Consolidated financial statements and independent auditor's report

Specialties Group Holding Company – KSC (Closed) and Subsidiary

[Formerly: Alghanim Specialties Company – WLL]

Kuwait

31 December 2006

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Auditors & Consultants
Kuwait Member Firm of
Grant Thornton International

Grant Thornton - Anwar Al-Qatami & Co

Independent auditor's report

To the shareholders of
Specialties Group Holding Company – KSC (Closed)
[Formerly: Alghanim Specialties Company – WLL]
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Specialties Group Holding Company – KSC (Closed) [Formerly: Alghanim Specialties Company – WLL] (the parent company) and its Subsidiary (the group), which comprises the consolidated balance sheet as at 31 December 2006, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the Consolidated Financial Statements

The directors of the parent company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the parent company as at 31 December 2005, were audited by another auditor whose report dated 2 April 2006 expressed an unqualified opinion on those financial statements. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 judgment, 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 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 the directors of the parent company, 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.

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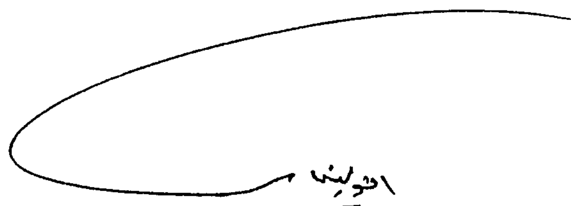
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Matters

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law, as amended, nor of the parent company's articles of association, as amended, have occurred during the year that might have had a material effect on the business of the group or on its financial position.



Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton – Anwar Al-Qatami & Co.

Kuwait
1 April 2007

Consolidated statement of income

	Note	Year ended 31 Dec. 2006 KD	Year ended 31 Dec. 2005 KD
Income			
Revenue form sales and services	4	**12,383,536**	8,974,631
Cost of sales and services	4	**(9,933,500)**	(7,405,914)
Gross profit		**2,450,036**	1,568,717
Loss on sale of investment at fair value through statement of income		**-**	(28,840)
Other income		**137,110**	26,948
		2,587,146	1,566,825
Expenses and other charges			
Selling and distribution expenses		**103,902**	99,349
General, administrative and other expenses	5	**1,293,936**	1,107,611
Impairment in value of property, plant and equipment		**-**	117,007
Finance costs		**93,814**	134,997
		1,491,652	1,458,964
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	5	**1,095,494**	107,861
Contribution to KFAS		**(9,859)**	-
Profit for the year	5	**1,085,635**	107,861

The notes set out on pages 7 to 17 form an integral part of these consolidated financial statements.

Consolidated balance sheet

	Note	31 Dec. 2006 KD	31 Dec. 2005 KD
Assets			
Current assets			
Cash and bank balances		1,352,511	2,545,255
Inventory	7	990,332	2,627,419
Accounts receivable and other assets	8	2,849,203	4,272,329
Due from contracting customers	9	4,204,776	2,992,217
Due from related parties	10	1,423,906	642,248
		10,820,728	13,079,468
Non-current assets			
Available for sale investment	11	26,717	43,720
Property, plant and equipment	12	965,441	1,845,912
Intangible assets	13	999,082	1,051,666
		1,991,240	2,941,298
Total assets		12,811,968	16,020,766
Liabilities and equity			
Current liabilities			
Due to banks		921,822	958,214
Current portion of term loans	14	100,000	100,000
Murabaha payable	15	449,937	3,364,550
Accounts payable and other liabilities	16	3,828,136	4,706,277
Due to related parties	10	656,606	1,029,602
		5,956,501	10,158,643
Non-current liabilities			
Non current portion of term loans	14	30,000	130,000
Provision for end of service indemnity		267,593	259,884
		297,593	389,884
Equity			
Share capital	17	4,000,000	4,000,000
Staturtory reserve	18	325,947	216,398
Voluntary reserve	18	354,555	245,006
Revaluation reserve		836,654	836,654
Retained earnings		1,040,718	174,181
		6,557,874	5,472,239
Total liabilities and equity		12,811,968	16,020,766

