

Drake and Scull International PJSC

**Directors' report and consolidated financial statements
for the year ended 31 December 2011**

Drake and Scull International PJSC

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Drake and Scull International PJSC

Directors' report

Dear Shareholders,

The Board of Directors of Drake & Scull International PJSC ("DSI") or (the "Company") and its Subsidiaries (the "Group") have the pleasure in presenting their consolidated financial statements for the year ended 31 December 2011.

Principal activities

During the year ended 31 December 2011 DSI was preliminary engaged in engineering, integrated design and construction disciplines of Mechanical, Electrical and Plumbing (MEP), Civil Contracting, and Water and Power Infrastructure.

Financial results

For the year ended 31 December 2011, DSI earned revenues amounting to AED 3,109 million and the profit for the year amounted to AED 208.2 million. The Earnings per share was AED 0.09 for the year.

We continue to deliver strong financial results and a healthy statement of financial position 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 2012.

DSI has been in the last 2 years consistently achieving positive results and we have continued this trend 2011. The company has a strong project portfolio and managed to achieve a substantial increase in its Order backlog across the region. DSI has successfully met number of the targets and objectives that were set at the beginning of the financial year mainly through expanding the business streamlines and services and increasing the company's geographical reach. With a successful year behind us, DSI has a positive outlook for 2012 as well.

Auditors

PricewaterhouseCoopers were appointed as external auditors of the Group for the year ended 31 December 2011. PricewaterhouseCoopers are eligible for reappointment as auditors for 2012 and have expressed their willingness to continue in office.


Chairman



Independent auditor's report to the shareholders of Drake and Scull International PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Drake and Scull International PJSC ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated balance sheet as of 31 December 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.



**Independent auditor's report to the shareholders of
Drake and Scull International PJSC (continued)**

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another auditor whose report, dated 16 March 2011, expressed an unqualified opinion on those statements.

Report on other legal and regulatory requirements

Further in respect of the Company, as required by the UAE Federal Law No. (8) of 1984, as amended, we report that:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the Company;
- (iii) the Company has maintained proper books of account and has carried out physical verification of inventories in accordance with properly established procedures;
- (iv) the financial information included in the Directors' report is consistent with the books of account of the Company; and
- (v) nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as of 31 December 2011.

PricewaterhouseCoopers
31 March 2012

A handwritten signature in black ink, appearing to read 'Paul Suddaby', with a horizontal line extending from the end.

Paul Suddaby
Registered Auditor Number 309

Drake and Scull International PJSC

Consolidated balance sheet

		As at 31 December	
	Note	2011 AED'000	2010 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	423,412	249,689
Intangible assets	8	1,173,969	1,149,435
Deferred income tax assets	10	12,374	12,132
Available-for-sale financial assets	12	24,707	5,967
Held-to-maturity investments	11	27,978	89,955
Trade and other receivables	9	332,674	89,913
		<u>1,995,114</u>	<u>1,597,091</u>
Current assets			
Inventories	15	26,163	24,889
Development properties	14	50,932	45,315
Trade and other receivables	9	2,901,110	2,238,605
Due from related parties	22	25,466	23,709
Held-to-maturity investments	11	211,221	312,125
Financial assets at fair value through profit or loss	13	5,189	6,675
Cash and bank balances	16	525,487	622,150
		<u>3,745,568</u>	<u>3,273,468</u>
Total assets		<u>5,740,682</u>	<u>4,870,559</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent			
Share capital	17	2,177,778	2,177,778
Treasury shares	17	(28,622)	(28,622)
Statutory reserve	18	73,753	49,116
Other reserve	6	24,543	-
Retained earnings		446,639	279,838
Foreign currency translation reserve		(8,778)	(8,443)
		<u>2,685,313</u>	<u>2,469,667</u>
Non-controlling interests		32,244	72,097
Total equity		<u>2,717,557</u>	<u>2,541,764</u>
LIABILITIES			
Non-current liabilities			
Bank borrowings	19	106,398	2,149
Deferred income tax liabilities		3,842	-
Employees' end of service benefits	21	65,108	49,679
Other payables		1,329	1,526
		<u>176,677</u>	<u>53,354</u>
Current liabilities			
Trade and other payables	20	2,080,884	1,298,800
Bank borrowings	19	722,470	787,220
Due to related parties	22	43,094	189,421
		<u>2,846,448</u>	<u>2,275,441</u>
Total liabilities		<u>3,023,125</u>	<u>2,328,795</u>
Total equity and liabilities		<u>5,740,682</u>	<u>4,870,559</u>

The consolidated financial statements were approved for issue by the Board of Directors on 31 March 2012 and signed on its behalf by:


Chairman


Chief Executive Officer

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

(4)



Drake and Scull International PJSC

Consolidated income statement

	Note	<u>Year ended 31 December</u>	
		2011 AED'000	2010 AED'000
Contract revenue	5	3,109,618	1,854,572
Contract costs		(2,672,529)	(1,507,467)
Gross profit		<u>437,089</u>	<u>347,105</u>
Other income	24	18,494	22,637
General and administrative expenses	25	(254,878)	(227,347)
Operating profit		<u>200,705</u>	<u>142,395</u>
Finance income	23	44,335	47,024
Finance costs	23	(25,553)	(33,292)
Finance income – net	23	<u>18,782</u>	<u>13,732</u>
Profit for the year before tax		<u>219,487</u>	<u>156,127</u>
Income tax (expense) / credit	26	(11,189)	5,379
Profit for the year		<u>208,298</u>	<u>161,506</u>
Attributable to:			
Owners of the Parent		193,164	154,618
Non-controlling interests		15,134	6,888
		<u>208,298</u>	<u>161,506</u>
Earnings per share			
- Basic and diluted (AED)	29	<u>0.090</u>	<u>0.072</u>

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC**Consolidated statement of comprehensive income**

	<u>Year ended 31 December</u>	
	2011 AED'000	2010 AED'000
Profit for the year	208,298	161,506
Other comprehensive loss:		
Foreign currency translation	(335)	(2,149)
Other comprehensive loss for the year	(335)	(2,149)
Total comprehensive income for the year	207,963	159,357
Attributable to:		
Owners of the Parent	192,829	152,469
Non-controlling interests	15,134	6,888
	207,963	159,357

Drake and Scull International PJSC

Consolidated statement of changes in equity

	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	Non- controlling interests AED'000	Total AED'000
Balance at 1 January 2010	2,177,778	(28,622)	33,654	292,058	(6,294)	2,468,574	38,587	2,507,161
Profit for the year	-	-	-	154,618	-	154,618	6,888	161,506
Other comprehensive loss	-	-	-	-	(2,149)	(2,149)	-	(2,149)
Total comprehensive income for the year	-	-	-	154,618	-	154,618	6,888	159,357
Dividend (Note 30)	-	-	-	(150,176)	-	(150,176)	-	(150,176)
Non-controlling interest arising on business combinations	-	-	-	-	-	-	26,622	26,622
Others	-	-	-	(1,200)	-	(1,200)	-	(1,200)
Transfer from retained earnings to statutory reserve	-	-	15,462	(15,462)	-	-	-	-
Balance at 31 December 2010	2,177,778	(28,622)	49,116	279,838	(8,443)	2,469,667	72,097	2,541,764

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC

Consolidated statement of changes in equity (continued)

