest, fines and penalties payable to Tax Authorities.

(a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

(b) Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences (other than those mentioned above), carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Income tax relating to items recognised directly in equity is recognised directly in equity and not in the consolidated income statement.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Interests in joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual assets and liabilities on a line-by-line basis with similar items in the Group's statement of financial position. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net recognised value of current assets, or an impairment loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Land and capital work-in-progress are not depreciated.

Depreciation is calculated on a straight line basis over the estimated useful lives of other assets as follows:

Plant and equipment	over 3 years
Motor vehicles	over 3 years
Furniture and fixtures	over 2 to 3 years
Buildings	over 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

The estimated useful lives, residual values and depreciation method are reviewed at each period 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income in the period the item is derecognised.

Fully depreciated fixed assets are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

Business combination and minority interests

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, plus any costs directly attributable to the business combination.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Goodwill

Goodwill acquired in a business combination is 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 and liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events of changes in circumstances indicate that the carrying value may be impaired.

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.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in business combinations is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generation unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on prospective basis.

The Group's intangible assets consist of assets acquired on business combination and their useful lives are as follows:

Goodwill	Indefinite
Trade name	Indefinite
Customer relationships	10 years

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete and slow moving items. Costs, including an appropriate portion of fixed and variable overhead expenses incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Development properties

Properties acquired, constructed or in the course of construction for sale are classified as development properties. Such properties are stated at the lower of cost or net realisable value. The cost of development properties includes the cost of land and other related expenditure which are recognised as and when activities that are necessary to get the properties ready for sale are in progress. Net realisable value represents the estimated selling price less costs to be incurred in completing and selling the property.

Impairment of non-financial assets

At each statement of financial position date, the Group reviews the carrying amounts of its assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent 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 in prior years. Reversal of an impairment loss is recognised immediately in the consolidated statement of income. Impairment losses on goodwill are not reversed.

Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income.
- (b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Accounts receivable are stated at original invoice less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 60 days past due) are considered indicators that the accounts receivable is impaired.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the statement of income.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset.

Investments carried at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Gains or losses and change in fair value on investments held for trading are recognised in statement of income. Interest and other revenues generated from trading securities are included in other income in the consolidated statement of income.

Held-to-maturity investments

Where the Group has a positive intent and ability to hold debt securities to maturity, then these are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses. Gains and losses are recognised in the consolidated statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are recognised and derecognised, on a trade date basis, when the Group becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available-for-sale investments are initially recorded at cost and subsequently measured at fair value, unless this cannot be reliably measured. Changes in fair value are reported as a separate component of equity. Upon impairment any loss, or upon derecognition any gain or loss, previously reported as "cumulative changes in fair value" within equity is included in the consolidated statement of income for the period.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash in hand, bank balances and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Employees' end of service benefits

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Term loans

Loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method.

Gains and losses are recognised in consolidated statement of income when the liabilities are derecognised as well as through the amortisation process.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Borrowing costs

Borrowing costs include interest and direct costs such as underwriting, stamp duty, legal and other related costs in connection with borrowings. All borrowing cost are recognised in the consolidated income statement using the effective interest method.

Borrowing costs, net of interest received on term deposits that are directly attributable to acquisition, construction or production of an asset, are included in the cost of that asset, until such time as the asset is substantially ready for its intended use or sale. Borrowing costs also include the effect of interest payable or receivable on any interest rate swaps and collars entered into by the Group to hedge its exposure to interest rate risk. Other borrowing costs are recognised as an expense in the year in which they are incurred.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Foreign currency translation

Transactions and balances in foreign currencies

The consolidated financial statements are presented in AED, which is the PJSC's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the consolidated statement of income.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Foreign group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each statement of income are translated at average exchange rates; and
- (c) all resulting exchange differences are recognised in other comprehensive income.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Drake & Scull International PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

3 BUSINESS COMBINATIONS

3.1 Acquisition of Drake & Scull International (LLC) and its Subsidiaries

As at 17 November 2008, assets and liabilities of Drake & Scull International (LLC) and its subsidiaries (the "LLC") were transferred to the PJSC as an in-kind contribution for 45% interest in the PJSC.

