

**ARAB TECHNICAL CONSTRUCTION COMPANY PJSC
AND ITS SUBSIDIARIES
DUBAI - UNITED ARAB EMIRATES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE PERIOD FROM SEPTEMBER 20, 2004
(DATE OF COMMENCEMENT) TO DECEMBER 31, 2005**

**Arab Technical Construction Company PJSC
and its Subsidiaries
Dubai - United Arab Emirates**

**Consolidated Financial Statements and
Independent Auditor's Report
For the Period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Balance Sheet	2
Consolidated Income Statement	3
Consolidated Statement of Changes in Shareholders' Equity	4
Consolidated Cash Flow Statement	5
Notes to the Consolidated Financial Statements	6 - 39

Independent Auditor's Report

The Shareholders

Arab Technical Construction Company PJSC

Dubai

United Arab Emirates

We have audited the accompanying consolidated balance sheet of **Arab Technical Construction Company PJSC (the “Company”) and its Subsidiaries (collectively the “Group”)**, as at December 31, 2005 and the related consolidated statements of income, changes in equity and cash flows for the period from September 20, 2004 (date of commencement) to December 31, 2005. These consolidated financial statements are the responsibility of the Directors of the Company. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as at December 31, 2005 and the results of its operations and its cash flows for the period from September 20, 2004 (date of commencement) to December 31, 2005 in accordance with International Financial Reporting Standards.

Also, in our opinion, the Group has maintained proper books of account, the information included in the Directors' Report is in agreement with the accounting records and the physical inventory was properly conducted. We obtained all the information and explanations which we considered necessary for our audit. According to the information available to us, there was no contraventions during the year of the UAE Federal Commercial Companies Law No. 8 of 1984, as amended, or the Company's Articles of Association which might have materially affected the financial position of the Company or the results of its operations for the period.

Deloitte & Touche

Saba Sindaha (Reg. No. 410)

Dubai

March 30, 2006

Arab Technical Construction Company PJSC

2

and its Subsidiaries**Dubai - United Arab Emirates****Consolidated Balance Sheet****As of December 31, 2005****(In Arab Emirates Dirhams)**

	<u>Note</u>	
Assets		
Current assets		
Cash and cash equivalents	5	93,907,569
Other financial assets	6	27,825,420
Trade and other receivables	7	936,194,657
Due from related parties	9	29,576,492
Inventories	10	95,405,616
Other current assets	12	
<u>32,012,789</u>		
Total current assets		<u>1,214,922,543</u>
Non-current assets		
Available for sale investments	13	11,659,723
Intangible assets	14	
101,040,097		
Goodwill	15	88,896,366
Retentions receivable – non-current portion	16	128,629,676
Other non-current assets		13,140,145
Property, plant and equipment	17	<u>331,484,165</u>
Total non-current assets		<u>674,850,172</u>
	—	
Total Assets		1,889,772,715
<hr/> <hr/>		
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	18	1,217,627,383
Due to related parties	9	<u>9,066,453</u>
Total current liabilities		<u>1,226,693,836</u>
Non-current liabilities		
Provision for employees' end of service indemnity	19	32,041,556
Retentions payable – non-current portion	20	
<u>57,080,473</u>		
Total non-current liabilities		<u>89,122,029</u>
Total Liabilities		
<u>1,315,815,865</u>		
Capital and reserves		
Share capital	21	400,000,000
Statutory reserve		16,585,671

Fair value adjustment reserve	8,100,140
Retained earnings	<u>149,271,039</u>
	—
Total Shareholders' Equity	<u>573,956,850</u>
Total Liabilities and Shareholders' Equity	<u><u>1,889,772,715</u></u>

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

The consolidated financial statements on pages 2 to 39 were approved and authorized for issue by the Board of Directors on March 30, 2006 and signed on their behalf by:

.....
 Sheikh Butti Bin Maktoum Bin Juma Al Maktoum
 Chairman

Arab Technical Construction Company PJSC and its Subsidiaries
Dubai - United Arab Emirates

4

Consolidated Statement of Changes in Equity
For the period from September 20, 2004 (Date of Commencement) to December 31, 2005
(In Arab Emirates Dirhams)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Fair value adjustment reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Capital introduced during the period	400,000,000	-	-	-	400,000,000
Gains on available for sale investments recognized directly in equity	-	-	8,100,140	-	8,100,140
Profit for the period	-	-	-	<u>165,856,710</u>	<u>165,856,710</u>
Total income recognized for the period	400,000,000	-	8,100,140	165,856,710	573,956,850
Transfer to statutory reserve	-	<u>16,585,671</u>	-	<u>(16,585,671)</u>	-
Balance at December 31, 2005	<u>400,000,000</u>	<u>16,585,671</u>	<u>8,100,140</u>	<u>149,271,039</u>	<u>573,956,850</u>

