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

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

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Deloitte.

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

REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

Introduction

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

Scope of review

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

Conclusion

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

Deloitte & Touche

Saba Y. Sindaha
Registration No. 410
Sharjah
11 August 2010

Condensed consolidated statement of financial position as at 30 June 2010

	Notes	30 June 2010 (unaudited) AED	31 December 2009 (audited) AED
ASSETS			
Non-current assets			
Goodwill		2,773,497	2,773,497
Property, plant and equipment	4	106,061,566	107,664,220
Total non-current assets		108,835,063	110,437,717
Current assets			
Inventories		11,007,631	12,238,889
Due from a related party		9,020	-
Trade and other receivables		46,503,814	45,730,712
Bank balances and cash	5	65,572,021	131,649,663
Total current assets		123,092,486	189,619,264
Total assets		231,927,549	300,056,981
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	6	67,225,900	67,225,900
Statutory reserve	7	33,612,950	33,612,950
General reserve	8	6,722,590	6,722,590
Retained earnings		78,461,913	132,605,761
Total capital and reserves		186,023,353	240,167,201
Non-current liabilities			
Provision for employees' end of service indemnity		6,819,236	6,746,976
Current liabilities			
Trade and other payables		38,865,311	52,847,926
Due to related parties		219,649	294,878
Total current liabilities		39,084,960	53,142,804
Total liabilities		45,904,196	59,889,780
Total equity and liabilities		231,927,549	300,056,981

Chairman

Managing Director

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

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

	Six month period ended 30 June		Three month period ended 30 June	
	2010	2009	**2010**	2009
	AED	AED	**AED**	AED
Revenue	**47,149,698**	130,804,810	**25,928,280**	60,739,028
Operating expenses	**(34,732,509)**	(83,809,260)	**(19,322,827)**	(37,679,452)
Operating profit	**12,417,189**	46,995,550	**6,605,453**	23,059,576
Interest income	**1,282,481**	2,610,779	**513,508**	941,544
Other income	**1,361,422**	1,615,674	**794,147**	425,324
Net profit for the period	**15,061,092**	51,222,003	**7,913,108**	24,426,444
Basic earnings per share (note 10)	**22.40**	76.19	**11.77**	36.33

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

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

	Six month period ended 30 June		Three month period ended 30 June	
	2010	2009	**2010**	2009
	AED	AED	**AED**	AED
Net profit for the period	**15,061,092**	51,222,003	**7,913,108**	24,426,444
Other comprehensive loss				
Board of Directors' remuneration paid	**(1,979,040)**	(2,083,200)	**-**	-
Total comprehensive income for the period	**13,082,052**	49,138,803	**7,913,108**	24,426,444

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

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

	Share capital AED	Statutory reserve AED	General reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2009 (audited)	67,225,900	32,861,244	6,722,590	118,493,901	225,303,635
Net profit for the period	-	-	-	51,222,003	51,222,003
Directors' remuneration	-	-	-	(2,083,200)	(2,083,200)
Total comprehensive income for the period	-	-	-	49,138,803	49,138,803
Dividends paid (Note 11)	-	-	-	(73,948,490)	(73,948,490)
Balance at 30 June 2009	67,225,900	32,861,244	6,722,590	93,684,214	200,493,948
Balance at 1 January 2010 (audited)	67,225,900	33,612,950	6,722,590	132,605,761	240,167,201
Net profit for the period	-	-	-	15,061,092	15,061,092
Directors' remuneration	-	-	-	(1,979,040)	(1,979,040)
Total comprehensive income for the period	-	-	-	13,082,052	13,082,052
Dividends paid (Note 11)	-	-	-	(67,225,900)	(67,225,900)
Balance at 30 June 2010	**67,225,900**	**33,612,950**	**6,722,590**	**78,461,913**	**186,023,353**