The fair values of the identifiable assets and liabilities of the LLC and corresponding carrying amounts as at the date of acquisition are as follows:

	<i>Fair value AED'000</i>	<i>Carrying value AED'000</i>
Assets		
Property, plant and equipment	217,679	171,530
Intangible assets	385,052	-
Available-for-sale investments	12,576	12,576
Development properties	24,056	21,106
Inventories	2,064	2,064
Contract work-in-progress	226,187	226,187
Contract receivables and retentions	520,041	520,041
Due from related parties	14,667	14,667
Prepayments and other receivables	115,137	115,137
Trading securities	12,096	12,096
Loan to a shareholder	45,000	45,000
Bank balances and cash	162,328	162,328
	<u>1,736,883</u>	<u>1,302,732</u>
Liabilities		
Employees' end of service benefits	(19,779)	(19,779)
Term loans	(178,096)	(178,096)
Due to related parties	(16,951)	(16,951)
Accounts payable and accruals	(531,861)	(531,861)
Advances received from customers	(280,879)	(280,879)
Due to banks	(83,754)	(83,754)
Excess billings	(27,548)	(27,548)
	<u>(1,138,868)</u>	<u>(1,138,868)</u>
Net identifiable assets	<u>598,015</u>	<u>163,864</u>
Total fair value of the LLC (note 18)	980,000	
Net assets acquired, as above	(598,015)	
Minority interest acquired	23,811	14,328
	<u>405,796</u>	
Goodwill (note 9)		
<i>Cash flow on business combination:</i>		
Net cash acquired on business combination	162,328	
Less: Time deposits under lien	(45,803)	
Less: Bank overdrafts	(31,893)	
Net cash inflow	<u>84,632</u>	

From the date of acquisition, the acquired entities have contributed AED 2,055,174 thousand to the revenue of the Group and AED 326,500 thousand to overall profit of the Group.

Intangible assets comprise customer relationships and trade name which were determined to have finite and infinite useful lives respectively. The fair value of the intangible assets was determined on an income approach using the discounted cash flow analysis.

3 BUSINESS COMBINATIONS (continued)**3.2 Acquisition of Passavant Roediger GmbH and its Subsidiaries**

On 30 November 2009, the Group acquired a 100% interest in Passavant Roediger GmbH and its subsidiaries ("Passavant") through its 100% owned subsidiary, Passavant Engineering Limited. The principal activities of Passavant are developing waste water, water and sludge treatment plants.

The Group has provisionally recorded tangible assets and liabilities at the value they were carried in the books of Passavant on the date of transfer, as summarised below:

	<i>Carrying value AED'000</i>
Tangible assets:	
Property, plant and equipment	7,270
Inventories	65,699
Contract work-in-progress	139,197
Contract receivables and retentions	116,009
Due from related parties	6,203
Other receivables	11,481
Bank balances and cash	14,693
Total tangible assets	360,552
Liabilities:	
Employees' end of service benefits	(3,708)
Deferred tax liability (note 22)	(30,327)
Provisions	(5,435)
Due to related parties	(72,261)
Accounts payable and accruals	(165,559)
Total liabilities	(277,290)
Book value of net tangible assets acquired	83,262
Total consideration	73,784
Book value of net tangible assets acquired, as above	(83,262)
Negative goodwill	(9,478)
<i>Cash flow on acquisition:</i>	
Net cash acquired on acquisition	14,693
Less: paid on acquisition	(48,526)
Net cash outflow	(33,833)

Negative goodwill has been recognised as other income (note 5).

From the date of acquisition, Passavant has contributed AED 30,618 thousand to the revenue of the Group and AED 1,765 thousand to overall profit of the Group. Had the acquisition taken place on 1 January 2009, Passavant would have contributed AED 11,223 thousand to the profit of the Group.

Adjustments to the provisional values will be recognised within twelve months of the transfer date as allowed by International Financial Reporting Standard 3 "Business Combinations"

Of the interest acquired, 82% has been transferred to the Group. The Group has both put option and call option for the remaining 18% interest in Passavant exercisable on 31 December 2011 at a predetermined price. Accordingly, the full 100% has been accounted for as acquired and the fair value of the option has been recognised under other liabilities (note 23).