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Other reserve AED'000	Retained earnings AED'000	Foreign currency translation reserve AED'000	Total AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2011	2,177,778	(28,622)	49,116	-	279,838	(8,443)	2,469,667	72,097	2,541,764
Profit for the year	-	-	-	-	193,164	-	193,164	15,134	208,298
Other comprehensive loss	-	-	-	-	-	(335)	(335)	-	(335)
Total comprehensive income for the year	-	-	-	-	193,164	(335)	192,829	15,134	207,963
Dividend	-	-	-	-	-	-	-	(8,568)	(8,568)
Non-controlling interest arising on business combinations (Note 6)	-	-	-	-	-	-	-	1,988	1,988
Non-controlling interests contribution to subsidiary's capital	-	-	-	-	-	-	-	672	672
Non-controlling interest acquired in a subsidiary (Note 6)	-	-	-	-	-	-	-	(51,405)	(26,862)
Interest in subsidiary transferred to non-controlling interest	-	-	-	24,543	-	-	24,543	-	-
Transfer from retained earnings to statutory reserve	-	-	24,637	-	(26,363)	-	(1,726)	1,726	-
Balance at 31 December 2011	2,177,778	(28,622)	73,753	24,543	446,639	(8,778)	2,685,313	32,244	2,717,557

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC

Consolidated statement of cash flows

	Note	<u>Year ended 31 December</u>	
		2011 AED'000	2010 AED'000
Operating activities			
Profit for the year before tax		219,487	156,127
Adjustments for:			
Depreciation	7	35,182	32,903
Amortisation of intangible assets	8	37,750	33,555
Provision for employees' end of service benefits	21	26,212	12,122
Group management fee expense	25	14,800	14,800
Fair value loss on financial assets at fair value through profit or loss	13	1,486	-
Finance income	23	(44,335)	(47,024)
Impairment loss on available-for-sale financial assets	12	-	4,401
Finance costs	23	25,553	33,292
Gain on disposal of property, plant and equipment	24	(4,314)	-
Provision for impairment on trade receivables and retentions - net	25	19,997	7,613
Operating cash flows before payment of employees' end of service benefits, income tax, directors' fee and changes in working capital		331,818	247,807
Employees' end of service benefits paid	21	(18,445)	(5,190)
Income tax paid		(10,948)	(4,627)
Directors' fee paid		-	(1,200)
Changes in working capital (excluding the effects of business combinations):			
Inventories		(1,274)	(7,594)
Development properties		(5,617)	(5,952)
Trade and other receivables before provisions and excluding interest receivable and loans and advances		(802,384)	(274,401)
Due from related parties		3,630	16,034
Trade and other payables excluding income tax, interest and group management fee payable		528,708	(145,017)
Due to related parties		(146,614)	86,756
Net cash used in operating activities		(121,126)	(132,003)
Investing activities			
Purchase of property, plant and equipment	7	(134,607)	(61,491)
Proceeds from disposal of property, plant and equipment		10,271	1,371
Acquisition of intangibles	8	-	(36,745)
Net proceeds from disposal of investments / (net investments made)	11,12	144,141	(86,285)
Loans and advances	9	28,275	(103,747)
Interest received		42,653	93,353
Non-controlling interests acquired in a subsidiary		(21,380)	-
Net cash outflow on business combination	6(a)	(44,032)	(108,884)
Net cash provided by / (used in) investing activities		25,321	(302,428)

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC

Consolidated statement of cash flows (continued)

		<u>Year ended 31 December</u>	
	Note	2011	2010
		AED'000	AED'000
Financing activities			
Term deposits under lien	16	208,777	(145,434)
Dividends paid		(8,568)	(150,176)
Net proceeds from trust receipts and other borrowings excluding effects of business combinations		80,464	35,031
Proceeds from term loans		371,463	99,295
Payment of term loans		(352,806)	(69,827)
Non-controlling interest's contribution to subsidiary's capital		672	-
Interest paid		(23,698)	(33,292)
Net cash provided by / (used in) financing activities		276,304	(265,603)
Net increase / (decrease) in cash and cash equivalents		180,499	(698,834)
Net foreign currency translation difference		2,751	(3,960)
Cash and cash equivalents, beginning of the year		40,120	742,914
Cash and cash equivalents, end of the year	16	223,370	40,120

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011

1 General information

Drake and Scull International PJSC ("the Company" or "the Parent Company") was incorporated on 16 November 2008 and was registered on 21 January 2009 as a Public Joint Stock Company in accordance with the UAE Federal Law No. 8 of 1984, (as amended). The Company is listed on Dubai Financial Market.

The Company's registered office is PO Box 65794, Dubai, United Arab Emirates.

The principal activities of the Company and its subsidiaries (together, "the Group") are carrying out contracting work relating to the construction industry, such as electrical, plumbing, air conditioning and sanitation work in the Middle East, Europe, Asia and North Africa region.

The Company has either directly or indirectly the following major subsidiaries:

<i>Major Subsidiaries</i>	<i>Principal activities</i>	<i>Shareholding %</i>		<i>Country of incorporation</i>
		<i>2011</i>	<i>2010</i>	
Drake & Scull International LLC (Abu Dhabi)	Contracting work relating to the construction industry	100	100	UAE
Gulf Technical Construction Company LLC	Mechanical, electrical and civil construction work	100	80	UAE
Drake & Scull Water and Power LLC	Developing waste water, water and sludge treatment plants	100	100	UAE
Drake & Scull International for Electrical Contracting WLL	Electrical contracting and repairing work relating to the construction industry	75	75	Kuwait
Drake & Scull International (Qatar) WLL	Contracting work relating to the construction industry	100	100	Qatar
Passavant Engineering Limited	Holding company	100	100	British Virgin Island
Passavant Roediger GmbH and its subsidiaries (a subsidiary of Passavant Engineering Limited)	Developing waste water, water and sludge treatment plants	100	100	Germany
Drake & Scull International (Thailand) Limited	Contracting work relating to the construction industry	100	100	Thailand
Drake & Scull International WLL	Contracting work relating to the construction industry	65	65	Saudi Arabia
International Center for Contracting Co. Ltd	Contracting work relating to the construction industry	100	-	Saudi Arabia
Drake & Scull International for Contracting SAE	Contracting work relating to the construction industry	100	100	Egypt

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

1 General information (continued)

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

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.2 Changes in accounting policy and disclosures

a) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

IAS 19, 'Employee benefits' was amended in June 2011. The impact of this amendment will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income ("OCI") as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/(asset). This amendment has no impact on the Group's financial statements.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.1.2 Changes in accounting policy and disclosures (continued)

- b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted (continued)*

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and contractual cash flow characteristics of the instrument. For financial liabilities, the standards retain most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to reassess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosures requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2012.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any 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.

The excess of the consideration transferred over the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed or adjustments have been made to the financial statements of subsidiaries, where necessary, to ensure consistency with the policies adopted by the Group.

(b) 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 income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(b) Joint ventures (continued)

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 re-sells 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 realisable value of current assets, or an impairment loss.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating decision-makers. The Chief Operating decision-makers, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions. The Chief Operating decision-makers of the Group is the "Executive Management".