The notes set out on pages 7 to 17 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Revaluation reserve KD	Retained earnings KD	Total KD
Balance as at 31 December 2004	500,000	205,612	234,220	-	736,316	1,676,148
Profit for the year	-	-	-	-	107,861	107,861
Revaluation of assets	-	-	-	847,245	-	847,245
Amortisation transfer	-	-	-	(10,591)	10,591	-
Transfer to share capital	659,015	-	-	-	(659,015)	-
Capital introduced	2,840,985	-	-	-	-	2,840,985
Transfer to reserves	-	10,786	10,786	-	(21,572)	-
Balance as at 31 December 2005	4,000,000	216,398	245,006	836,654	174,181	5,472,239
Profit for the year	-	-	-	-	1,085,635	1,085,635
Transfer to reserves	-	109,549	109,549	-	(219,098)	-
Balance as at 31 December 2006	**4,000,000**	**325,947**	**354,555**	**836,654**	**1,040,718**	**6,557,874**

The notes set out on pages 7 to 17 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 Dec. 2006 KD	Year ended 31 Dec. 2005 KD
OPERATING ACTIVITIES			
Profit before contribution to Kuwait Foundation for the Advancement of Sciences		**1,095,494**	107,861
Adjustments for:			
Impairment in value of property, plant and equipment		-	117,007
Loss on sale of investment at fair value through statement of income		-	28,840
Depreciation and amortisation		**269,831**	309,344
Loss on disposal of property, plant and equipment		**66,515**	-
Finance costs		**93,814**	134,997
Provision for end of service indemnity		**29,238**	87,548
		1,554,892	785,597
Changes in operating assets and liabilities:			
Inventory		**265,728**	(1,776,157)
Accounts receivable and other assets		**(368,042)**	(1,875,859)
Due from contracting customers		**(3,260,197)**	(2,384,895)
Due from related parties		**455,514**	(240,742)
Accounts payable and other liabilities		**2,190,966**	3,344,207
Due to related parties		**1,387,896**	675,486
Indemnity paid		**(16,948)**	(44,736)
Net cash from/(used in) operating activities		**2,209,809**	(1,517,099)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(274,737)**	(1,113,376)
Proceeds from disposals of property, plant and equipment		-	3,830
Purchase of available for sale investment		-	(43,720)
Proceeds from sale of investment at fair value through statement of income		-	623,786
Acquisition of property, plant and equipment from affiliate		-	(237,316)
Proceeds from redemption of available for sale investment		**17,003**	-
Net cash used in investing activities		**(257,734)**	(766,796)
FINANCING ACTIVITIES			
Movement in murabaha payable		**(2,914,613)**	2,764,550
Finance costs paid		**(93,814)**	(134,997)
Repayment of loans		**(100,000)**	(380,000)
Increase in capital		-	2,840,985
Net cash (used in)/from financing activities		**(3,108,427)**	5,090,538
Net (decrease)/increase in cash and cash equivalents		**(1,156,352)**	2,806,643
Cash and cash equivalents at beginning of the year		**1,587,041**	(1,219,602)
Cash and cash equivalents at end of the year	19	**430,689**	1,587,041

The notes set out on pages 7 to 17 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

31 December 2006

1 Incorporation and activities

Specialties Group Holding Company – KSC (Closed) "the parent company" [formerly: Alghanim Specialties Company WLL] was initially incorporated as a Kuwaiti limited liability company on 1 October 1988 in accordance with the Commercial Companies Law in Kuwait to carry out trading in construction materials, fire equipment, cleaning material and to engage in building construction and other general trading activities ("general trading and contracting activities").

During the year the parent company changed the legal form of the company from a Kuwaiti limited liability company to a Kuwaiti closed shareholding company and also changed its name from Alghanim Specialties Company – WLL to Specialties Group Holding Company – KSC (Closed) and amended its articles accordingly. According to the revised articles of the parent company, its objectives are as follows;

- Owning stocks and shares in Kuwaiti or non-Kuwaiti shareholding companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, lending to and managing of these companies and acting as a guarantor for these companies.
- Lending money to companies in which it owns 20% or more of the capital of the borrowing company, along with acting as guarantor on behalf of these companies.
- Owning industrial equities such as patents, industrial trade marks, royalties, or any other related rights, and franchising them to other companies or using them within or outside the State of Kuwait.
- Owning real estate and moveable property to conduct its operations within the limits as stipulated by law.
- Employing excess funds available with the company by investing them in investment portfolios managed by specialised companies.