Drake & Scull International PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

3 BUSINESS COMBINATIONS (continued)

3.3 Acquisition of Drake & Scull International for Contracting WLL

In December 2009, the Group formalised the acquisition of a 75% interest in Drake & Scull International for Contracting WLL (the "Company") effective 1 January 2009, from a related party (note 16).

The Group has provisionally recorded tangible assets and liabilities at the value they were carried in the books of the Company prior to the transfer, as summarised below:

	<i>Carrying value AED'000</i>
Tangible assets:	
Property, plant and equipment	278
Contract work-in-progress	31,225
Contract receivables and retentions	51,540
Due from related parties	136
Bank balances and cash	3,948
Total tangible assets	87,127
Liabilities:	
Employees' end of service benefits	(1,154)
Loans	(10,481)
Due to related parties	(3,989)
Accounts payable and accruals	(37,040)
Advances	(14,183)
Due to banks	(1,765)
Total liabilities	(68,612)
Book value of net tangible assets acquired	18,515
Total consideration paid or payable	85,057
Book value of net tangible assets acquired, as above	(18,515)
Minority interest acquired	4,629
Goodwill and other intangible assets	71,171
Cash flow on acquisition:	
Net cash acquired on business combination	2,961
Net cash inflow	2,961

The goodwill has been allocated to MEP unit. The acquisition was undertaken to expand the operations of the Group to the State of Kuwait. The goodwill represents expected synergies and intangible assets acquired. Adjustments to the provisional values to record separately identifiable intangible assets, if any, will be recognised within twelve months of the transfer date as allowed by International Financial Reporting Standard 3 "Business Combinations".

The Company has contributed AED 125,217 thousand to the revenue of the Group and AED 8,582 thousand to overall profit of the Group since 1 January 2009.

The Group has also written a put option to acquire the remaining 25% interest in the Company excisable between 1 January to 31 December 2014. The fair value of the put option has been recognised under other liabilities (Note 23).

Drake & Scull International PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

4 OPERATING SEGMENT INFORMATION

Business segment:

For management purposes, the Group is organised into business units based on their services and has three reportable operating segments; i.e. M.E.P., I.W.P. and Civil works.

The M.E.P. segment carries out contracting work relating to the construction industry, such as mechanical, electrical, plumbing and sanitation work.

The I.W.P. segment carries out contracting work relating to the construction industry, such as infrastructure, water treatment plants, district cooling plants and power plants.

The Civil works segment carries out contracting work relating to the construction industry, such as property construction, sanitation work and real estate activities.

Income from sources other than the above business segments is included in other operating income.

Period from 17 November 2008 to 31 December 2009

	<i>M.E.P</i> <i>AED'000</i>	<i>I.W.P</i> <i>AED'000</i>	<i>Civil works</i> <i>AED'000</i>	<i>Eliminations</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Revenue					
External customers	1,268,205	416,572	526,929	-	2,211,706
Internal - segment	37,926	-	61,598	(99,524)	-
	<u>1,306,131</u>	<u>416,572</u>	<u>588,527</u>	<u>(99,524)</u>	<u>2,211,706</u>
Segment profit	<u>257,349</u>	<u>51,670</u>	<u>27,518</u>	<u>-</u>	<u>336,537</u>
Depreciation	19,527	1,174	11,637	-	32,338
Capital expenditure	14,603	3,914	2,353	-	20,870
Segment assets at 31 December 2009	<u>3,596,748</u>	<u>679,221</u>	<u>481,756</u>	<u>(357,137)</u>	<u>4,400,588</u>

Transfer price between operating segments are on an arm length's basis in a manner similar to transaction with third parties.

Interest income and interest expense have not been disclosed by segment as these items are managed on a group basis.

Geographic segments:

The Group is presently engaged in carrying out contracting work relating to the construction industry in the United Arab Emirates, Saudi Arabia, Kuwait, Germany and Thailand.

Period from 17 November 2008 to 31 December 2009

	<i>U.A.E</i> <i>AED'000</i>	<i>Other</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>	<i>Eliminations</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Revenue from external customers	1,782,451	429,255	2,211,706	-	2,211,706
Non current assets	<u>1,544,467</u>	<u>8,358</u>	<u>1,552,825</u>	<u>(270,428)</u>	<u>1,282,297</u>

The above revenue information is based on the location of the contract site.