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

**Arab Technical Construction Company PJSC
and its Subsidiaries
Dubai - United Arab Emirates**

5

**Consolidated Cash Flow Statement
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005
(In Arab Emirates Dirhams)**

Operating activities

Profit for the period 165,856,710

Adjustments for:

Depreciation of property, plant and equipment	50,972,755
Amortization of intangible assets	11,000,000
Provision for employees' end of service indemnity	10,149,510
Allowance for trade receivables	755,468
Allowance for slow-moving inventories	20,587
Gain on sale of property, plant and equipment	(656,003)

Finance costs	5,828,593
Changes in fair value of non-current retentions receivable and payable	<u>1,558,007</u>

Operating profit before changes in operating assets and liabilities 245,485,627

Decrease in financial assets 33,081,466

Increase in trade and other receivables (438,403,914)

Increase in due from related parties (25,550,665)

Decrease in inventories 26,378,058

Increase in other current assets (5,783,507)

Increase in trade and other payables 357,112,677

Increase in due to related parties 3,370,258

Increase in retention receivable – non-current portion (26,220,502)

Increase in retention payables – non-current portion 40,770,881

Increase in other non-current assets (7,471,654)

Cash generated from operations 202,768,725

Employees' end of service indemnity paid (1,901,180)

Interest paid (5,828,593)

Net cash from operating activities 195,038,952

Investing activities

Purchase of property, plant and equipment (106,589,564)

Purchase of investment in securities (3,559,583)

Acquisition of investment in subsidiaries, net of cash acquired (288,104,391)

Proceeds from disposal of property, plant and equipment 8,654,885

Net cash used in investing activities (389,598,653)

**Notes to the Consolidated Financial Statements
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

1. Establishment and operations

Arab Technical Construction Company PJSC (the “Company”) is a Public Joint Stock Company established under the laws of the United Arab Emirates pursuant to the resolution of the Department of Economic Development, Dubai, number 71 dated July 2, 2004 which approved the establishment of the Company after fulfilling all regulatory requirements for establishing a public joint stock company in the U.A.E.

The principal object of the Company is to invest in the construction sector through the acquisition of contracting and related companies.

The Company’s founders arranged for the issue of a prospectus for the initial public offering of the Company’s shares in August 2004 and, following the successful subscription for the entire share capital, the inaugural shareholders’ meeting was held on September 20, 2004, which date is considered to be the official date of commencement of operations.

The Company’s trade license was issued by the Department of Economic Development of the Government of Dubai on November 29, 2004.

The Company listed its shares on the Dubai Financial Market (DFM) on January 4, 2005.

The registered office of the Company is P.O. Box 72,122 Dubai, U.A.E.

Since the commencement of operations the Company has acquired the following subsidiaries:

<u>Name of subsidiary and domicile</u>	<u>Percentage of holding</u>	<u>Principal activities</u>
Arabtec Construction LLC, Dubai, U.A.E.	100%	Civil construction and related works.
Austrian Arabian Ready Mix Concrete Co. LLC, Dubai, U.A.E.	100%	Manufacture and transportation of ready mix concrete products.

The Company and its subsidiaries, referred to collectively in these financial statements as the “Group” are primarily engaged in the construction of high-rise towers, buildings and residential villas, in addition to the execution of related services such as drainage, electrical and mechanical works.

These financial statements cover the period from September 20, 2004 (date of commencement of operations) to December 31, 2005 and incorporate the period from commencement to December 31, 2004 for which separate financial statements have also been prepared as required by Article 54 of the Company’s Articles of Association.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

2. Adoption of new and revised International Financial Reporting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations, including:

- Business combinations (IFRS 3)
- Presentation of Financial Statements (IAS 1)
- Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)
- Property, Plant and Equipment (IAS 16)
- Related Party Disclosures (IAS 24)
- Intangible Assets (IAS 38)

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 7 *Financial Instruments: Disclosures*

IFRIC 4 *Determining whether an Arrangement contains a Lease*

The directors anticipate that the adoption of these Standards in future periods will not have a material impact on the financial statements of the Group.

3. Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) These financial statements are presented in United Arab Emirates Dirhams (AED) since that is the currency of the country in which the Group is domiciled.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments and the inclusion of identifiable assets through business combination at an estimate of fair value as required by IFRS 3. The principal accounting policies adopted are set out below:

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

3. Significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Company (its subsidiaries). 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders (if any) in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

3. Significant accounting policies (continued)

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where the group entity undertakes its activities under joint venture arrangements directly, the Groups' share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements, which involve the establishment of a separate entity in which each venturer has an interest, are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5, non-current assets held for sale and discontinued operations. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Intangible assets

Intangible assets arising on business combinations are recognized only if all of the following conditions are met:

- the assets can be identified,
- it is probable that the asset will generate future economic benefits; and
- the fair value of the asset can be reliably measured.