Further during the year, upon completion of the change in the legal form of the parent company as mentioned above, the net assets of the parent company's "general trading and contracting activities" were transferred at their book values to a newly acquired wholly owned subsidiary (see note 3). Since the wholly owned subsidiary is consolidated the transfer has no impact on the consolidated financial statements for the year ended 31 December 2006.

The address of the parent company's registered office is PO Box 23595, Safat 13096, State of Kuwait.

The board of directors authorised these consolidated financial statements for issue on 1 April 2007 and are subject to the approval of the general assembly of the shareholders.

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the group are prepared in accordance with the International Financial Reporting Standards under the historical cost convention.

2 Significant accounting policies (continued)

The financial statements have been presented in Kuwaiti Dinars.

The accounting policies are consistent with those used in the previous year.

IASB Standard issued but not yet effective
The following IASB Standard has been issued but not yet effective, and has not yet been adopted by the group.

IFRS 7 Financial Instruments: Disclosures

The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2006, and the financial statements of its subsidiary prepared to that date using consistent accounting policies.

Subsidiaries are those enterprises controlled by the group and are fully consolidated from the date on which control is transferred to the group. Control is achieved where the group 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 statement of income from the date of acquisition or up to the date of disposal.

All significant inter-company balances and transactions are eliminated on consolidation.

Recognition of contract revenues and costs
The group recognises contract revenues and costs on the basis of the percentage of completion method. By this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. The group measures the stage of completion of each contract on the basis of the engineers' reports.

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

The group presents as an asset, under the heading "Due from contracting customers", the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "accounts receivables and other assets".

Trade and other receivables
Trade receivables are stated at face value less impairment losses or provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Property, plant, equipment and depreciation
Property, plant and equipment are stated at cost or revaluation net of accumulated depreciation and impairment losses. The group depreciates its property, plant and equipment on the straight-line basis at rates estimated to depreciate the property, plant and equipment concerned over their estimated useful lives.

Intangible assets
Intangible assets represent right of use of land leased from the government and are stated at revalued amounts net of accumulated amortisation and impairment losses. Right of use of leased land is amortised over the lease period.

2 Significant accounting policies (continued)

Available for sale investments
Available for sale investments are initially recognised at cost, being the fair value of the consideration given, plus transaction costs that are directly attributable to the acquisition.

Subsequent to initial recognition, available for sale investments are re-measured at fair value unless fair value cannot be reliably measured in which case they are carried at cost less impairment.

Changes in fair value of available for sale investments are recognised as a separate component in equity under "cumulative changes in fair value" account until the investment is either derecognised or is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recognised in equity is included in the statement of income.

Fair values
For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Trade and settlement date accounting
All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place concerned.

Recognition and derecognition of financial assets and liabilities
A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised either when the group has transferred substantially all the risk and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards, but no longer has control over the asset or a proportion of the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

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

(a) For assets carried at fair value, impairment is the difference between cost and fair value; and
(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for reversal of impairment losses related to equity instruments classified as available for sale, all other impairment reversals are recognised in the statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Impairment reversals in respect of equity instruments classified as available for sale are recognised in the cumulative changes in fair value reserve.

2 Significant accounting policies (continued)

Impairment of non-financial assets
The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the statement of income. 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 (or cash-generating unit).

In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

Murabaha payable
Murabaha payable is the total amount due on murabaha instalments as a result of financing construction contracts in accordance with murabaha arrangements. Murabaha payable is recorded at the total amount due after adding the proportionate profit for the year. This profit is charged to the income statement based on time span and total profit margin.

Trade and other payables
Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the group.

Provisions
Provisions are recognised when the group has a present obligation (legal or constructive) resulting from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Provision for staff indemnity
The provision for staff indemnity is calculated on the basis of the accumulated period of service for each employee in accordance with the Kuwait labour law for the private sector and the company's bye-laws.

Cash and cash equivalents
For the purpose of the cash flows statement cash and cash equivalents consist of cash and bank balances net of due to banks.