Revenue from two largest customers amounted to AED 272,725 thousand and AED 155,286 thousand relating to MEP and IWP segment respectively.

5 OTHER INCOME

*17 November
2008 to
31 December
2009
AED'000*

Interest income	93,914
Exchange gain	3,887
Negative goodwill (note 3.2)	9,478
Others	6,556
	<u>113,835</u>

6 PRE-INCORPORATION PROFIT

This represents the income earned on investing the money received from IPO subscriptions between the first day of public subscription and the date of incorporation of the PJSC, net of expenses related to its incorporation as follows:

AED'000

Interest income from deposits	45,035
Offering fee	43,556
	<u>88,591</u>
Pre incorporation expenses	(46,635)
	<u>41,956</u>

7 PROFIT FOR THE PERIOD

*17 November
2008 to
31 December
2009
AED'000*

The profit for the period is stated after charging:

Staff costs	<u>169,317</u>
Rental expenses	<u>10,242</u>

Drake & Scull International PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

8 PROPERTY, PLANT AND EQUIPMENT

Cost:	Land AED '000	Buildings AED '000	Plant and equipment AED '000	Motor vehicles AED '000	Furniture and fixtures AED '000	Capital work-in-progress AED '000	Total AED '000
Transfer from the LLC (note 3.1)	140,416	23,615	21,651	13,310	3,234	15,453	217,679
Acquisition on business combinations	-	897	1,097	128	798	4,628	7,548
Additions	-	2,992	14,718	352	1,421	1,387	20,870
Transfers	-	-	2,892	-	-	(2,892)	-
Disposals	-	-	(2,086)	(300)	(454)	-	(2,840)
Translation adjustment	-	(46)	(46)	(5)	(35)	(204)	(336)
At 31 December 2009	<u>140,416</u>	<u>27,458</u>	<u>38,226</u>	<u>13,485</u>	<u>4,964</u>	<u>18,372</u>	<u>242,921</u>
Depreciation:							
Charge for the period	-	8,410	15,232	6,827	1,869	-	32,338
Disposals	-	-	(709)	(140)	(97)	-	(946)
At 31 December 2009	<u>-</u>	<u>8,410</u>	<u>14,523</u>	<u>6,687</u>	<u>1,772</u>	<u>-</u>	<u>31,392</u>
Net carrying amount							
At 31 December 2009	<u>140,416</u>	<u>19,048</u>	<u>23,703</u>	<u>6,798</u>	<u>3,192</u>	<u>18,372</u>	<u>211,529</u>

Motor vehicles and equipment with a net book value of AED 4,905 thousand and AED 1,980 thousand respectively are mortgaged as security for term loans. Title deeds for properties with a net book value of AED 23.5 million are held in name of other party on behalf of the Group.

The depreciation charge has been allocated in the consolidated statement of income as follows:

17 November 2008 to 31 December 2009 AED '000

Contract costs
Selling, general and administrative expenses

16,774
15,564
<u>32,338</u>

9 GOODWILL AND OTHER INTANGIBLE ASSETS

	<i>Goodwill AED'000</i>	<i>Trade name AED'000</i>	<i>Customer relationships AED'000</i>	<i>Total AED'000</i>
Cost:				
Acquired through business combinations	476,967	49,500	335,552	862,019
Translation adjustment	(2,441)	-	-	(2,441)
At 31 December 2009	474,526	49,500	335,552	859,578
Amortisation:				
Amortisation charge for the period	-	-	37,750	37,750
At 31 December 2009	-	-	37,750	37,750
Net carrying amount:				
At 31 December 2009	474,526	49,500	297,802	821,828

Impairment testing of goodwill and intangibles with indefinite useful lives

Goodwill and trade name acquired have been allocated to the following cash generating units:

	<i>Goodwill AED'000</i>	<i>Trade name AED'000</i>
<i>Cash generating units relating to:</i>		
MEP	324,256	36,571
IWP	100,249	12,929
Civil	52,462	-
At 31 December 2009	476,967	49,500

Key assumptions used in value in use calculations

The recoverable amount of the cash generating units (CGU) has been determined based on their value in use, calculated using cash flows projections based on the financial budgets approved by management covering a period of 5 years and the discount rates applied are 19.1%, 18.1% and 20% for MEP, IWP and Civil respectively. The other key assumptions used in the value in use calculations are as follows:

Budgeted gross margins: The basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budgeted year, adjusted for expected efficiency improvements, price fluctuations and manpower costs.