Intangible assets are amortised on a straight-line basis over the estimated period of benefit.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

3. Significant accounting policies (continued)

Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable these cost that have been incurred in bringing the inventories to their present location and condition. Cost is calculated by using the following methods:

- Steel and other construction materials - first-in, first-out (FIFO) method, and
- Readymix concrete and other related materials - weighted average method.

Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Property, plant and equipment

Land is stated in the balance sheet at its revalued amount, being the fair value at the date of revaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Revaluations are performed by certified, independent valuers.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

Any revaluation increase arising on the revaluation of such land is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Property, plant and equipment, except land and properties under construction, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets other than land and properties under construction, over their estimated useful lives, using the straight-line method as follows:

	<u>Years</u>
Office buildings	10 - 20
Plant and office equipment	3 - 15
Vehicles	5 - 7
Labour camps and buildings	10 - 20
Furniture	5
Scaffolding, cabins and tunnel forms	3 - 7

The useful lives and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the pattern of economic benefits expected to flow to the Group through the use of items of property, plant and equipment.

Labour camps built on leased plots of land are depreciated over the shorter of their estimated useful lives or the periods of the leases.

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 are charged to the income statement when incurred.

Properties under construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

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.

Impairment of tangible and intangible assets, excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or the cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the UAE labour law and is based on current remuneration and cumulative years of service at the balance sheet date.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

3. Significant accounting policies (continued)

Statutory reserve

In accordance with United Arab Emirates Federal Companies law number 8 of 1984 as amended, the Company is required to establish a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution except in the circumstances stipulated by the Law.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Sale of goods are recognized when goods are delivered and title has passed.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Dividend income from investments, is recognized when the shareholders' rights to receive payment have been established.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date, which is determined based on the proportion of contract costs incurred to date to the estimated total contract costs. Variations in contract work are recognized to the extent that it is probable that they will result in revenue and such revenue can be reliably measured, contract claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

3. Significant accounting policies (continued)

Contract costs

Contract costs comprise direct contract costs and other costs relating to the contracting activity in general and which can be allocated to contracts. In addition, contract costs include other costs that are specifically chargeable to the customer under the terms of the contracts.

Costs that cannot be related to contract activity or cannot be allocated to a contract are excluded from the costs of the construction contracts and are included in general and administrative expenses.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

3. Summary of significant accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, banks current accounts, demand deposits and short term highly liquid deposits that are readily convertible to a know amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Bank borrowings

Interest bearing bank overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Trade and other payables

Trade and other payables are measured at fair value.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

4. Critical accounting judgments and key sources of estimation uncertainty

Critical judgments in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 3, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements (apart from those involving estimations, which are dealt with below).

Business combinations

In accordance with International Financial Reporting Standards, on acquisition of a subsidiary, the Group is required to allocate the cost of the business combination by recognizing, at fair value, the acquiree's identifiable assets, liabilities and contingent liabilities that meet certain recognition criteria. In doing so, management have exercised their judgement, based on experience and knowledge of the industry, in determining the applicability of the recognition criteria, including the separability of intangible assets, the forecasting horizon, the appropriate discount rate, the amortization timetable and the impairment tests to be applied in future. The Directors are satisfied that these judgements have resulted in a fair and reasonable estimate of the fair value of the identifiable assets (including intangible assets), liabilities and contingent liabilities at the date of the acquisitions made.

Contract variations

Contract variations are recognized as revenues to the extent that it is probable that they will result in revenue which can be reliably measured. This requires the exercise of judgement by management based on prior experience, application of contract terms and relationship with the contract owners.

Percentage-of-completion

The Group uses the percentage-of-completion method in accounting for its construction contracts services. Use of the percentage-of-completion method requires the Group to estimate the proportion of work performed to date as a proportion of the total work to be performed and management consider that the use of costs to date in proportion to total estimated costs provides the most appropriate measure of percentage of completion.

Joint ventures

The Group reports its interests in joint ventures/jointly controlled entities using the proportional consolidation method which management considers appropriately recognizes the substance of the business arrangements.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

**4. Critical accounting judgments and key sources of estimation uncertainty
(continued)**

Key sources of estimation uncertainty

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

Construction cost estimates

The Group uses internal quantity surveyors together with project managers to estimate the costs to complete construction contracts. Factors such as escalation of material prices, labor costs and other costs are included in the construction cost estimates based on best estimates.

Allowance for slow-moving inventories

Inventories are stated at the lower of cost or market. Adjustments to reduce the cost of inventory to its realizable value, if required are made at the product level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, technological changes, physical deterioration and quality issues.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was AED 88.9 million.

Allowance for doubtful debts on trade receivables

Allowance for doubtful debts is determined using a combination of factors, including the overall quality and ageing of receivables, continuing credit evaluation of the customers' financial strength and collateral requirements from customers in certain circumstances. Management makes allowance for doubtful debts based on its best estimates at the balance sheet date.