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(c) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method, at rates calculated to reduce the cost of assets to their estimated residual value over their expected useful lives as follows:

Type of assets	Years
Buildings	2 to 5 years
Plant and machinery	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Motor vehicles	3 to 5 years

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to property, plant and equipment and depreciated in accordance with Group policies.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within in the consolidated income statement.

Specific borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.6 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Parent Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Trade names

Trade names are shown at historical cost. Trade names acquired in a business combination are recognised at fair value at the acquisition date. Trade names have infinite lives and are not amortised due to the minimal cost of renewal.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

(c) Customer relationships

Acquired contractual customer relationships are initially recognised at fair value at the time of acquisition and subsequently carried at cost less accumulated amortisation. The contractual customer relationships have a finite useful life. Amortisation is calculated using the straight-line method to allocate the cost of customer relationships over its estimated useful life of 10 years, which is the estimated period of benefit.

(d) Orders backlog

Acquired orders backlog are arrived at by calculating the present value of the expected future economic benefits to arise from those orders after deducting the contributory asset charge. Subsequently, order backlog are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of orders backlog over its estimated useful life of 4 years, which is the estimated period of benefit.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held to maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.8.1 Classification (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'due from related parties', and 'cash and cash equivalents' in the balance sheet.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(d) Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets. The Group assesses at each balance sheet date where there is objective evidence that a financial asset or Group of financial assets is impaired.

2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'Finance costs' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.8.2 Recognition and measurement (continued)

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-sales 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 derecognition any gain or loss, previously reported as "cumulative changes in fair value" within equity is included in the consolidated income statement for the period.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividend on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a Group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.10 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 and 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.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade receivables

Trade receivables are amounts due from customers for billing in the ordinary course of business for construction contracts. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.12 Trade receivables (continued)

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables 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 receivables. The amount of the provision 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.

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 consolidated income statement within "General and administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within bank borrowings in current liabilities.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. Increases in provisions due to the passage of time are recognised as interest expense. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

2.17 Bank borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.18 Current and deferred income tax (continued)

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

A provision is made for the estimated liability for employees' entitlements to annual leave and related benefits as a result of services rendered by the employees up to the balance sheet date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the Labour Laws applicable in the countries in which the Group operates, for their periods of service up to the balance sheet date. The provision relating to annual leave and leave passage is disclosed as a current liability and included in trade and other payables, while that relating to end of service benefits is disclosed as a non-current liability.

Actuarial gains and losses arising from changes in assumptions are charged or credited in the consolidated income statement in the period in which they arise.

2.20 Contract revenue

Contract revenue is recognised under the percentage-of-completion method. When the outcome of the contract can be reliably estimated, revenue is recognised by reference to the proportion that accumulated costs up to the year end bear to the estimated total costs of the contract. When the contract is at an early stage and its outcome cannot be reliably estimated, revenue is recognised to the extent of costs incurred up to the year end which are considered recoverable.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Summary of significant accounting policies (continued)

2.20 Contract revenue (continued)

Revenue related to variation orders is recognised when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

A claim is recognised as contract revenue when settled or when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the amount can be measured reliably.

Losses on contracts are assessed on an individual contract basis and provision is made for the full amount of the anticipated losses, including any losses relating to future work on a contract, in the period in which the loss is first foreseen.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against progress billings at the year end. Where the sum of the costs incurred and recognised profit or recognised loss exceeds the progress billings, the balance is shown under trade and other receivables as amounts due from customers on contracts. Where the progress billings exceed the sum of costs incurred and recognised profit or recognised loss, the balance is shown under trade and other payables as amounts due to customers on contracts.

In determining contract costs incurred up to the year end, any amounts incurred including advances paid to suppliers and advance billings received from subcontractors relating to future activity on a contract are excluded and are presented as contract work-in-progress.

2.21 Interest income

Interest income is recognised in the consolidated income statement on a time proportion basis using the effective interest method.

2.22 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.24 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividend are approved by the Group's shareholders.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. These risks are evaluated by management on an ongoing basis to assess and manage critical exposure. The Group's liquidity and market risks are managed as part of the Group's treasury activities. Treasury operations are conducted within a framework of established policies and procedures.

(a) Market risk

(i) Foreign exchange risk

The Group's foreign currency monetary assets and liabilities are denominated mainly in Saudi Arabian Riyals, Qatari Riyals, Euro, Kuwaiti Dinars and Omani Riyal.

As Saudi Arabian Riyals, Qatari Riyals, Omani Riyals and Arab Emirates Dirhams are pegged to US Dollars, the sensitivity considers the effect of a reasonably possible movement of the AED currency rate against the Euro and Kuwaiti Dinars, with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities).

At 31 December 2011, if these two currencies had weakened/strengthened by 5% against the AED, the profit for the year would have been higher/lower by AED 309 thousand (2010: AED 479 thousand).

(ii) Price risk

The Group is not exposed to equity security price risk since its investments in available-for-sale financial assets are carried at cost.

(iii) Cash flow and fair value interest rate risk

The Group holds its surplus funds in short term bank deposits. During the year ended 31 December 2011, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by AED 1,740 thousand (2010: AED 2,243 thousand).

The Group also earns interest on long-term trade and other receivables, which are generally at higher than market rates. A 0.5% shift in these interest rates would have resulted in a higher/lower interest income by AED 205 thousand (2010: AED 179 thousand).

The Group's interest rate risk arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During the year ended 31 December 2011, if interest rates on borrowings had been 0.5% higher/lower, the interest expense would have been higher/lower by AED 4,465 thousand (2010: AED 2,726 thousand).

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group has a policy for dealing with customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution and this is regularly monitored.

Credit risk is managed on a Group basis. Credit risk arises from cash and bank balances, held-to-maturity investments, available-for-sale financial assets, bank balances, financial assets carried at fair value through profit or loss, trade and other receivables and amounts due from related parties.

The table below shows the rating and balance of the major counterparties at the balance sheet date:

Counterparty	2011		2010	
	External rating*	AED'000	External rating*	AED'000
Bank A	A1	230,413	A1	279,569
Bank B	BB+	41,352	BB+	4,244
Bank C	A1	36,197	A1	42,916
Bank D	A1	20,397	A1	-
Bank E	Baa1	16,520	Baa1	79,220

*Based on Standard & Poor's ratings

The table below shows the rating and balance of the held-to-maturity investments at the balance sheet date:

	2011 AED'000	2010 AED'000
A1	232,244	395,125
A2	6,955	6,955
	<u>239,199</u>	<u>402,080</u>

The Group has a formal procedure of monitoring and follow-up of customers for outstanding trade receivables. The Group assesses internally the credit quality of each customer, taking into account its financial position, past experience and other factors.

At 31 December 2011, the Group had a significant concentration of credit risk with ten customers accounting for 61% of the trade receivables (2010: 69%). Management believes that this concentration of credit risk is mitigated as the Group has long-standing relationships with these customers.

The other categories of financial assets do not result in significant credit risk.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business through progress billings, the Group maintains adequate bank balances to fund its operations.

Management monitors the forecast of the Group's liquidity position on the basis of expected cash flow.