Discount rates: These represent the weighted average cost of capital for the cash generating units adjusted for the respective location risk factors.

Cost inflation: The basis used to determine cost inflation is the forecast general price index during the budget year for the cash generating units.

Terminal growth rate: The terminal growth rate has been assumed to be 2%. In management's view, the terminal growth rate is the minimum growth rate expected to be achieved beyond the five year period.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash generating units, management believe that no reasonably possible change would cause the carrying values of the units to materially exceed their recoverable amount.

10 INVESTMENTS

	<i>Notes</i>	<i>AED'000</i>
Held-to-maturity investments	10.1	315,795
Available-for-sale investments	10.2	10,368
Investments carried at fair value through profit or loss		6,693
		<u>332,856</u>
Current		135,143
Non-current		197,713
		<u>332,856</u>

10.1 HELD-TO-MATURITY INVESTMENTS

Unquoted debt securities held to maturity carry interest rates ranging from three months LIBOR plus 1.20% to three months LIBOR plus 2.60% maturing upto 3 November 2014. At 31 December 2009, there is no impairment on held to maturity debt securities. These investments are placed as collateral against amount borrowed from a financial institution (note 21). The maximum exposure to credit risk is the carrying value of the debt securities classified as held to maturity. Investments classified as current are expected to mature within twelve months after the statement of financial position date.

10.2 AVAILABLE FOR SALE INVESTMENTS

This comprises:

- AED 5,214 thousand representing the acquisition cost of the investment in Deera Real Estate LLC, a company based in the Kingdom of Jordan, in which the Group holds less than 5% of the issued share capital.
- AED 5,154 thousand representing the acquisition cost, net of impairment, of the investment in Ajman Real Estate Holding Ltd., in which the Group holds less than 10% of the issued share capital.

These investments are carried at cost as their fair value cannot be reliably determined due to the unpredictable nature of future cash flows.

11 LOANS AND ADVANCES

	<i>AED'000</i>
Current (i)	95,929
Non-current (ii)	21,727
	<u>117,656</u>

- (i) Amounts due from a customer for construction contracts are converted into a twelve month advance. The amounts are unsecured and carry interest rate of 10% per annum.
- (ii) These amounts carry interest rates ranging from 7% to 10% per annum and are due on 31 December 2012. The amounts are secured by property units under development in Thailand and the Group also has an option to purchase those units.

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12 DEVELOPMENT PROPERTIES

Development properties amounting to AED 39,363 thousand comprise parcels of land acquired and held for future development and sale and the related development cost. These projects are likely to be completed and sold by the year 2011. These properties are held in the name of a shareholder on behalf of the Group. To date, no revenue has been recognised on development properties. The development properties have been classified as current as they are expected to be realised in the Group's operating cycle.

13 CONTRACT RECEIVABLES AND RETENTIONS

	<i>AED'000</i>
Contract receivables	630,386
Retentions receivable	367,738
Provision for receivables	(14,258)
	<u>983,866</u>

Contract receivables and retentions receivable include AED 15,572 thousand due from certain customers of Drake & Scull International L.L.C (Abu Dhabi). The subsidiary commenced legal proceedings against these customers claiming compensation of AED 19,700 thousand for the work performed and delays caused by the customers. The legal cases are yet to be decided upon by the concerned court. Management, based on advice received from the subsidiary's legal advisor, expects a favorable outcome and is confident of recovering at least the amount recorded as receivable at the statement of financial position date.

Gross contract receivables and retentions receivable include AED 207,776 thousand and AED 145,410 thousand respectively assigned in favor of the Group's bankers as security against facilities granted to the Group (note 24).

Retentions receivable represent contract retentions due from customers. Retentions receivable include AED 161,463 thousand due more than twelve months after the statement of financial position date.