Property, plant and equipment

Property, plant and equipment is depreciated over its estimated useful life, which is based on estimates for expected usage of the asset and expected physical wear and tear which are dependent on operational factors. Management has not considered any residual value as it is deemed immaterial.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

**4. Critical accounting judgments and key sources of estimation uncertainty
(continued)**

Recoverability of intangible asset

During the year, management reconsidered the recoverability of the intangible assets arising from the Group's business combinations, which is included in its balance sheet at December 31, 2005 at AED 101 million. Management is confident that the carrying amount of the assets will be recovered in full, over the defined amortisation periods. This situation will be closely monitored, and adjustments made in future periods, if future assessments indicate that such adjustments are appropriate.

Non current retentions

Non current retentions receivable and payable are restated at their fair value at each period end by discounting at the Group's effective deposit and borrowing rates respectively, which management considers to be the appropriate discount rates for these assets and liabilities.

5. Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash and short-term deposits held by the Group. The details of cash on hand and at banks are as follows:

	December 31, 2005
	-
	AED
Cash at bank and in hand	44,736,763
Short term bank deposits	<u>49,170,806</u>
	<u>93,907,569</u>

6. Other financial assets

	December 31,
	<u>2005</u>
	-
	AED
Fixed deposits under lien	19,775,367
Margin deposits	<u>8,050,053</u>
	<u>27,825,420</u>

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

7. Trade and other receivables

Contract receivables represent amounts due from customers for construction work rendered by the Group and certified by the customers' engineers.

Retentions receivable represent amounts withheld by the customers in accordance with contract terms and conditions. These amounts are to be repaid upon fulfillment of contractual obligations.

31,	December 2005
	AED
Trade and other receivables	8,413,075
Contract receivables	349,017,868
Amounts due from construction contract customers (Note 8)	425,822,124
Retentions receivable - current portion (Note 16)	91,440,852
Advances paid to suppliers and sub contractors	<u>61,500,738</u>
	<u><u>936,194,657</u></u>

An allowance has been made for estimated irrecoverable amounts from trade and other receivables of AED 755,468. This allowance has been determined based on past experience of the management.

8. Amounts due from/to construction contract customers

	December 31, 2005
	AED
Amounts due from construction contract customers included in trade and other receivables	425,822,124
Amounts due to construction contract customers included in trade and other payables	(84,049,237)
	<u>341,772,887</u>
Contract costs incurred plus recognized profit less recognized losses to date	4,124,286,531
Less: Progress billings	<u>(3,782,513,644)</u>
	<u><u>341,772,887</u></u>

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

9. Related party transactions

- a) The Group entered into a variety of transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard No. 24: Related Party Disclosures. Related parties comprise the Group's directors and entities related to them, companies under common ownership and/or common management and control, their partners and key management personnel. Management decides on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges.

- b) At the balance sheet date, due from related parties comprised the following:

31,	December
	2005
	AED
Amounts due from joint venture partners	184,962
Energy Management Services, Dubai, U.A.E.	250,590
Specialized and Interactive Systems, Dubai, U.A.E.	1,135
Pino Meroni M.E. LLC, Dubai, U.A.E.	29,173
Depa Interiors LLC, Dubai, U.A.E.	348,106
Mr. Riad Kamal – a director and major shareholder	13,940
First Group/Kamal/Malhas joint venture, Dubai, U.A.E.	11,889,324
- Sulaiman Al Bassam/Malhas joint venture, Dubai, U.A.E.	16,859,262
-	29,576,492

- c) At the balance sheet date, due to related parties comprised the following:

31,	December
	2005
	AED
Amounts due to joint venture partners	7,187,625
Depa LLC, Abu Dhabi, United Arab Emirates	1,878,828
	9,066,453

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

9. Related party transactions (continued)

- d) The nature of significant related party transactions and the amounts involved were as follows:

	December 31, 2005
	AED
Contract revenue	148,656,582
Share of projects net contribution payable to senior management – see Note 9(e) below	13,500,000
Sub-contracting costs	377,720
Wages and salaries	218,271
Bank charges	30,396
Rent received	198,895
Rent paid	25,684
Miscellaneous charges	303,271
Division income	158,730
Realised profit arising from investments held in trust by a director/shareholder	762,603
Purchase consideration for shares in Arabtec Construction LLC paid to directors/shareholders of the Group [see Note 9(f) below]	330,000,000
Interest paid to directors/shareholders of the Group relating to settlement of the proceeds of sale of shares in Arabtec Construction LLC [see Note 9(g) below]	4,880,791
Fair value increase arising on investments held in trust by a director/shareholder	5,008,494

- e) The share of projects net contribution payable to senior management is based on the terms of agreements entered into between the Group and certain members of senior management and are included as direct costs for those particular contracts.
- f) The purchase consideration for the acquisition of 100% of the shares of Arabtec Construction LLC was determined based on an independent valuation agreed by a committee appointed by the UAE Ministry of Economy and Planning and approved by the shareholders in an Extraordinary General Assembly held on January 12, 2005.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

9. Related party transactions (continued)

- g) The interest paid to certain directors/shareholders of the Group relating to their proceeds from the purchase of shares of Arabtec Construction LLC is in accordance with the terms of the Share Purchase Agreement approved by the shareholders at the Extra-ordinary General Assembly held on January 12, 2005.
- h) The remuneration of directors and other members of key management during the period was as follows:

	Period from September 20, 2004 (date of commencement) to December 31, 2005
	<u>AED</u>
Management fees to directors	900,000
Short term benefits	1,801,366
Post-employment benefits	31,500

The remuneration of director and key executives is determined by the Board of Directors having regard to individual performance and market trends.