Foreign currencies
Foreign currency transactions are converted into Kuwaiti Dinars at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Kuwaiti Dinars using the rates of exchange prevailing at the balance sheet date. All exchange differences are reported in the statement of income

Critical accounting judgements and estimates
The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that may affect amounts reported in these financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Judgements and estimates that are significant to the financial statements are as follows;

2 Significant accounting policies (continued)

Estimation of impairment of financial assets
The group's management reviews periodically items classified as loans and receivables to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgement by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

Estimation of impairment of non-financial assets and useful lives
The group's management tests annually whether non financial assets have suffered impairment in accordance with other accounting policies which are stated above. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The group's management determines the useful lives and related depreciation/amortisation charge. The depreciation/amortisation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Estimation of contract revenues and costs
The group uses the percentage-of-completion method in accounting for its construction contracts. Use of this method requires the group to depend on estimated completion schedules, costs and values approved by engineers.

3 Subsidiary company

The details of the consolidated subsidiary company which has been incorporated in Kuwait are as follows:

Company name	Percentage of ownership	Activity
Alghanim Specialties Company – WLL [Formerly: Alghanim Specialties General Trading & Contracting Company – WLL]	100%	Trading in construction materials and to engage in building construction and other general trading activities

The above subsidiary which was incorporated during the year with a capital of KD500,000 was acquired by the parent company from a related company for a consideration of KD500,000.

4 Gross profit

	Revenue from sales and services		Cost of sales and services		Gross profit	
	31 Dec. 2006 KD	31 Dec. 2005 KD	**31 Dec. 2006 KD**	31 Dec. 2005 KD	**31 Dec. 2006 KD**	**31 Dec. 2005 KD**
General trading	**4,468,453**	3,487,040	**2,996,350**	2,571,153	**1,472,103**	**915,887**
Contracting division	**2,779,335**	1,548,047	**2,518,600**	1,288,673	**260,735**	**259,374**
Construction division	**3,632,551**	3,309,857	**2,940,016**	3,002,647	**692,535**	**307,210**
Other projects	**1,503,197**	629,687	**1,478,534**	543,441	**24,663**	**86,246**
	12,383,536	8,974,631	**9,933,500**	7,405,914	**2,450,036**	**1,568,717**

5 Profit for the year

Profit for the year is stated after charging:

	31 Dec. 2006 KD	31 Dec. 2005 KD
Staff costs (see note 5a)	**819,403**	707,959
Depreciation and amortisation (see note 5b)	**269,831**	309,344
Bad and doubtful debt expenses (see note 5c)	**70,000**	34,115
Loss on disposal of property, plant and equipment (see note 5c)	**66,515**	-

a. Staff cost for the year have been allocated as follows:

	31 Dec. 2006 KD	31 Dec. 2005 KD
Cost of sale and services	**147,522**	169,325
Selling and distribution expenses	**25,940**	28,453
General, administration and other expenses	**645,941**	510,181
	819,403	707,959

b. Depreciation and amortisation for the year have been allocated as follows:

	31 Dec. 2006 KD	31 Dec. 2005 KD
Cost of sale and services	**84,556**	199,028
General, administration and other expenses	**185,275**	110,316
	269,831	309,344

c. Bad and doubtful expenses and loss on disposal of property, plant and equipment have been included under general, administrative and other expenses.

6 Transferred projects

The parent company's management decided to transfer, effective from 1 January 2006, the assets and liabilities of two construction projects which were being executed by the parent company to a related company (Al-Khadda International General Trading & Contracting Company – WLL) through the current accounts. These projects are:

1) **Schools Project**: For constructing, completing and maintenance of (9) different schools at Abdullah Al-Mubarak Al-Sabah District (Formerly West Jeleeb Al-Shuyoukh) and (6) different schools in South Jahra area.
2) **Housing Project**: For constructing, completing and maintenance of (288) houses + the public buildings at Block (1) of East Sulaibkhat Housing Project (35 – A).

The details of the assets and liabilities transferred are as follows:

	School project KD	Housing project KD	Total KD
Cash and bank balances	16,354	1,245,000	1,261,354
Inventory	482,229	889,130	1,371,359
Accounts receivable and other assets	1,015,511	775,657	1,791,168
Due from contracting customers	1,176,098	871,540	2,047,638
Due from related parties	30,807	447,512	478,319
Property, plant and equipment	253,308	618,138	871,446
Due to banks	-	(39,951)	(39,951)
Accounts payable and other liabilities	(2,006,092)	(1,072,876)	(3,078,968)
Due to related parties	(1,189,629)	(571,263)	(1,760,892)
Provision for staff indemnity	-	(4,582)	(4,582)
Net asset/(liabilities) transferred	**(221,414)**	**3,158,305**	**2,936,891**