The Group is currently financed from shareholders' equity and bank borrowings. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Less than 1 year AED'000	Between 1 year and 2 years AED'000	Between 2 years and 5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2011					
<i>Non-derivative financial liabilities</i>					
Bank borrowings	722,470	58,551	47,847	-	828,868
Trade payables and accruals	1,398,959	-	-	-	1,398,959
Due to related parties	43,094	-	-	-	43,094
Other payables	-	1,329	-	-	1,329
At 31 December 2010					
<i>Non-derivative financial liabilities</i>					
Bank borrowings	787,220	-	2,149	-	789,369
Trade payables and accruals	963,271	-	-	-	963,271
Due to related parties	189,421	-	-	-	189,421
Other payables	-	1,526	-	-	1,526

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for partners and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of profit distributed to shareholders or manage its working capital requirements. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Capital management (continued)

Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and bank balances (including short term deposits). Total capital is calculated as 'Total equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011 AED'000	2010 AED'000
Total borrowings (Note 19)	828,868	789,369
Less: Cash and bank balances (Note 16)	(525,487)	(622,150)
Net debt	303,381	167,219
Total equity	2,717,557	2,541,764
Total capital	3,020,938	2,708,983
Gearing ratio	10%	6%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial assets at fair value through profit or loss is based on net asset values provided by the fund managers. The fair market value of these investments, as indicated by the fund managers are based on:

- a) For listed investments, current bid prices in an active market; and
- b) For unlisted investments, valuations based on fundamentals and rationale of the portfolio performed by independent valuers.

The Group did not have any other financial assets or liabilities that are measured at fair value as at 31 December 2011 or 2010.

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Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

Asset recoverability is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate.

In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of the impairment reviews. The key assumptions on which management has based its cash flow projections when determining the recoverable amount of the assets are as follows:

- Management's projections have been prepared on the basis of strategic plans, knowledge of the market, and management's views on achievable growth in market share over the long term period of five years;
- The discount rates applied to cash flows are based on the Group's weighted average cost of capital with a risk premium reflecting the relative risks in the markets in which the businesses operate; and
- Growth rate estimates are based on a conservative view of the long-term rate of growth.

The key assumptions used for value-in-use calculations in 2011 are as follows:

- Growth rate: 5% to 10%
- Discount rate: 12.5%
- Terminal growth rate: 3%

(b) Revenue recognition

The Group uses the percentage-of-completion method in accounting for its contract revenue. Use of the percentage-of-completion method requires the Group to estimate the stage of completion of the contract to date as a proportion of the total contract work to be performed in accordance with the accounting policy set out in Note 2.20. As a result, the Group is required to estimate the total cost to completion of all outstanding projects at each period end. The application of a 5% sensitivity to management estimates of the total costs to completion of all outstanding projects at the year end would result in the revenue and profit increasing/decreasing by AED 444 million.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(c) Impairment of trade and other receivables

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. Management's judgement is required in evaluating customers' debts to determine if they will be collected. The charge is based on the ageing of the customer accounts, the customer's credit worthiness and the historic write-off experience. Changes to the estimated impairment charge may be required if the financial condition of the customers were to improve or deteriorate. Management considers that the current level of impairment charge is appropriate and consistent with the loss estimated at year end.

5 Segment reporting

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 "Operating Segments". IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the "Executive management" who are the Chief Operating decision-makers in order to allocate resources to the segment and to assess its performance. Executive management assesses the performance of the operating segments based on revenue.

Business segments

For management purpose, the Group is organised into business units based on their services and has three reportable business segments; Mechanical, Electrical and Plumbing ("MEP"), Infrastructure, Water and Power ("IWP"), Civil and other (corporate office).

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

The IWP 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.

Other segment represents corporate office which carries out strategic planning, management of all subsidiaries, treasury management, mergers and acquisition, corporate branding and investor relations. For segment information disclosure, goodwill and other intangible assets are disclosed under the relevant segment. Sales between segments are carried out at agreed terms. The revenue from external parties reported to the Executive management is measured in a manner consistent with that in the consolidated income statement.

The amounts provided to the Executive management with respect to the total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

5 Segment reporting (continued)

Geographical segments

Executive management considers the geographical distribution of the Group's operations into three main segments; UAE, Saudi Arabia and Others. The Group is presently engaged in carrying out contracting work relating to the construction industry mainly in the United Arab Emirates, Saudi Arabia, Kuwait, Qatar, Egypt, Oman, Germany, Syria and Thailand.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

Information about business segments

Inter

Revenue from one customer amounting to AED 612,149 thousand which exceeded 10% of the Group revenue was earned through the Civil works segment. In 2010, two customers accounted for over 10% of the Group revenue which represents AED 285,818 thousand relating to MEP works and AED 144,802 thousand relating to Civil works.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

5 Segment reporting (continued)

Information about geographical segments

All figures in AED'000

	For the year ended 31 December 2011					For the year ended 31 December 2010				
	UAE	Saudi Arabia	Others	Inter segment elimination	Total	UAE	Saudi Arabia	Others	Inter segment elimination	Total
Revenue from external customers	1,183,680	1,277,911	648,027	-	3,109,618	1,153,674	259,345	441,553	-	1,854,572
Non-current assets	2,057,461	111,811	30,926	(205,084)	1,995,114	1,663,957	12,319	105,078	(184,263)	1,597,091
	At 31 December 2011					At 31 December 2010				

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

6 Business combinations

(a) Acquisition of International Center for Contracting Co. Ltd (ICCC)

During the first quarter, the Group acquired 100% shareholding in ICCC (a limited liability company incorporated in the Kingdom of Saudi Arabia) effective from 1 January 2011.

The fair values of the identifiable assets and liabilities of ICCC as at the date of acquisition were as follows:

	Fair value AED'000
Assets	
Property, plant and equipment	80,444
Intangible assets - orders backlog	6,851
Trade and other receivables	149,472
Due from related parties	5,387
Cash and bank balances	26,495
Total assets	<u>268,649</u>
Liabilities	
Employees' end of service benefits	(7,662)
Trade and other payables	(180,206)
Due to related parties	(287)
Bank borrowings	(11,514)
	<u>(199,669)</u>
Non-controlling interest	(1,988)
Total liabilities	<u>(201,657)</u>
Fair value of net assets acquired	<u>66,992</u>
Total consideration	125,298
Fair value of net assets acquired (as above)	<u>(66,992)</u>
Goodwill	<u>58,306</u>
<i>Cash flow on acquisition</i>	
Net cash acquired on business combination	26,495
Less: paid on acquisition	<u>(70,527)</u>
Net cash outflow	<u>(44,032)</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

6 Business combinations (continued)

(a) Acquisition of International Center for Contracting Co. Ltd (ICCC) (continued)

The remaining balance of the consideration amounting to AED 54,771 thousand is included within trade and other payables and amounts due to related parties.

The Group has incurred transaction cost of AED 2.65 million that has been charged to the consolidated income statement within "General and administrative expenses" (Note 25).

The goodwill has been allocated to the Civil segment. The acquisition was undertaken to expand the operations of the Group in the Kingdom of Saudi Arabia. It represents synergies acquired. The purchase price allocation was completed in December 2011. The adjustment to the provisional values resulted in the identification of other intangible assets "orders backlog" with a carrying amount of AED 6,851 thousand. Orders backlog were determined to have a finite life of 4 years and an amortisation charge of AED 1,713 thousand was recognised in the consolidated income statement within "General and administrative expenses" (Note 25).

ICCC has contributed AED 155,170 thousand to the revenue of the Group and AED 3,603 thousand to the net profit of the Group since acquisition on 1 January 2011.