As at 31 December 2009, contract and retention receivables at nominal value of AED 14,258 thousand were doubtful and provided for. Movements in the allowance for doubtful contract and retention receivables were as follows:

	<i>AED'000</i>
Transferred from LLC (note 3.1)	12,964
Acquisition on business combination (note 3.2 & 3.3)	2,600
Provided during the period	5,027
Unused amounts reversed	(2,034)
Written off during the period	(4,299)
	<u>14,258</u>

At the statement of financial position date, the ageing of unimpaired contract and retention receivables is as follows:

	<i>Total AED'000</i>	<i>Neither past due nor impaired AED'000</i>	<i>Past due but not impaired</i>			
			<i><30 days AED'000</i>	<i>30-60 days AED'000</i>	<i>60-90 days AED'000</i>	<i>>90 days AED'000</i>
31 December 2009	983,866	526,980	147,447	111,454	25,892	172,093

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables.

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14 CONTRACT WORK-IN-PROGRESS

	<i>AED'000</i>
Costs and estimated earnings	5,241,852
Less: Progress billings	(4,935,026)
	<u>306,826</u>
Disclosed in the consolidated statement of financial position as follows:	
Contract work-in-progress	405,143
Excess billings – Billings in excess of value of work executed	(98,317)
	<u>306,826</u>

15 PREPAYMENTS AND OTHER RECEIVABLES

	<i>AED'000</i>
Advances to suppliers	86,605
Interest receivable	60,222
Prepayments and other receivables	99,167
	<u>245,994</u>

16 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions between the PJSC and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties included in the consolidated statement of income are as follows:

	<i>17 November 2008 to 31 December 2009</i>	<i>Other related parties</i>
	<i>Joint ventures</i>	<i>AED'000</i>
	<i>AED'000</i>	<i>AED'000</i>
Sales	-	230
Purchases	-	5,403
Management fee income	1,598	-
Management fee expenses	-	16,650
	<u>-</u>	<u>16,650</u>

Balances with related parties included in the consolidated statement of financial position are as follows:

	<i>Due from related parties</i>	<i>Due to related parties</i>
	<i>AED'000</i>	<i>AED'000</i>
Joint ventures	14,649	16,289
Other related parties	24,910	58,862
	<u>39,559</u>	<u>75,151</u>

16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The Group had following transaction with Drake and Scull Group (DSG), an entity owned by the Chief Executive Officer:

- The Group paid AED 74 million to DSG as management fee for the period upto 31 December 2012. The agreement for the payment which was referred to in the prospectus for offering of shares was subsequently amended with the approval of the board of directors. The amendments did not result in any change to the total amount payable to DSG. Long term prepayments represent such fee for the period from 1 January 2011 to 31 December 2012.
- The Group acquired 49% of Drake & Scull International for Contracting (W.L.L.) – Kuwait from parties who were beneficially holding the interest on behalf of DSG (note 25).
- One of the Group's subsidiaries is a partner in a joint venture in Saudi Arabia with a subsidiary of DSG.

For the period ended 31 December 2009, the Group has not recorded any impairment of amounts owned by related parties.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	<i>17 November 2008 to 31 December 2009 AED'000</i>
Short-term benefits	39,909
Employees' end of service benefits	1,863
	<u>41,772</u>

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of cash flows consist of the following statement of financial position amounts:

	<i>AED'000</i>
Cash on hand	1,147
Cash at bank	131,196
Time deposits	1,027,967
Bank balances and cash	1,160,310
Time deposits under lien	(327,245)
Bank overdrafts (note 24)	(89,851)
Cash and cash equivalents	<u>743,214</u>

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18 SHARE CAPITAL

	<i>AED'000</i>
<i>Authorised, issued and fully paid</i>	
1,197,777,778 shares of AED 1 each paid in cash	1,197,778
980,000,000 shares of AED 1 each paid in kind	980,000
	<u>2,177,778</u>

As noted in note 3.1, assets and liabilities of Drake & Scull International LLC and its subsidiaries, were transferred to the PJSC as an in-kind contribution for 45% interest in the PJSC by the shareholders.

During the period, the PJSC obtained necessary regulatory approval to undertake a share buy-back program. A total of 32,400 thousand shares were purchased from the market at an average price of AED 0.88 per share amounting to AED 28,622 thousand.

19 STATUTORY RESERVE

In accordance with the Commercial Companies Law of 1984 (as amended) and the PJSCs Articles of Association, 10% of the annual net profit of the PJSC is required to be transferred to a statutory reserve. This reserve is not available for distribution except as stipulated by the law.

