

NATIONAL CENTRAL COOLING COMPANY PJSC

CONSOLIDATED FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 1999

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 **ERNST & YOUNG**

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated financial statements of National Central Cooling Company PJSC ("the Company") and its subsidiaries set out on pages 2 to 13. These consolidated financial statements are the responsibility of the Company's management. 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 present a true and fair view of the financial position of the Company and its subsidiaries as of 31 December 1999, and of the results of their operations, the changes in its equity and their cash flows for the period then ended in accordance with International Accounting Standards.

We also confirm that in our opinion proper books of account have been kept by the Company and the contents of the report of the Board of Directors relating to these financial statements are in agreement with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit, and to the best of our knowledge and belief no violations of the UAE Commercial Companies Law of 1984 (as amended) or the articles of association of the Company have occurred during the period which would have had a material effect on the business of the Company or on its financial position.



Signed by:
Bassam E Hage
Partner
Registration No. 258

8 March 2000
Abu Dhabi

National Central Cooling Company PJSC

CONSOLIDATED BALANCE SHEET
31 December 1999

	<i>Note</i>	<i>1999 AED</i>
ASSETS EMPLOYED		
CAPITAL WORK IN PROGRESS	3	8,252,715
FURNITURE AND EQUIPMENT	4	1,989,375
EMPLOYEE INCENTIVE SCHEME	5	2,550,000
INTANGIBLES	6	15,616,866
CURRENT ASSETS		
Accounts receivable and prepayments	7	12,015,782
Bank balances and cash	8	<u>229,808,900</u>
		<u>241,824,682</u>
CURRENT LIABILITIES		
Accounts payable and accruals	9	<u>9,112,144</u>
NET CURRENT ASSETS		<u>232,712,538</u>
		<u>261,121,494</u>
FUNDS EMPLOYED		
EQUITY		
Share capital	10	250,000,000
Retained earnings		7,459,177
Statutory reserve	11	<u>1,225,381</u>
		258,684,558
MINORITY INTEREST		2,000,000
NON-CURRENT LIABILITY		
Employees' terminal benefits	12	<u>436,936</u>
		<u>261,121,494</u>



Mohamed Saif Al Mazrouei
CHAIRMAN



Dany Safi
MANAGING DIRECTOR

The attached notes 1 to 23 form part of these financial statements.

National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF INCOME

Period Ended 31 December 1999

	<i>Note</i>	<i>1999 AED</i>
Contract revenue		29,257,064
Contract costs	14	<u>26,897,554</u>
GROSS PROFIT		<u>2,359,510</u>
Salaries and staff related costs		(8,598,962)
Other administrative expenses		(6,516,654)
Amortisation of goodwill	6	(2,739,360)
Amortisation of deferred charges	15	<u>(412,761)</u>
		(18,267,737)
LOSS FROM OPERATIONS		(15,908,227)
Finance costs		(58,599)
Pre-incorporation costs (net)	16	(850,000)
Other income	17	<u>25,501,384</u>
NET PROFIT FOR THE PERIOD		<u>8,684,558</u>
Basic earnings per share	18	<u>0.17</u>

The attached notes 1 to 23 form part of these financial statements.

National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period Ended 31 December 1999

	<i>Note</i>	<i>Share capital AED</i>	<i>Statutory reserve AED</i>	<i>Retained earnings AED</i>	<i>Total AED</i>
Issue of share capital		250,000,000	-	-	250,000,000
Net profit for the period		-	-	8,684,558	8,684,558
Transfer to statutory reserve	11	<u>-</u>	<u>1,225,381</u>	<u>(1,225,381)</u>	<u>-</u>
Balance at 31 December 1999		<u>250,000,000</u>	<u>1,225,381</u>	<u>7,459,177</u>	<u>258,684,558</u>

The attached notes 1 to 23 form part of these financial statements.