- i) Amounts due from key management personnel included in trade and other receivables:

	December 31, 2005
	<u>AED</u>
Acquired on acquisition of a subsidiary	200,000
Advances during the period	5,398,854
Repayment during the period	(266,684)
Interest charged	<u>127,806</u>
At December 31, 2005	<u><u>5,459,976</u></u>

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

9. Related party transactions (continued)

k) Amounts due to key management personnel included in trade and other payables:

	December 31, 2005
	<u> </u>
	AED
Accrued during the period	900,000
	<u> </u>

10. Inventories

31,	December
	<u> </u>
	AED
Steel	84,812,646
Other construction materials	9,575,733
Ready mix concrete and other related materials	<u>1,637,824</u>
	96,026,203
Less: Allowance for slow-moving inventories	<u>(620,587)</u>
	<u>95,405,616</u>

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

11. Joint ventures

The Group had the following significant interests in joint ventures:

- a) A 40% share in the Abu Dhabi Investment Authority Head Quarter joint venture project.
- b) A 50% share in the Six Construct/Arabtec joint venture projects (2 joint ventures).
- c) A 30% share in the Samsung/Six Construct/Arabtec joint venture project.
- d) A 60% share in Al-Rostamani Pegel (Arabtec joint venture projects).

The Group is entitled to a proportionate share of the joint ventures' assets and revenues and bears a proportionate share of the liabilities and outgoings.

The following amounts are included in the Group's financial statements as a result of the proportionate consolidation of the joint ventures:

31,	December
	<u>2005</u>
	AED
Current assets	96,879,323
Non-current assets	34,212,479
Current liabilities	80,647,565
Commitments	2,093,058
Contingent liabilities	<u>225,764,211</u>
	Period from
	September
	20, 2004
	(date of
	commencement)
	to
	December 31,
	<u>2005</u>
	AED
Revenue	145,839,520
Expenses	<u>130,452,666</u>

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

12. Other current assets

	December
31,	<u>2005</u>
	AED
Prepaid expenses	22,340,978
Due from employees	6,605,687
Other receivables	<u>3,066,124</u>
	<u><u>32,012,789</u></u>

Prepaid expenses include visa and immigration expenses of the employees paid during 2005 for a period of 3 years. Based on its employee retention experience, the Group is amortising these expenses over a period of 3 years and as of December 31, 2005 AED 9,210,442 is recorded as current prepaid expenses.

13. Available for sale investments

These investments, which are carried at fair value, represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair value of these securities is based on the quoted market prices.

At December 31, 2005, available for sale investments amounting to AED 6,792,951 are registered in the name of a director/shareholder of the Group, on trust and for the benefit of the Group.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

14. Intangible assets

	<u>Leasehold property benefit</u> AED	<u>Arabtec brand</u> AED	<u>Total</u> AED
Cost			
Acquired on acquisition of subsidiaries (Note 24)	<u>2,040,097</u>	<u>110,000,000</u>	<u>112,040,097</u>
At December 31, 2005	<u>2,040,097</u>	<u>110,000,000</u>	<u>112,040,097</u>
Amortization			
Charge for the period	-	<u>11,000,000</u>	<u>11,000,000</u>
At December 31, 2005	-	<u>11,000,000</u>	<u>11,000,000</u>
Carrying amount			
At December 31, 2005	<u>2,040,097</u>	<u>99,000,000</u>	<u>101,040,097</u>

The intangible assets included above, arising on business combinations (see Note 24) have finite useful lives, over which the assets are amortized.

Amortization of the leasehold property benefit is based on the underlying lease, and will commence from January 1, 2006 for a period of 18 years.

The Arabtech brand value is amortized over the expected period of benefit of 10 years, following which continuing brand value will have been internally generated and not recognisable as an asset under IFRS.

15. Goodwill

Goodwill arising on acquisition of:

	December 31,
	<u>2005</u>
	AED
a) Arabtec Construction LLC [Note 24 (a)]	<u>87,962,867</u>
b) Arabian Austrian Ready Mix Concrete Co. LLC [Note 24 (b)]	<u>933,499</u>
	<u><u>88,896,366</u></u>

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

15. Goodwill (continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGU's) that are expected to benefit from the business combination. Management has allocated goodwill as follows.