7 Inventory

	31 Dec. 2006 KD	31 Dec. 2005 KD
Construction materials	**470,286**	2,073,100
Raw and packing materials	**530,841**	549,603
Fire and safety equipment	**4,657**	8,172
Goods in transit and others	**6,914**	6,910
	1,012,698	2,637,785
Provision for slow moving inventory	**(22,366)**	(10,366)
	990,332	2,627,419

8 Accounts receivable and other assets

	31 Dec. 2006 KD	31 Dec. 2005 KD
Trade receivables	**1,787,326**	3,055,166
Provision for doubtful debts	**(212,988)**	(145,273)
	1,574,338	2,909,893
Advance to suppliers	**317,525**	588,857
Retentions	**718,507**	652,104
Staff receivable	**15,123**	30,363
Prepaid expenses and other assets	**223,710**	91,112
	2,849,203	4,272,329

9 Due from contracting customers

	31 Dec. 2006 KD	31 Dec. 2005 KD
Total contract costs incurred on contracts in progress and recognised profits (less recognised losses) to date	**6,242,768**	9,325,964
Progress billings	**(2,037,992)**	(6,333,747)
	4,204,776	2,992,217

10 Due from/to related parties

	31 Dec. 2006 KD	31 Dec. 2005 KD
Due from:		
Al Khadda International General Trading & Contracting Company – WLL	**1,229,034**	-
Arabian Gulf Pearl Co. – WLL	**-**	106,125
Equipment Company – WLL	**-**	536,123
Future Ready Mix Concrete Company – WLL	**194,872**	-
	1,423,906	642,248
Due to:		
Equipment Company – WLL	**154,102**	-
Future Ready Mix Concrete Company – WLL	**-**	330,219
Arabian Gulf Pearl Company – WLL	**12,710**	-
Equipment Holding Company – KSC (Closed)	**489,794**	472,237
Al-Khadda International General Trading and Contracting Company – WLL	**-**	227,146
	656,606	1,029,602

11 Available for sale investment

This represents an investment in a foreign fund which is stated at cost, since its fair value cannot be reliably measured.

12 Property, plant and equipment

	Buildings	Furniture and fittings	Equipment and machinery	Motor vehicles	Computers	31 Dec. 2006	31 Dec. 2005
	KD	KD	KD	KD	KD	KD	KD
Cost or revaluation							
At 1 January	552,162	317,159	1,789,643	209,384	87,626	**2,955,974**	1,614,404
Transferred to related parties	-	(98,516)	(779,292)	(109,617)	(36,637)	**(1,024,062)**	-
Acquisition of property, plant and equipment	-	-	-	-	-	-	286,677
Revaluation surplus	-	-	-	-	-	-	6,162
Additions	-	7,606	224,210	39,909	3,012	**274,737**	1,113,376
Disposals	-	-	(155,000)	-	(1,025)	**(156,025)**	(64,645)
At 31 December	552,162	226,249	1,079,561	139,676	52,976	**2,050,624**	2,955,974
Accumulated depreciation & impairment losses							
At 1 January	182,464	212,214	568,424	98,667	48,293	**1,110,062**	704,622
Transferred to related parties	-	(30,678)	(98,475)	(17,671)	(5,792)	**(152,616)**	-
Relating to acquisition	-	-	-	-	-	-	49,361
Charge for the year	18,720	16,631	160929	16,903	4,064	**217,247**	299,887
Impairments losses	-	-	-	-	-	-	117,007
Relating to disposals	-	-	(89,407)	-	(103)	**(89,510)**	(60,815)
At 31 December	201,184	198,167	541,471	97,899	46,462	**1,085,183**	1,110,062
Net book value at 31 December	**350,978**	**28,082**	**538,090**	**41,777**	**6,514**	**965,441**	1,845,912

The group depreciates its property, plant and equipment at the following annual rates:

Buildings	5%
Furniture, fittings and computers	20%
Machinery and equipment	25% - 50%
Motor vehicles	33%

Building, machinery and equipment with net book value of KD686,402 (2005: KD737,179) have been mortgaged as security for the long term loans (Note 14).