(b) Acquisition of Drake & Scull International WLL – Saudi Arabia

During 2010, the Group acquired a 65% interest in Drake & Scull International WLL (Saudi Arabia) ("DSI-Saudi Arabia") effective 1 October 2010.

The fair values of the identifiable assets and liabilities of DSI-Saudi Arabia and corresponding carrying amounts as at the date of acquisition are set out in the next page.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

6 Business combinations (continued)

(b) Acquisition of Drake & Scull International WLL – Saudi Arabia (continued)

	Fair value AED'000
Assets	
Property, plant and equipment	8,469
Intangible assets - orders backlog	9,928
Inventories	4,438
Contract receivable and retentions	203,308
Due from contracts on contracts	8,431
Prepayments and other receivables	2,476
Bank balances and cash	13,230
Total assets	<u>250,280</u>
Liabilities	
Employees' end of service benefits	(6,577)
Accounts payable and accruals	(55,312)
Due to related parties	(20,312)
Advances received from customers	(30,434)
Due to banks	(42,905)
Due to customers on contracts	(10,089)
Non-controlling interest acquired	(26,153)
Total liabilities	<u>(191,782)</u>
Fair value of net assets acquired	<u>58,498</u>
 Total consideration	 242,425
Fair value of net assets acquired, as above	<u>(58,498)</u>
Goodwill	<u>183,927</u>
<i>Cash flow on acquisition</i>	
Net cash acquired on business combination	13,230
Less: paid on acquisition	<u>(25,575)</u>
Net cash outflow	<u>(12,345)</u>

The Group incurred transaction cost of AED 5.4 million that was charged to the consolidated income statement within "General and administrative expenses" (Note 25).

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

6 Business combinations (continued)

(b) Acquisition of Drake & Scull International WLL – Saudi Arabia (continued)

The goodwill has been allocated to the MEP segment. The acquisition was undertaken to expand the operations of the Group in the Kingdom of Saudi Arabia. It represents synergies acquired. The purchase price allocation was completed in December 2011. The adjustment to the provisional values resulted in the identification of other intangible assets “orders backlog” with a carrying amount of AED 9,928 thousand. Orders backlog were determined to have a finite life of 4 years and an amortization charge of AED 2,482 thousand was recognised in the consolidated income statement within “General and administrative expenses” (Note 25).

DSI-Saudi Arabia has contributed AED 414,667 thousand (2010: AED 128,130 thousand) to the revenue of the Group and AED 41,274 thousand (2010: AED 11,965 thousand) to the net profit of the Group since acquisition on 1 October 2010.

(c) Acquisition of non-controlling interest in a subsidiary

During the third quarter of the year ended 31 December 2011, the Group acquired the remaining 20% of the shares relating to the non-controlling interest in one of its subsidiary, Gulf Technical Construction Company LLC (GTCC). The fair value of the total net identifiable assets of GTCC was AED 160 million. The 20% shares were owned equally by two individuals. The Group paid one of the shareholders fully in cash and paid the other shareholder partially in cash and settled the remaining balance for 6% shares in another subsidiary, Drake and Scull Construction LLC (a wholly owned subsidiary of the Parent Company). The difference of AED 24,543 thousand between the total consideration paid / equity transferred and contingent liability assumed of AED 26,862 thousand and the carrying amount of non-controlling interest of AED 51,405 thousand has been credited to other reserves under the consolidated statement of changes in equity.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

7 Property, plant and equipment

	Land and buildings AED'000	Plant and machinery AED'000	Furniture, fixtures and office equipment AED'000	Motor vehicles AED'000	Capital work-in- progress AED'000	Total AED'000
Cost						
At 1 January 2010	167,874	38,226	4,964	13,485	18,372	242,921
Acquisition on business combinations	2,000	2,859	4,543	1,948	-	11,350
Additions	1,305	14,760	3,729	2,271	39,426	61,491
Disposals	(707)	(1,272)	(382)	(4,784)	(131)	(7,276)
Transfers from capital work-in-progress	-	995	-	-	(995)	-
Currency translation differences	(40)	(477)	(193)	(285)	(40)	(1,035)
At 31 December 2010	170,432	55,091	12,661	12,635	56,632	307,451
Acquisition on business combinations (Note 6)	63,359	10,209	4,835	2,041	-	80,444
Additions	8,687	27,115	12,180	4,458	82,167	134,607
Disposals	-	(7,327)	(3,399)	(5,582)	(1,817)	(18,125)
Transfers from capital work-in-progress	-	898	-	-	(898)	-
Currency translation differences	(16)	(178)	(69)	(66)	(7)	(336)
At 31 December 2011	242,462	85,808	26,208	13,486	136,077	504,041
Depreciation						
At 1 January 2010	8,410	14,523	6,687	1,772	-	31,392
Charge for the year	8,359	16,882	5,087	2,575	-	32,903
Disposals	-	(1,259)	(3,203)	(1,443)	-	(5,905)
Currency translation differences	(4)	(303)	(120)	(201)	-	(628)
At 31 December 2010	16,765	29,843	8,451	2,703	-	57,762
Charge for the year	8,980	18,287	5,528	2,387	-	35,182
Disposals	-	(7,187)	(1,479)	(3,502)	-	(12,168)
Currency translation differences	(2)	(94)	(38)	(13)	-	(147)
At 31 December 2011	25,743	40,849	12,462	1,575	-	80,629
Net book amount						
At 31 December 2011	216,719	44,959	13,746	11,911	136,077	423,412
At 31 December 2010	153,667	25,248	4,210	9,932	56,632	249,689

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

7 Property, plant and equipment (continued)

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

	2011 AED'000	2010 AED'000
Contract costs	27,368	24,602
General and administrative expenses (Note 25)	7,814	8,301
	<u>35,182</u>	<u>32,903</u>

During the year, the Group has capitalised specific borrowing costs amounting to AED 1.3 million (2010: Nil) on qualifying assets.

Capital work-in-progress mainly represents construction cost of labour camp in Abu Dhabi which is expected to be completed in 2012.

8 Intangible assets

	Goodwill AED'000	Trade name AED'000	Customer relationships AED'000	Orders backlog AED'000	Total AED'000
Cost					
As at 1 January 2010	532,615	49,500	335,552	-	917,667
Acquisition on business combinations	268,830	36,746	-	-	305,576
Currency translation differences	(2,503)	-	-	-	(2,503)
At 31 December 2010	798,942	86,246	335,552	-	1,220,740
Acquisition on business combinations (Note 6)	58,306	-	-	6,851	65,157
Transfers	(9,928)	-	-	9,928	-
Currency translation differences	(2,873)	-	-	-	(2,873)
At 31 December 2011	<u>844,447</u>	<u>86,246</u>	<u>335,552</u>	<u>16,779</u>	<u>1,283,024</u>
Amortisation					
At 1 January 2010	-	-	37,750	-	37,750
Charge for the year	-	-	33,555	-	33,555
At 31 December 2010	-	-	71,305	-	71,305
Charge for the year	-	-	33,555	4,195	37,750
At 31 December 2011	-	-	104,860	4,195	109,055
Net book amount					
At 31 December 2011	<u>844,447</u>	<u>86,246</u>	<u>230,692</u>	<u>12,584</u>	<u>1,173,969</u>
At 31 December 2010	<u>798,942</u>	<u>86,246</u>	<u>264,247</u>	<u>-</u>	<u>1,149,435</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

8 Intangible assets (continued)

The Group is organised into business units based on their services and has three reportable business segments; Mechanical, Electrical and Plumbing (“MEP”), Infrastructure, Water and Power (“IWP”) and Civil. These business units are the Cash Generating Units (“CGUs”) of the Group.