31,	December
	2005
	AED
Construction business (CGU)	87,962,867
Ready mix business (CGU)	933,499
	88,896,366

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGU's are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding growth rates, discount rates and expected profitability.

The Group prepares cash flow forecasts derived from most recent experience for the next 10 years and discounts these to present value using discount rates based on market risk free rates and premiums for risk and uncertainty. The resultant value in use calculation provides the basis for determining whether a diminution in value of goodwill has occurred.

Calculation of value in use at December 31, 2005 indicate that no impairment has occurred to date.

16. Retentions receivable – non-current portion

Retentions receivable – non-current portion represent retentions that become due in a period exceeding one year from the balance sheet date.

31,	December
	2005
	AED
Total retentions receivable	220,070,528
Less: Retentions receivable – current portion	(91,440,852)
Retentions receivable - non-current portion, at fair value	128,629,676

**Arab Technical Construction Company PJSC
and its Subsidiaries
Dubai - United Arab Emirates**

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

17. Property, plant and equipment

	<u>Land</u> AED	<u>Plant and Office buildings</u> AED	<u>office equipment</u> AED	<u>Labour Vehicles</u> AED	<u>camp and buildings</u> AED	<u>Scaffolding Furniture</u> AED	<u>Properties cabins and tunnel forms</u> AED	<u>under construction</u> AED	<u>Total</u> AED
Cost or valuation									
Acquired on acquisition of subsidiaries	6,750,000	9,757,051	134,642,272	46,269,066	18,153,431	6,509,783	23,602,797	68,248,434	313,932,834
Additions	-	492,553	65,164,868	9,631,398	1,214,908	2,431,483	24,848,297	2,806,057	106,589,564
Transfers	-	32,873,611	13,213,000	-	22,161,823	-	-	(68,248,434)	-
Disposals	-	-	(8,510,747)	(1,979,218)	-	-	(556,691)	-	(11,046,656)
Fair value adjustments on acquisition	8,250,000	1,465,465	12,500,114	2,875,843	5,022,425	621	1,299,074	-	31,413,542
At December 31, 2005	15,000,000	44,588,680	217,009,507	56,797,089	46,552,587	8,941,887	49,193,477	2,806,057	440,889,284
Accumulated depreciation									
Acquired on acquisition of subsidiaries	-	976,085	31,044,616	5,235,280	7,575,856	4,848,929	11,799,373	-	61,480,139
Charge for the period	-	1,599,707	27,888,775	3,928,101	3,286,597	1,194,887	13,074,688	-	50,972,755
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	(2,150,537)	(475,834)	-	-	(421,404)	-	(3,047,775)
At December 31, 2005	-	2,575,792	56,782,854	8,687,547	10,862,453	6,043,816	24,452,657	-	109,405,119
Carrying amount									
At December 31, 2005	15,000,000	42,012,888	160,226,653	48,109,542	35,690,134	2,898,071	24,740,820	2,806,057	331,484,165

Note: The Group head office in Dubai is situated on land owned jointly by Arabtec Construction LLC (Arabtec) and a shareholder. The land was granted to Arabtec during 2003 and was originally recorded at nil value and subsequently at fair value. For the purposes of the financial statements as at December 31, 2005, land was revalued by Messrs Pioneers – Surveyors and Loss Adjusters at open market value of AED 15,000,000. The fair value of the land was recognized on acquisition of Arabtec by the Group.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

18. Trade and other payables

	December 31, 2005
	AED
	-
Trade creditors and accruals	671,573,843
Amounts due to subcontractors	144,891,089
Subcontractors retentions payable – current portion	18,877,241
Advances received from construction contract customers	298,235,973
Amounts due to construction contract customers (Note 8)	<u>84,049,237</u>
	<u><u>1,217,627,383</u></u>

19. Provision for employees' end of service indemnity

The activity on this account during the period was as follows:

	December 31, 2005
	AED
	-
Balance at acquisition date	23,793,226
Expense for the period	10,149,510
Payments during the period	(1,901,180)
Balance at December 31, 2005	<u><u>32,041,556</u></u>

20. Retentions payable – non current portion

Retention payable – non current portion represent retentions that have been withheld by the Group from payments due to sub-contractors. These amounts become due in a period exceeding one year from the balance sheet date.

	December 31, 2005
	AED
Total retentions payable	75,957,714
Less: Retentions payable – current portion	(18,877,241)
Retentions payable – non-current portion at fair value	<u><u>57,080,473</u></u>

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

21. Share capital

The share capital comprises of 400,000,000 authorized, issued and fully paid shares of AED 1 each.