National Central Cooling Company PJSC**CONSOLIDATED STATEMENT OF CASH FLOWS**

Period Ended 31 December 1999

	<i>Note</i>	<i>1999</i> <i>AED</i>
OPERATING ACTIVITIES		
Net profit for the period		8,684,558
Adjustment for:		
Depreciation		1,030,946
Amortisation of goodwill		2,739,360
Amortisation of deferred charges		412,761
Provision for employees' terminal benefits		663,583
Interest income		(23,464,306)
Profit on sale of furniture and equipment		<u>(15,468)</u>
Operating loss before working capital changes		(9,948,566)
Increase in receivables		(5,223,665)
Increase in payables		<u>1,606,929</u>
Net cash used in operations		(13,565,302)
Minority interest		2,000,000
Employees' terminal benefits paid		<u>(537,762)</u>
Net cash used in operating activities		<u>(12,103,064)</u>
INVESTING ACTIVITIES		
Net cash flow from the acquisition of a subsidiary	19	(18,209,956)
Purchase of furniture and equipment		(2,547,726)
Capital work in progress		(8,252,715)
Proceeds from sale of furniture and equipment		101,881
Registration of trademarks		(93,826)
Interest income		<u>23,464,306</u>
Net cash used in investing activities		<u>(5,538,036)</u>
FINANCING ACTIVITIES		
Issue of share capital		250,000,000
Payments to employee incentive scheme		<u>(2,550,000)</u>
Cash from financing activities		<u>247,450,000</u>
BANK BALANCES AND CASH AT 31 DECEMBER	8	<u>229,808,900</u>

The attached notes 1 to 23 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 1999

1 ACTIVITIES

The Company is registered in the United Arab Emirates as a Public Joint Stock Company pursuant to the U.A.E. Commercial Companies Law No. 8 of 1984 (as amended). The principal objectives of the Company are to construct, own, assemble, install, operate and maintain cooling and conditioning systems. In addition, to distribute and sell chilled water for use in district cooling technologies.

The Company's registered office is located at PO Box 32444, Dubai, United Arab Emirates.

The total number of employees as at 31 December was 50.

These financial statements represent the trading activities of the Company and its subsidiaries from 10 May 1998, being the date of incorporation of the Company, to 31 December 1999.

2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Accounting Standards. The significant accounting policies adopted are as follows:

(a) Accounting convention

The consolidated financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the period ended 31 December. All significant inter-company balances, transactions and profits have been eliminated on consolidation.

(c) Capital work in progress

Capital work in progress is recorded at cost on the basis of the percentage of work completed at the balance sheet date. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the Company's policies when construction of the asset is completed and commissioned.

(d) Furniture and equipment

Furniture and equipment is recorded at cost.

(e) Depreciation

Depreciation is provided on all furniture and equipment at rates calculated to write off the cost, less estimated recoverable value based on prices prevailing at the date of acquisition of each asset over its expected useful life. Expected future cash flows are not discounted to their present values in determining the recoverable amount of items of furniture and equipment.

(f) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary or associate at the date of acquisition. Goodwill is amortised using the straight-line method over the expected period of benefit.

(ii) Trademarks

Costs relating to the registration of trademarks are capitalised and amortised using the straight-line method over the expected period of benefit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 1999

2 SIGNIFICANT ACCOUNTING POLICIES continued

(g) Accounts receivable

Accounts receivable are stated net of provisions for amounts estimated to be uncollectible.

(h) Accounts payable and accruals

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

(i) Minority interest

Minority interests represent shareholders' equity of subsidiary companies which are attributable to outside shareholders.

(j) Employees' terminal benefits

The Company provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Actuarial gains or losses where material are recognised in the statement of income over the expected average employment periods of the employees.

(k) Provisions

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

(l) Contracts revenue and contracts in progress

Contract revenue represents the total sales value of work performed during the period, including the estimated sales value of contracts in progress assessed on a percentage of completion method, measured by reference to total cost incurred to date to estimated total cost of the contract. Provision is made for any known losses and contingencies.

(m) Pre-incorporation and pre-operating costs

Pre-incorporation and pre-operating costs are expensed in the period in which they are incurred.

(n) Interest income

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and interest applicable.

(o) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

(p) Financial instruments

The financial instruments comprise of receivables, deposits, cash, payables and certain other assets and liabilities.

Fair values of financial instruments are based on estimated fair values using methods such as the net present value of future cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 1999

3 CAPITAL WORK IN PROGRESS

Included in capital work in progress is an amount of AED 4,106,602 relating to assets under construction on property owned by a related party (see note 13).