20 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the consolidated statement of financial position are as follows:

	<i>AED'000</i>
Transfer from the LLC (note 3.1)	19,779
Acquired through business combinations	4,862
Provided during the period	13,506
End of service benefits paid	(3,596)
	<u>34,551</u>
Provision as at end of the period	<u>34,551</u>

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

21 TERM LOANS

	<i>AED'000</i>
Loans (i)	49,199
Loan (ii)	78,949
Loans (iii)	256,900
Loan (iv)	156,115
	<u>541,163</u>
Term loans	541,163
Non- current portion	159,882
	<u>381,281</u>
Current portion of term loans	<u>381,281</u>

21 TERM LOANS (continued)

- (i) These loans carry interest rates ranging between 7.5% and 8.25% per annum and are repayable in 12 to 60 monthly installments. Installments due within one year are disclosed under current liabilities. These loans are secured by lien on the motor vehicles and equipment purchased and on certain receivables.
- (ii) This represents loan equivalent to Euro 15 million obtained to finance the working capital requirements of the subsidiary. The loan carries interest at variable rates of three months EURIBOR plus 1% per annum and is repayable on 31 October 2010.
- (iii) This represents loans equivalent to USD 70 million obtained to finance the working capital requirements and investments. The loan carries interest at variable rates of three months LIBOR plus 1.25% to 2.5% per annum and is repayable within 12 months.
- (iv) This represents loan of AED 156 million (equivalent to US\$ 42.5 million) obtained to finance the held-to-maturity investments. The loan carries interest at variable rates of three months LIBOR plus 0.5% per annum and is repayable on 12 August 2011. The loan is secured by pledge on the unquoted bonds (note 10.1).

22 INCOME TAX AND DEFERRED TAX

The major components of income tax expense for the period ended 31 December 2009 are:

Income tax expense:

	<i>AED'000</i>
<i>Current income tax expense:</i>	
Current income tax charge	44
<i>Deferred tax expense:</i>	
Relating to origination and reversal of temporary differences	815
Income tax expense	<u>859</u>

The tax expense and deferred tax liability relate to the Group's subsidiary in Germany (note 3.2). Deferred tax liability relates to temporary difference on the subsidiary in accordance with the taxation laws and regulations of Germany.

Deferred tax

Movement in the deferred tax liability in the consolidated statement of financial position is as follows:

	<i>AED'000</i>
Acquired through business combinations (note 3.2)	30,327
Tax expense provided during the period	815
Translation adjustment	(1,347)
Deferred tax liability as at end of the period	<u>29,795</u>

22 INCOME TAX AND DEFERRED TAX (continued)

Deferred income tax at 31 December relates to the following:

	<i>Consolidated statement of financial position AED'000</i>	<i>Consolidated statement of income AED'000</i>
<i>Deferred tax liabilities</i>		
Accelerated depreciation for tax purposes	889	38
Contract receivables and retention	16,216	445
End of service benefits	(163)	-
Inventories and contract work-in-progress	12,853	332
	<u>29,795</u>	<u>815</u>

The relationship between the tax expense and the accounting profit can be explained as follows:

	<i>17 November 2008 to 31 December 2009 AED'000</i>
Profit for the period	336,537
Profit not subject to tax	(333,913)
Accounting profit before tax	<u>2,624</u>
Income tax expense	<u>(859)</u>
Effective tax rate based on accounting profit	<u>32.7%</u>
Applicable tax rate	<u>31%</u>

23 ACCOUNTS PAYABLE AND ACCRUALS

	<i>AED'000</i>
Due to suppliers and subcontractors	390,071
Retention payable	72,687
Provision for maintenance	20,168
Accrued expenses and other payables	302,577
	<u>785,503</u>

24 DUE TO BANKS

	<i>AED'000</i>
Trust receipts and other borrowings	32,336
Bank overdrafts	89,851
	<u>122,187</u>

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24 DUE TO BANKS (continued)

The banking facilities carry interest at prevailing market rates and are secured by one or more of the following:

- Assignment of project receivables and insurance policy over the asset financed.
- Assignment of guarantees issued by subcontractors.
- Lien over time deposits.
- Guarantees of certain related parties.