22. Revenues

Revenues comprise the following:

	Period from September 20, 2004 (date of commencement) to December 31, <u>2005</u>
	AED
Sales of readymix concrete	7,397,052
Contract revenue	2,498,799,554
Plant division revenue	2,716,981
Electrical division revenue	1,145,364
Scaffolding division revenue	247,011
Drainage division revenue	50,231,538
Model division revenue	<u>4,973,144</u>
	<u><u>2,565,510,644</u></u>

Divisions' revenues represent revenues generated by the specialized divisions of the Group from rendering services to third party customers.

Revenues comprise Company revenues from the date of commencement and revenues of the subsidiaries arising subsequent to the acquisition date.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

24. Acquisition of subsidiaries

- a) Effective January 1, 2005, the Group acquired 100 per cent of the issued share capital of Arabtec Construction LLC for cash consideration of AED 330 million. This transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction, and goodwill arising, are as follows:

	Acquiree's carrying amounts before combination	Fair value adjustment	Fair value
	AED	AED	AED
Net assets acquired:			
Property, plant and equipment	171,473,343	27,971,780	199,445,123
Brand value	-	110,000,000	110,000,000
Other non current assets	5,668,490	-	5,668,490
Retention receivable – non-current portion	111,390,914	(4,904,635)	106,486,279
Inventories	121,198,972	-	121,198,972
Trade and other receivables	498,356,673	-	498,356,673
Due from related parties	4,025,827	-	4,025,827
Other current assets	26,229,282	-	26,229,282
Bank and cash balances	128,878,379	-	128,878,379
Financial assets	60,906,886	-	60,906,886
Bank borrowings	(39,418,659)	-	(39,418,659)
Provision for employees' end of service indemnity	(23,573,113)	-	(23,573,113)
Retention payable – non-current portion	(19,601,542)	772,852	(18,828,690)
Trade and other payables	(859,528,050)	-	(859,528,050)
Due to related parties	(5,696,195)	-	(5,696,195)
Shareholder current account	(72,114,071)	-	(72,114,071)
Contingent liability	-	-	-
	<u>108,197,136</u>	<u>133,839,997</u>	<u>242,037,133</u>
Goodwill (Note 15)			<u>87,962,867</u>
Total consideration, satisfied by cash			<u>330,000,000</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			(330,000,000)
Cash and cash equivalents acquired			<u>128,878,379</u>
			<u>(201,121,621)</u>

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

24. Acquisition of subsidiaries (continued)

In applying the purchase method of accounting to the acquisition of Arabtec Consturction LLC (Arabtec), management took account of the requirements of IFR3 – Business Combinations and IAS 38 – Intangible assets to determine the fair value of identifiable assets, liabilities and contingent liabilities acquired and made the following determinations and assumptions:

- The fair values of property, plant and equipment acquired were determined by third party valuers – Messrs Pioneers (Surveyors and loss adjusters).
- Long term retentions receivable and payable were revised to fair value by discounting them at the Group’s effective deposit and borrowing rates respectively.
- That the fair values of the remaining tangible assets and monetary financial assets and liabilities at the acquisition date approximate to their carrying value in the financial statements of Arabtec.
- The provision for employees’ end of service benefits fairly reflected Arabtec’s liability at the acquisition date and it is not anticipated that future increases in salaries will materially exceed inflation (cost of money).
- Amounts due to and from related parties are subject to similar terms as those due to third parties.
- The interest rates applicable to bank borrowings are at normal commercial rates subject to revision with changes to market conditions.
- Contingent liabilities, comprising mainly contract related guarantees and commitments, were entered into in the normal course of business and, based on Arabtec’s historical track record, the likelihood of actual liabilities arising, not covered by maintenance provisions or back-to-back guarantees from sub-contractors, is minimal.
- The skills and expertise of the work force, while of undoubted value, were not separable as Arabtec could not exercise sufficient control over the decisions of individuals to remain within the work force.
- Similarly, contracts with key management were not separable as they did not provide the ability to retain key management personnel beyond a specified short-term notice period.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

24. Acquisition of subsidiaries (continued)

- In determining the value of intangible assets the primary assets which management consider to have been acquired were:
 - The “Arabtech” name.
 - The reputation associated with that name.
 - The client relationships established through that reputation.

for the purposes of purchase price allocation the above group of complimentary assets has been identified as the “Brand”.

- In determining the value of the Brand the principal consideration was the demonstrated ability of Arabtec to generate business based on its contracts in hand, contracts entered into but not commenced and an assessment of its position vis-à-vis competitors in winning additional business at a positive profit differential. These elements were used to develop a discounted cash flow valuation model based on estimated profit differentials which formed the primary basis for determining a brand value of AED 110 million.
- Taking into account the current boom in the construction industry in the UAE and typical business cycles, management consider that the current value of the Brand will yield the projected benefits over a 10 year horizon which should therefore be the amortization period. The brand value subsequent to this period will be internally generated based on Arabtec’s performance in the preceding period.

The goodwill arising on the acquisition of Arabtec Construction LLC is attributable to the anticipated profitability of the business resulting from the future economic benefits of the non-separable elements including workforce capability, key personnel expertise and business relationships, market positioning and economic goodwill.