4 FURNITURE AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Furniture and fixtures	3 to 4 years			
Office equipment and instruments	3 to 4 years			
Motor vehicles	4 to 5 years			
	<i>Furniture and fixtures AED</i>	<i>Office equipment and instruments AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:				
Relating to a subsidiary acquired at the beginning of the period (note 19)	702,418	315,801	265,500	1,283,719
Additions	1,064,127	827,349	656,250	2,547,726
Disposals	<u>(53,318)</u>	<u>(19,550)</u>	<u>(227,000)</u>	<u>(299,868)</u>
At 31 December 1999	<u>1,713,227</u>	<u>1,123,600</u>	<u>694,750</u>	<u>3,531,577</u>
Depreciation:				
Relating to a subsidiary acquired at the beginning of the period (note 19)	404,537	164,633	155,541	724,711
Provided during the period	473,309	331,920	225,717	1,030,946
Relating to disposals	<u>(26,658)</u>	<u>(17,329)</u>	<u>(169,468)</u>	<u>(213,455)</u>
At 31 December 1999	<u>851,188</u>	<u>479,224</u>	<u>211,790</u>	<u>1,542,202</u>
Net book value at 31 December 1999	<u>862,039</u>	<u>644,376</u>	<u>482,960</u>	<u>1,989,375</u>

The depreciation charge for the period has been dealt with in the statement of income as follows:

	<i>1999 AED</i>
Contract costs	29,891
Other administrative expenses	<u>1,001,055</u>
	<u>1,030,946</u>

5 EMPLOYEE INCENTIVE SCHEME

The employee incentive scheme represents an advance extended to fund the employee incentive scheme which was under formation as at the balance sheet date. In accordance with the Company's articles of association, the incentive scheme (under formation) holds 500,000 shares in the Company which are held in the name of a related party acting as a custodian (see note 13). The advance to the scheme is interest-free and is recoverable after one year from the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 1999

6 INTANGIBLES

	<i>1999</i> <i>AED</i>
Goodwill	15,523,040
Trademarks	<u>93,826</u>
	<u>15,616,866</u>

The movement on goodwill is as follows:

	<i>1999</i> <i>AED</i>
Goodwill purchased during the period (note 19)	18,262,400
Amortisation for the period	<u>(2,739,360)</u>
	<u>15,523,040</u>

Goodwill is amortised over a period of 10 years from the date of acquisition of the subsidiary. Trade marks are amortised over a period of 5 years from 1 January 2000.

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>1999</i> <i>AED</i>
Accrued project revenue	6,135,816
Interest receivable	4,432,925
Other receivables	237,196
Prepaid expenses	<u>1,209,845</u>
	<u>12,015,782</u>

At 31 December 1999, the Company and its subsidiaries had contracts with two customers in the United Arab Emirates. As amounts receivable are stated net of any required provision and are short term in nature, fair value approximates carrying value.

The Company's terms of sale require amounts to be paid within 60 to 90 days.

8 BANK BALANCES AND CASH

Bank balances and cash include bank deposits of AED 222,244,398 with commercial banks in the United Arab Emirates. These are denominated in AED with effective rates of interest ranging from 4.75% to 6.44%. Bank deposits include an amount of AED 6,794,702 which is held by the Company and its subsidiaries' bankers as security for facilities granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 1999

9 ACCOUNTS PAYABLE AND ACCRUALS

	<i>1999</i>
	<i>AED</i>
Trade accounts payable	5,092,594
Retention payable	1,362,652
Other payables	475,657
Accrued expenses	<u>2,181,241</u>
	<u>9,112,144</u>

Trade accounts payable are normally settled within 60 to 90 days.

10 SHARE CAPITAL

	<i>1999</i>
	<i>AED</i>
Authorised share capital:	
50,000,000 ordinary shares of AED 10 each	<u>500,000,000</u>
Issued share capital:	
50,000,000 ordinary shares of AED 10 each of which AED 5 has been paid	<u>250,000,000</u>

Under the terms of the public offer for subscription for shares in the Company dated March 1998 and in accordance with the Company's articles of association, the paid up value of the ordinary shares was payable in two instalments, one instalment of AED 5 for each share was due on application and the second instalment of AED 5 for each share is due within five years from the date of formation of the Company at a date and by a means to be fixed by the Board of Directors of the Company.