25 INVESTMENT IN JOINT VENTURES

The Group, through Gulf Technical Construction Co. L.L.C. has a 50% interest in Ranya Test Joint Venture, a joint venture with Ranya General Contracting Company (L.L.C.) under a joint venture agreement dated 12 August 2005.

The Group through its subsidiary Drake & Scull International LLC (Abu Dhabi) has a 50% interest in King Abdullah University of Science and Technology project, a joint venture with Drake & Scull (W.L.L) – Saudi Arabia under a joint venture agreement dated 15 January 2008.

The Group's share in the joint ventures' assets and liabilities included in the consolidated financial statements is as follows:

	<i>AED'000</i>
Current assets	192,701
Non-current assets	2,963
Current liabilities	(87,262)
Net assets	<u>108,402</u>

The Group's share in the operating results of the joint ventures included in the consolidated financial statements is as follows:

	<i>17 November 2008 to 31 December 2009 AED'000</i>
Revenue	358,597
Profit for the period	<u>84,427</u>

26 EARNINGS PER SHARE

	<i>17 November 2008 to 31 December 2009</i>
Earnings:	
Profit for the period attributable to equity holders of the Parent (AED'000)	<u>334,390</u>
Shares:	
Weighted average number of shares outstanding during the period	<u>2,165,835,593</u>
Basic and diluted earnings per share (AED)	<u>0.154</u>

27 EXPENDITURE COMMITMENTS

	<i>AED'000</i>
Operating lease commitments	
Future minimum lease payments:	
Within one year	24,896
After more than one year	6,908
More than five years	1,633
Total operating lease expenditure contracted for at the statement of financial position date	33,437

28 CONTINGENCIES

	<i>AED'000</i>
Performance bonds	626,769
Labour and other guarantees	405,621

29 RISK MANAGEMENT

Interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits, interest bearing loans and advances, due to banks, and term loans). The Group's interest-bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposit, interest bearing loans and advances, due to banks and term loans at the statement of financial position date. For bank deposits, interest bearing loans and advances, due to banks and term loans, the analysis is prepared assuming the amount of deposit with banks, interest bearing loans and advances, amount due to banks and term loans outstanding at the statement of financial position date was outstanding for the whole period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

There is no direct impact on the Group's equity other than the impact resulting from the effect on profit for the period.

	<i>Increase/ decrease in basis points</i>	<i>Effect on period from 17 November 2008 to 31 December 2009 AED'000</i>
AED	+50	44,891
AED	-50	(44,891)

Currency risk

The Group is exposed to currency risk on foreign currencies monetary assets and liabilities which are denominated in Euro and Kuwaiti Dinar. The transactions relating to the joint venture in Saudi Arabia are in Saudi Arabian Riyals. Both Saudi Arabian Riyals and Arab Emirates Dirhams are pegged to US Dollars.

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the AED currency rate against the Euro and Kuwaiti Dinar, with all other variables held constant, on the statement of income (due to the fair value of currency sensitive monetary assets and liabilities).

29 RISK MANAGEMENT (continued)**Currency risk (continued)**

	<i>Increase/ decrease in rate to the AED</i>	<i>Effect on profit AED'000</i>
Euro	+5%	(1,001)
	-5%	1,001
Kuwaiti Dinar	+5%	(4,179)
	-5%	4,179

Credit risk

The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables and retentions due from the customers.

The Group limits its credit risk with regard to bank deposits by dealing with reputable banks only.

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group limits its liquidity risk by ensuring bank facilities and funding from the shareholders are available.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December 2009, based on contractual payment dates and current market interest rates.

	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>>5 years AED'000</i>	<i>Total AED'000</i>
Accounts payable and accruals	412,887	276,370	96,246	-	785,503
Due to related parties	58,423	16,728	-	-	75,151
Due to banks	115,758	7,190	-	-	122,948
Term loans	43,670	348,103	165,865	-	557,638
Total	630,738	648,391	262,111	-	1,541,240

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group has raised capital through public subscription. Capital comprises share capital, treasury shares, statutory reserve and retained earnings and is measured at AED 2,483,546 thousand at 31 December 2009.

30 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of contract receivables, due from related parties, investments, other receivables, bank balances and cash. Financial liabilities consist of due to banks, due to related parties, term loans and payables.

The fair values of financial instruments are not materially different from their carrying values.