Arabtec Construction LLC contributed AED 2,558 million to Group revenue and AED 160 million to the Group’s profit for the period between the date of acquisition and the balance sheet date.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

24. Acquisition of subsidiaries (continued)

- b) On September 24, 2005, the Group acquired 100 per cent of the issued share capital of Austrian Arabian Ready Mix Concrete Co. LLC for cash consideration of AED 86.98 million. This transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amounts before <u>combination</u>	Fair value adjustment	<u>Fair value</u>
	AED	AED	AED
Net assets acquired:			
Property, plant and equipment	80,979,353	3,441,763	84,421,116
Fair value of leasehold land benefit	-	2,040,097	2,040,097
Inventories	605,289	-	605,289
Trade and other receivables	189,538	-	189,538
Bank and cash balances	3,000	-	3,000
Provision for employees' end of service indemnity	(220,113)	-	(220,113)
Trade and other payables	(986,656)	-	(986,656)
	<u>80,570,411</u>	<u>5,481,860</u>	<u>86,052,271</u>
Goodwill (Note 15)			<u>933,499</u>
Total consideration, satisfied by cash			<u>86,985,770</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			(86,985,770)
Cash and cash equivalents acquired			<u>3,000</u>
			<u>(86,982,770)</u>

The goodwill arising on the acquisition of Austrian Arabian Ready Mix Concrete Co. LLC is attributable to the anticipated future profitability of the distribution of the Group's products and the anticipated future operating synergies from the combination.

Austrian Arabian Ready Mix Concrete Co. LLC contributed approximately AED 7 million in revenue from third parties (excluding sales to group companies of AED 11.4 million) and AED 755,158 loss to the Group's results for the period between the date of acquisition and the balance sheet date.

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

25. Other operating income

**Period from
September 20,
2004 (date of
commencement)
to
December 31,
2005**

AED

Profit from sale of equity investments	20,390,086
Service charges	12,438,901
Interest income	5,882,323
Exchange difference	253,890
Gain on sale of property, plant and equipment	656,003
Insurance claims	198,903
Other income	<u>2,120,417</u>
	<u>41,940,523</u>

26. General and administrative expenses

**Period from
September 20,
2004 (date of
commencement)
to
December 31,
2005**

AED

Employees' salaries and benefits	10,068,604
Employees' end of service indemnity and leave pay	28,707,433
Visa and immigration	15,806,225
Employees' bonus	12,199,135
Tender expenses	3,344,822
Communication and utilities	2,782,007
Office rent	85,084
Depreciation (apportioned)	7,981,680
Amortisation of intangible assets (Note 14)	11,000,000
Advertisement and entertainment	311,715
Other general and administrative expenses	<u>8,579,540</u>
	<u>100,866,245</u>

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

27. Operating lease arrangements

The Group as lessee:

	December 31, 2005
	<u>AED</u>
Minimum lease payments under operating leases recognized as expense in income statement for the year	17,679,472
	<u><u> </u></u>

At the balance sheet date, the Group had outstanding commitments under non-cancelable operating leases, which fall due as follows:

	December 31, 2005
	<u>AED</u>
Within one year	13,201,775
In the second to fifth years inclusive	1,743,804
Later than five years	<u>5,667,363</u>
	<u><u>20,612,942</u></u>

Operating lease payments represents rentals payable by the Group for land, certain labour camps and rented vehicles.

28. Changes in fair value of non-current retentions

	Period from September 20, 2004 (date of commencement) to December 31, 2005 AED
Fair value reduction in non-current retentions receivable	4,077,105
Fair value reduction in non-current retentions payable	<u>(2,519,098)</u>

1,558,007

=====

**Notes to the Consolidated Financial Statements - continued
For the period from September 20, 2004 (Date of
Commencement) to December 31, 2005**

29. Commitments and contingencies

	December 31, 2005
	AED
	-
Commitments	
Commitments for the acquisition of property, plant and equipment	27,143,793
	=====
Contingent liabilities	
Performance and bid bonds	874,345,375
Advance payment bonds	434,138,105
Financial guarantees	42,455,877
Retention bonds	93,794,684
Labour guarantees	37,337,005
Letters of credit	61,434,635
	=====

30. Financial instruments

Interest rate risk

Fixed deposit with banks are at floating interest rates and at December 31, 2005, the interest rate was 3.5% per annum.

Credit risk

The Group's credit risk is primarily attributable to its contract receivables. At the balance sheet date five customers accounted for 81% of the total contract receivables.

The credit risk on liquid funds is limited because funds are placed with reputable banks with good credit ratings.

Exchange rate risk

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams or US Dollars. The conversion of

Arab Emirates Dirhams to the US Dollar is fixed.

Fair values

The fair values of financial assets and liabilities at period end approximate their carrying amounts in the balance sheet.