The key assumptions used for value-in-use calculations in 2011 are as follows:

The recoverable amounts of CGUs have 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. The discount rate applied is 12.5%. 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 geographical 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 3%. In management’s view, the terminal growth rate is the minimum growth rate expected to be achieved beyond the five year period.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

	2011 AED'000	2010 AED'000
9 Trade and other receivables		
Non-current		
Trade receivables and retentions	211,829	41,138
Loans and advances	123,132	33,929
Prepayments	2,713	14,846
	<u>337,674</u>	<u>89,913</u>
Less: fair value adjustment	(5,000)	-
At 31 December	<u>332,674</u>	<u>89,913</u>
Current		
Trade receivables and retentions	1,499,014	1,295,905
Prepayments and other receivables	346,638	163,104
Amount due from customers on contracts	1,044,422	621,912
Loans and advances	69,996	187,474
	<u>2,960,070</u>	<u>2,268,395</u>
Less: provision for impairment	(58,960)	(29,790)
	<u>2,901,110</u>	<u>2,238,605</u>
Amounts due from customers on contracts comprise:		
Costs incurred to date	5,725,488	5,223,376
Recognised profits / losses	889,734	789,954
	<u>6,615,222</u>	<u>6,013,330</u>
Less: Progress billings	(5,570,800)	(5,391,418)
	<u>1,044,422</u>	<u>621,912</u>
An analysis of trade receivables and retentions is as follows:		
Fully performing	1,274,328	998,883
Past due but not impaired	377,555	308,370
Impaired	58,960	29,790
	<u>1,710,843</u>	<u>1,337,043</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

9 Trade and other receivables (continued)

Non-current receivables bear interest at 5.5% per annum (2010: 5.5% per annum) and are expected to be collected in equal monthly instalments over a period of 4 years.

Trade receivables that are less than six months past due are generally not considered impaired. As of 31 December 2011, trade receivables and retentions of AED 377,555 thousand (2010: AED 308,370 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables and retentions is as follows:

	2011 AED'000	2010 AED'000
Six months to one year past due	276,133	174,720
Over one year past due	101,422	133,650
	<u>377,555</u>	<u>308,370</u>

As of 31 December 2011, trade receivables and retentions of AED 58,960 thousand (2010: AED 29,790 thousand) were impaired and provided for. The individually impaired receivables are over one year old and mainly relate to customers who are in a difficult financial situation.

Movement in the provision for impairment of trade receivables and retentions is as follows:

	2011 AED'000	2010 AED'000
At 1 January	29,790	14,258
Acquisition on business combination	9,173	8,430
Provision for impairment (Note 25)	27,298	10,385
Written off during the year as uncollectible	-	(511)
Unused amounts reversed (Note 25)	(7,301)	(2,772)
	<u>58,960</u>	<u>29,790</u>

The creation and release of provision for impaired receivables have been included in 'General and administrative expenses' in the consolidated income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

9 Trade and other receivables (continued)

The gross carrying amount of the Group's trade receivables and retentions are denominated in the following currencies:

	2011 AED'000	2010 AED'000
UAE Dirham	970,485	868,757
Saudi Riyal	561,422	234,125
Euro	68,643	135,895
Kuwaiti Dinar	43,661	50,026
US Dollar	5,916	-
Others	60,716	48,240
	<u>1,710,843</u>	<u>1,337,043</u>

Loans and advances are classified as follows:

Current (i)	69,996	187,474
Non-current (ii)	123,132	33,929
	<u>193,128</u>	<u>221,403</u>

- (i) Amounts due from one particular customer for construction contracts was converted into a twelve month receivable. Certain balances due during the year have been rolled over for another twelve months at interest rate of 12% (2010: 11% per annum).
- (ii) These amounts are due from an entity controlled by the same customer. They carry interest rates ranging from 10% to 12% (2010: from 7% to 10% per annum) and have maturity dates beyond one year.

The above amounts are secured by property units under development in Thailand and the Group also has an option to purchase those units.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above which approximates the fair value at the balance sheet date. Except for those held against loans and advances, the Group does not hold any collateral as security.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

10 Deferred tax

Deferred tax assets and liabilities are to be recovered after one year from the balance sheet date.

The gross movement on the deferred income tax assets is as follows:

	2011 AED'000	2010 AED'000
Deferred income tax assets		
At 1 January	12,132	2,126
Exchange differences	242	(184)
Income statement charge (Note 26)	-	10,190
	<u>12,374</u>	<u>12,132</u>
At 31 December	<u>12,374</u>	<u>12,132</u>

11 Held-to-maturity investments

Non-current

Investment in bonds	6,955	6,955
Investment in a structured product linked to Standard and Poor's ("S&P") 500 index	-	25,000
Investment in a structured product linked to USD/ Japanese Yen ("JPY") spot rate	-	40,000
Investment in a structured product linked to Nikkei 225 index	-	18,000
Fixed income bonds	<u>21,023</u>	<u>-</u>
At 31 December	<u>27,978</u>	<u>89,955</u>

Current

Investments in fixed maturity funds	143,568	312,125
Investment in a structured product linked to S&P 500 index	25,000	-
Investment in a structured product linked to USD/JPY spot rate	40,000	-
Fixed income bonds	<u>2,653</u>	<u>-</u>
At 31 December	<u>211,221</u>	<u>312,125</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

11 Held to maturity investments (continued)

There is no provision for impairment against the held-to-maturity investments (2010: Nil).

The held-to-maturity investments are denominated in the following currencies:

	2011 AED'000	2010 AED'000
USD	174,199	319,080
UAE Dirhams	65,000	83,000
	<u>239,199</u>	<u>402,080</u>

Fixed income bonds and fixed maturity funds carry interest rates from 2% to 5% per annum and have maturity dates up to 15 July 2016.

The investments in fixed maturity funds are placed as collateral against an amount borrowed from a financial institution (Note 19). The maximum exposure to credit risk at the reporting date is the carrying amount of the held-to-maturity investments.

12 Available-for-sale financial assets

	2011 AED'000	2010 AED'000
At 1 January	5,967	10,368
Additions	18,740	-
Accumulated impairment loss	-	(4,401)
	<u>24,707</u>	<u>5,967</u>

Available-for-sale financial assets are classified as non-current assets in the consolidated financial statements.

These investments are carried at cost as their fair value cannot be reliably determined.

Available-for-sale financial assets comprise shares in unlisted companies.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

12 Available-for-sale financial assets (continued)

Available-for-sale financial assets are denominated in the following currencies:

	2011 AED'000	2010 AED'000
US Dollar	18,740	-
UAE Dirham	5,967	5,967
	<u>24,707</u>	<u>5,967</u>

13 Financial assets at fair value through profit or loss

	2011 AED'000	2010 AED'000
Investment in a real estate fund	<u>5,189</u>	<u>6,675</u>

The movement in financial assets is as under:

At 1 January	6,675	6,675
Fair value loss	<u>(1,486)</u>	<u>-</u>
At 31 December	<u>5,189</u>	<u>6,675</u>

Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows.