The company's buildings are constructed on land leased from the government (see note 12). The buildings were revalued by an independent valuer on 30 September 2005, which resulted in a revaluation surplus of KD6,162 and an impairment loss of KD117,007. The impairment less was charged to the previous year's statement of income.

13 Intangible assets

	Right of use of land KD	Sealant line expenses KD	31 Dec. 2006 KD	31 Dec. 2005 KD
Cost				
At 1 January	1,097,963	10,949	1,108,912	267,829
Revaluation surplus	-	-	-	841,083
At 31 December	1,097,963	10,949	1,108,912	1,108,912
Amortisation				
At 1 January	46,297	10,949	57,246	47,789
Charge for the period	52,584	-	52,584	9,457
At 31 December	98,881	10,949	109,830	57,246
Net book value at 31 December	**999,082**	-	**999,082**	1,051,666

Right of use of land represents the value of the right to use the lease hold land from the government and they are amortized over 20 years. On 30 September 2005 the rights to use the lease hold land from the government were revalued by an independent evaluator which resulted in a revaluation surplus of KD841,083.

14 Term loans

	31 Dec. 2006 KD	31 Dec. 2005 KD
Amounts due within one year	**100,000**	100,000
Amounts due after one year	**30,000**	130,000
	130,000	230,000

The above represents two term loans granted to the group by a local bank and secured against two factories of the group (see note 12). The loans are repayable in semi annual instalments and carry interest at fixed rates ranging from 6% - 5% (2005: 6% - 5%) per annum.

15 Murabaha payable

Murabaha payable represents the value of commodities purchased on a deferred basis and carries an effective profit payable rate of 7.5% (2005: 8%) per annum.

16 Accounts payable and other liabilities

	31 Dec. 2006 KD	31 Dec. 2005 KD
Trade payables	**730,646**	903,428
Retention – due to subcontractors	**165,435**	83,895
Advance received from contracting customers	**2,467,753**	3,526,721
Provisions and other payables	**464,302**	192,233
	3,828,136	4,706,277

17 Share capital

At 31 December 2006, the authorized, issued and paid up capital of the parent company comprised 40,000,000 (2005: 40,000,000) shares of 100 fils each.

18 Statutory and voluntary reserves

As required by the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year before KFAS is transferred to the statutory reserve until the balance reaches 50% of the company's issued and paid-up capital. No transfer is required in a year when losses are made. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the distribution of a dividend of that amount.

In accordance with parent company's articles of association, a certain percentage of the parent company's profit before KFAS, is to be transferred to the voluntary reserve at the discretion of the board of directors which is to be approved at the general assembly. For the year 2006 the board of directors propose to transfer 10% of the above mentioned profit to the voluntary reserve.

19 Cash and cash equivalents

	2006 KD	2005 KD
Cash and bank balances	**1,352,511**	2,545,255
Less: Due to banks	**(921,822)**	(958,214)
	430,689	1,587,041

Due to banks represent unsecured overdraft facilities obtained from local banks which are repayable on demand and carry interest at 8.5% - 9.25% per annum.

20 Related party transactions

Related parties represent, major shareholders, directors and key management personnel of the group, and companies of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the group's management.

Details of significant related party transactions and balances are as follows:

	31 Dec. 2006 KD	31 Dec. 2005 KD
Balance sheet		
Due from related parties (refer Note 10)	**1,423,906**	642,248
Due to related parties (refer Note 10)	**656,606**	1,029,602
Income statement		
Other income	**69,313**	-
Key management compensation		
Salaries and other short term benefits	**108,860**	33,325

21 Risk management

Credit risk
Financial assets, which potentially subject the group to concentrations of credit risk, consist principally of bank balances, accounts receivable and amounts due from related parties. The group's bank balances are placed with high credit quality financial institutions whilst accounts receivable and due from related parties are presented net of appropriate provisions.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The groups overdraft facilities carry interest at commercial rates.

Foreign currency risk
Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposure.

Liquidity risk
Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. To limit this risk, management manages assets with liquidity in mind and monitors liquidity on a regular basis.

22 Fair value of financial instruments

The fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

In the opinion of management, the carrying values of financial assets and liabilities as at 31 December 2006 and 31 December 2005 approximate their fair values.

23 Contingent liabilities

At the balance sheet date the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD6,722,505 (2005 : KD9,592,387).

24 Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation. Such reclassifications do not affect previously reported profit or equity.