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

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

	Six months ended 30 June	
	2010	2009
	AED	AED
Cash flows from operating activities		
Net profit for the period	**15,061,092**	51,222,003
Adjustments for:		
Depreciation of property, plant and equipment	**3,590,271**	3,370,547
Provision for employees' end of service indemnity	**496,211**	550,926
Interest income	**(1,282,481)**	(2,610,779)
Operating cash flows before changes in operating assets and liabilities	**17,865,093**	52,532,697
Increase in trade and other receivables	**(773,102)**	(14,960,443)
Decrease in inventories	**1,231,258**	11,138,801
Increase in due from a related party	**(9,020)**	(2,060)
Decrease in trade and other payables	**(13,982,615)**	(4,444,069)
(Decrease)/increase in due to related parties	**(75,229)**	238,657
Cash generated from operations	**4,256,385**	44,503,583
Employees' end of service indemnity paid	**(423,951)**	(231,662)
Net cash generated from operating activities	**3,832,434**	44,271,921
Cash flows from investing activities		
Decrease in fixed deposits	**5,196,309**	14,840,308
Purchase of property, plant and equipment	**(1,987,617)**	(6,351,985)
Interest received	**1,282,481**	2,610,779
Net cash from investing activities	**4,491,173**	11,099,102
Cash flows from financing activities		
Dividends paid	**(67,225,900)**	(73,948,490)
Directors' remuneration paid	**(1,979,040)**	(2,083,200)
Cash used in financing activities	**(69,204,940)**	(76,031,690)
Net decrease in cash and cash equivalents	**(60,881,333)**	(20,660,667)
Cash and cash equivalents at the beginning of the period	**126,453,354**	95,840,617
Cash and cash equivalents at the end of the period (note 12)	**65,572,021**	75,179,950

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

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

1. General

Arab Heavy Industries P.J.S.C. (the "Company") is a public joint stock company incorporated in the Emirate of Ajman, United Arab Emirates, pursuant to a decree issued by H.H. the Ruler of Ajman in 1975. The "Group" comprises Arab Heavy Industries P.J.S.C. and Arab Eagle Marine Engineering L.L.C. (see note 3.3). The address of the Company's registered office is P. O. Box 529, Ajman, United Arab Emirates.

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

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

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

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

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

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

3. Summary of significant accounting policies

3.1 Basis of preparation

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

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

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

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

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

3.2 Property, plant and equipment

Freehold land is stated at cost.

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

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

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

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

3.3 Basis of consolidation

The condensed consolidated financial statements of Arab Heavy Industries P.J.S.C. and Subsidiary (the "Group") incorporate the financial information of the Company and enterprise controlled by the Company (its subsidiary). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

3.3 Basis of consolidation (continued)

Subsidiary:

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

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

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

4. Property, plant and equipment

During the period the addition to property, plant and equipment was AED 1,987,617 (30 June 2009: AED 6,351,985) and depreciation charged was AED 3,590,271 (30 June 2009: AED 3,370,547). All property, plant and equipment of the Group are located in the U.A.E.

5. Bank balances and cash

	30 June 2010 (unaudited) AED	31 December 2009 (audited) AED
Cash on hand	**30,000**	30,000
Bank balances:		
Current accounts	**9,432,813**	12,789,388
Fixed deposits	**56,109,208**	118,830,275
	65,572,021	131,649,663

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

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

6. Share capital

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

7. Statutory reserve

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

8. General reserve

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

9. Related party transactions

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

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

	Six Month Period ended 30 June		**Three Month Period ended 30 June**	
	2010 (unaudited) AED	2009 (unnaudited) AED	**2010 (unaudited) AED**	2009 (unaudited) AED
Purchases	**463,401**	185,113	**467,726**	170,074
Management fees to Keppel Group	**2,213,455**	5,691,334	**1,149,234**	2,444,050
Board of Directors' remuneration	**1,979,040**	2,083,200	**-**	-
Other expenses	**780,350**	1,151,937	**346,429**	761,415

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

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

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

10. Basic earnings per share

	Six Month Period ended 30 June		Three Month Period ended 30 June	
	2010 (unaudited)	2009 (unnaudited)	**2010 (unaudited)**	2009 (unaudited)
Net profit for the period (in AED)	**15,061,092**	51,222,003	**7,913,108**	24,426,444
Number of shares	**672,259**	672,259	**672,259**	672,259
Basic earnings per share (in AED)	**22.40**	76.19	**11.77**	36.33

11. Dividends

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

12. Cash and cash equivalents

	30 June 2010 (unaudited) AED	30 June 2009 (unaudited) AED
Bank balances and cash	**65,572,021**	85,306,284
Bank fixed deposits with maturity greater than three months	**-**	(10,126,334)
	65,572,021	75,179,950

13. Seasonality of results

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

14. Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 11 August 2010.