Changes in fair values of financial assets at fair value through profit or loss are recorded in the consolidated income statement within "Finance costs".

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

14 Development properties

Development properties amounting to AED 50,932 thousand (2010: 45,315 thousand) comprise parcels of land acquired and held for future development and sale and the related development cost. An amount of AED 5,617 thousand represents capital expenditure incurred during the year on these properties. These projects are likely to be completed and sold during the year 2013. 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.

	2011 AED'000	2010 AED'000
15 Inventories		
Raw materials and consumables	26,163	24,889

16 Cash and bank balances

Cash on hand	3,506	2,731
Cash at bank	173,872	170,872
Term deposits	348,109	448,547
Cash and bank balances	525,487	622,150

Term deposits carry an average interest rate of 1% to 5% (2010: 1% to 5%).

For the purpose of statement of cash flows, cash and cash equivalents comprise the following:

	2011 AED'000	2010 AED'000
Cash and bank balances	525,487	622,150
Less: Term deposits under lien	(263,902)	(472,679)
Bank overdrafts (Note 19)	(38,215)	(109,351)
Cash and cash equivalents	223,370	40,120

17 Share capital

<i>Authorised, issued and fully paid</i>		
1,197,777,778 shares of AED 1 each paid in cash	1,197,778	1,197,778
980,000,000 shares of AED 1 each paid in kind (See ii below)	980,000	980,000
	2,177,778	2,177,778

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

17 Share capital (continued)

- (i) During the year ended 31 December 2009, the Company 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 0.8834 per share amounting to AED 28,622 thousand.
- (ii) Assets and liabilities of Drake & Scull International (LLC) and its subsidiaries, were transferred to Drake & Scull International PJSC as in-kind contribution for a 45% shareholding in the Company.

18 Statutory reserve

In accordance with the applicable laws of the relevant jurisdictions and the Company's Articles of Association, 10% of the profit for the year in each limited liability registered Company is required to be transferred to a statutory reserve. This reserve is not available for distribution except as stipulated by the law. Transfers to this reserve are required to be made until such times as it equals at least 50% of the paid up share capital of the respective companies.

19 Bank borrowings

The Group has obtained bank borrowings (including bank overdrafts) from several commercial banks, mainly to fund the acquisition of new businesses and to meet other working capital requirements.

	2011 AED'000	2010 AED'000
Non-current		
Term loan	106,398	2,149
Current		
Term loan	482,005	567,597
Trust receipts and other borrowings	202,250	110,272
Bank overdrafts (Note 16)	38,215	109,351
31 December	722,470	787,220

The carrying amount of the Group's borrowings are primarily denominated in AED, USD or currencies pegged to USD.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

19 Bank borrowings (continued)

The maturity profile of borrowings based on the remaining period at the balance sheet date is follows:

	2011 AED'000	2010 AED'000
Less than 1 year	722,470	787,220
1-2 years	58,551	-
2-5 years	47,847	2,149
	<u>828,868</u>	<u>789,369</u>

Interest rates on the term loans were at variable rates and ranging between 2% to 8.5% (2010: 2% to 8.5%) per annum. Contractual re-pricing dates are set on the basis of 3 months LIBOR/EIBOR.

The nature of securities provided in respect of certain bank borrowings by the Group, are set out below:

- Lien on motor vehicles and equipment purchased and on certain receivables;
- Pledge on held-to-maturity investments;
- Mortgage over certain property, plant and equipment; and
- Pledge of all assets acquired through utilisation of credit facilities.

The carrying amount of current borrowings approximates their fair value at the balance sheet date. Long-term borrowings are at market linked variable interest rates and therefore the carrying amounts of non-current borrowings approximate their fair value at the balance sheet date.

The Group has to comply with financial and non-financial debt covenants including debt equity ratio and tangible net worth value. There was no breach of debt covenant as at 31 December 2011.

20 Trade and other payables

	2011 AED'000	2010 AED'000
Trade payables and accruals	1,398,959	963,271
Amount due to customers on contracts	71,070	97,246
Advances from customers	610,855	238,283
	<u>2,080,884</u>	<u>1,298,800</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

20 Trade and other payables (continued)

	2011 AED'000	2010 AED'000
Amounts due to customers on contracts comprise:		
Progress billings	929,611	1,535,487
Less: Cost incurred to date	(770,998)	(1,184,808)
Less: Recognised profits / losses	(87,543)	(253,433)
	<u>71,070</u>	<u>97,246</u>

21 Provision for employees' end of service benefits

	2011 AED'000	2010 AED'000
At 1 January	49,679	34,551
Acquired through business combinations (Note 6)	7,662	8,196
Charge for the year (Note 25)	26,212	12,122
Payments	(18,445)	(5,190)
	<u>65,108</u>	<u>49,679</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2011 and 2010, using actuarial techniques, in respect of employees' end of service benefits payable under the UAE labour Law and the Laws applicable in the countries in which the Group operates, for their periods of service up to the balance sheet date. Under this method an assessment has been made of the employees' expected service life with the Group and the expected basic salary at the date of leaving the service. Future salary increases have been estimated on a basis consistent with the natural progression of an employees' salary in line with the Group's salary scales, past experience and market conditions. Management has assumed average increment/ promotion cost of 0% to 3% (2010: 0% to 3%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 4.25% per annum (2010: 4.5% per annum).

22 Related party transactions and balances

Related parties comprise the major shareholders, key management personnel, joint ventures, directors and businesses which are controlled directly or indirectly by the shareholders or directors or over which they exercise significant management influence (hereinafter referred as "affiliates"). In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either the Group management, or its Board of Directors.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

22 Related party transactions and balances (continued)

The Group had the following transactions with Drake & Scull Group ("DSG"), an entity owned by the Chief Executive Officer of the Company:

From 1 January 2011 to 31 December 2011:

- The Company has acquired 50% of ICCG from DSG and the remaining 50% has been acquired from third parties (Note 6).

From 1 January 2010 to 31 December 2010:

- The Group acquired 49% of Drake & Scull International (Qatar) WLL from parties who were beneficially holding the interest on behalf of DSG and the remaining 51% were acquired from third parties.
- The Group acquired 50% of Drake & Scull International LLC (Oman) from DSG and the remaining 50% from other party.
- The Group acquired 45% of Drake & Scull International WLL (Saudi Arabia) from an entity who was beneficially holding the interest on behalf of DSG.

The other significant related party transactions primarily include management fees charged by DSG amounting to AED 14,800 thousand (2010: AED 14,800 thousand) and the acquisition of non-controlling interest in Gulf Technical Construction Company LLC (Note 6).

Management fee income of AED Nil was earned from other related parties (2010: AED 650,000).

The outstanding balances with related parties are given below:

Due from related parties:

	2011 AED'000	2010 AED'000
Joint venture	23,786	17,848
Affiliated entities	1,680	5,861
	<u>25,466</u>	<u>23,709</u>

Due to related parties:

Drake and Scull Group	24,484	183,024
Other affiliated entities	18,610	6,397
	<u>43,094</u>	<u>189,421</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

22 Related party transactions and balances (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management are as follows:

	<u>Year ended 31 December</u>	
	2011	2010
	AED'000	AED'000
Short term benefits	42,448	23,787
Employees' end of service benefits	2,473	1,154
	<u>44,921</u>	<u>24,941</u>

23 Finance income – net

Interest income on term deposits	4,941	28,689
Interest income on loans and advances	36,938	17,551
Interest income on held-to-maturity investments	2,456	784
	<u>44,335</u>	<u>47,024</u>
Total Finance income	<u>44,335</u>	<u>47,024</u>
Finance costs - Interest expense on bank borrowings	25,553	33,292
	<u>18,782</u>	<u>13,732</u>
Finance income – net	<u>18,782</u>	<u>13,732</u>

24 Other income

Gain on disposal of property, plant and equipment	4,314	-
Profit on investments	-	7,529
Rent income	1,147	874
Labour supply	5,003	2,899
Scrap sale	1,005	2,316
Others	7,025	9,019
	<u>18,494</u>	<u>22,637</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

25 General and administrative expenses

	<u>Year ended 31 December</u>	
	2011	2010
	AED'000	AED'000
Staff costs	111,090	105,445
Employees' end of service benefits expense (Note 21)	26,212	12,122
Depreciation (Note 7)	7,814	8,301
Amortisation (Note 8)	37,750	33,555
Provision for impairment of trade receivables and retentions (net) (Note 9)	19,997	7,613
Professional services fees	6,957	6,352
Business development	4,506	4,689
Bank charges	4,399	3,499
Group management fees	14,800	14,800
Others expenses	21,353	30,971
	<u>254,878</u>	<u>227,347</u>

26 Income tax (expense) / credit

The major components of income tax expense are as follows:

	<u>Year ended 31 December</u>	
	2011	2010
	AED'000	AED'000
<i>Current income tax (expense)/credit:</i>		
Current income tax charge	(7,613)	(4,811)
<i>Deferred income tax (expense) / credit:</i>		
Relating to origination and reversal of temporary differences (see note below)	(3,576)	10,190
	<u>(11,189)</u>	<u>5,379</u>

This expense relates to deferred tax liability prior to translation adjustments.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

27 Financial instruments by category

The accounting policies for the financial instruments have been applied to the line items below:

	Loans and receivables AED'000	Assets at fair value through profit or loss AED'000	Available -for- sale financial assets AED'000	Held-to- maturity investments AED'000	Total AED'000
Assets as per balance sheet					
31 December 2011					
Trade and other receivables (excluding advances and prepayments) (Note 9)	2,358,631	-	-	-	2,358,631
Held-to-maturity investments (Note 11)	-	-	-	239,199	239,199
Financial assets at fair value through profit or loss (Note 13)	-	5,189	-	-	5,189
Available-for-sale financial assets (Note 12)	-	-	24,707	-	24,707
Due from related parties (Note 22)	25,466	-	-	-	25,466
Cash and bank balances (Note 16)	525,487	-	-	-	525,487
Total	2,909,584	5,189	24,707	239,199	3,178,679
31 December 2010					
Trade and other receivables (excluding advances and prepayments) (Note 9)	1,839,252	-	-	-	1,839,252
Held-to-maturity investments (Note 11)	-	-	-	402,080	402,080
Financial assets at fair value through profit or loss (Note 13)	-	6,675	-	-	6,675
Available-for-sale financial assets (Note 12)	-	-	5,967	-	5,967
Due from related parties (Note 22)	23,709	-	-	-	23,709
Cash and bank balances (Note 16)	622,150	-	-	-	622,150
Total	2,485,111	6,675	5,967	402,080	2,899,833

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

27 Financial instruments by category (continued)

	Other financial liabilities at amortised cost AED'000
Liabilities as per balance sheet	
31 December 2011	
Bank borrowings (Note 19)	828,868
Due to related parties (Note 22)	43,094
Trade payables and accruals (Note 20)	1,398,959
Total	2,270,921
31 December 2010	
Bank borrowings (Note 19)	789,369
Due to related parties (Note 22)	189,421
Trade payables and accruals (Note 20)	963,271
Total	1,942,061

28 Investment in a joint venture

Ranya Test Joint Venture:

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

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

	2011 AED'000	2010 AED'000
Current assets	54,168	61,002
Non-current assets	7	229
Current liabilities	(40,681)	(46,723)
Net assets	13,494	14,508

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

28 Investment in a joint venture (continued)

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

	2011 AED'000	2010 AED'000
Revenue	<u>5,333</u>	<u>34,773</u>
Expenses (net of other income)	<u>(6,250)</u>	<u>(36,277)</u>
Loss for the year	<u>(917)</u>	<u>(1,504)</u>

29 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased and held as treasury shares.

	<u>Year ended</u>	
	31 December 2011	31 December 2010
Earnings (AED'000)		
Earnings for the purposes of basic earnings per share being profit attributable to owners of the parent	193,164	154,618
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>2,145,377,778</u>	<u>2,145,377,778</u>
Basic earnings per share (AED)	<u>0.090</u>	<u>0.072</u>

Diluted

The Company has not issued any instruments which would have a dilutive impact on earnings per share when exercised.

30 Dividend

The Board of Directors proposed a dividend of AED 150,176 thousand (AED 0.068 per share) through board resolution dated 15 March 2010. The dividends were approved by the shareholders in the Annual General Meeting held on 15 April 2010 and have since been paid.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

31 Guarantees

	2011 AED'000	2010 AED'000
Performance bonds	831,894	731,777
Letter of guarantees	1,099,198	659,074
	<u>1,931,092</u>	<u>1,390,851</u>

The various bank guarantees above were issued by the Group's bankers in the ordinary course of business. In the opinion of the Directors, the above bank guarantees are unlikely to result in any liability to the Group.

32 Expenditure commitments

(a) Operating lease commitments

The Group has various operating lease agreements. The future minimum lease payments payable under operating leases are as follows:

	2011 AED'000	2010 AED'000
Future minimum lease payments:		
No later than one year	24,593	22,115
Later than one year but no later than five years	1,917	544
Later than five years	-	1,851
	<u>26,510</u>	<u>24,510</u>

(d) Other commitments

Letters of credit for purchase of materials and operating equipment	646,425	261,030
Capital commitments for construction of facilities	41,214	140,000
	<u>687,639</u>	<u>401,030</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

33 Comparatives

Comparative figures have been re-classified, where necessary, to conform to the current year's classification so that they approximately reflect the nature of the transactions:

- Term deposits of AED 83 million have been reclassified from 'Cash and bank balances' to 'Held-to-maturity investments' as it relates to guaranteed structured investments with a bank. There were no such structured investments in 2009. Cash flows have been adjusted for this reclassification under investing activities.
- 'Contract receivables and retentions', 'Contract work-in-progress', 'Prepayments and other receivables' and 'Loans and advances' have been reclassified under 'Trade and other receivables'.
- 'Accounts payable and accruals', 'Advances received from customers', 'Excess billings' and 'Other payables' have been reclassified under 'Trade and other payables'.
- 'Term loans' and 'Due to banks' have been reclassified under 'Bank borrowings'.
- 'Investments' have been reclassified under their respective categories of 'Held-to-maturity investments', 'Available-for-sale financial assets' and 'Financial assets at fair value through profit or loss' on the face of the consolidated balance sheet.