11 STATUTORY RESERVE

As required by the U.A.E. Commercial Companies Law of 1984 (as amended) and the articles of association of the Company and its subsidiaries, 10% of the profit for the period is transferred to the statutory reserve. The transfer for the period is based on 10% of the profit of the Company before accounting for the Company's share in the results of its subsidiaries and the Company's share in the subsidiaries' statutory reserve transferred for the period. The Company and its subsidiaries may resolve to discontinue such transfers when the reserve equals 50% of the share capital. The reserve is not available for distribution.

12 EMPLOYEES' TERMINAL BENEFITS

The Company and its subsidiaries provide for employees' terminal benefits in accordance with the employees contracts of employment. There were no unrecognised actuarial gains or losses during the period.

	<i>1999</i>
	<i>AED</i>
Relating to a subsidiary acquired at the beginning of the period (note 19)	311,115
Provided during the period	663,583
Paid during the period	<u>(537,762)</u>
Balance at 31 December 1999	<u>436,936</u>

The principal actuarial assumptions used at the balance sheet date included management's estimate of the rate of increase in employee remuneration and the average length of employee service discounted to its net present value using appropriate market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 1999

13 RELATED PARTY TRANSACTIONS

These represent transactions with related parties ie. shareholders, senior management of the Company and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by senior management.

Included in the statement of income are the following transactions with related parties:

	<i>AED</i>
Other administration expenses	300,000
Pre-incorporation costs	2,950,000

Other transactions with related parties are disclosed in notes 3 and 5.

14 CONTRACT COSTS

Included in contract costs is an amount of AED 1,057,230 relating to staff costs.

15 DEFERRED CHARGES

	<i>1999</i> <i>AED</i>
Relating to a subsidiary acquired at the beginning of the period (note 19)	412,761
Amortisation during the period	<u>(412,761)</u>
At 31 December 1999	<u>—</u>

16 NET PRE-INCORPORATION COSTS

	<i>1999</i> <i>AED</i>
Pre-incorporation costs	5,850,000
Received through the share issue charge paid by the shareholders	<u>(5,000,000)</u>
	<u>850,000</u>

Under the terms of the public offering for subscription for shares in the Company dated March 1998, a share issue expense charge of AED 0.10 per share, totalling AED 5,000,000, was paid by the subscribers. This amount has been credited against the pre-incorporation expenses.

17 OTHER INCOME

	<i>1999</i> <i>AED</i>
Interest income	23,464,306
Miscellaneous	<u>2,037,078</u>
	<u>25,501,384</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 1999

18 EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period as follows:

	<i>1999</i>
Net profit for the period (<i>AED</i>)	<u>8,684,558</u>
Ordinary shares in issue throughout the period	<u>50,000,000</u>
Earnings per share (<i>AED</i>)	<u>0.17</u>

19 ACQUISITION OF A SUBSIDIARY

At the beginning of the period, the Company acquired its subsidiary, Gulf Energy Systems LLC. The effect of the acquisition on the consolidated financial statements was as follows:

(a) Goodwill arising on acquisition:

	<i>1999</i>
	<i>AED</i>
Net asset value at the date of acquisition:	
Furniture and equipment, net of depreciation	559,008
Deferred charges	412,761
Accounts receivable and prepayments	6,792,117
Bank balances and cash	11,790,044
Accounts payable and accruals	(7,505,215)
Provision for employees terminal benefits	<u>(311,115)</u>
	11,737,600
Goodwill arising on acquisition (note 6)	<u>18,262,400</u>
Capital consideration for the acquisition	30,000,000
Less: cash acquired	<u>(11,790,044)</u>
Net cash outflow from the acquisition	<u>18,209,956</u>

(b) Included in the consolidated statement of income for the period ended 31 December 1999 are the following relating to the subsidiary's operations for the period ended 31 December 1999:

	<i>1999</i>
	<i>AED</i>
Revenues	30,058,759
Expenses	<u>(29,197,300)</u>
Net profit for the period	<u>861,459</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 1999

20 CONTINGENT LIABILITIES

The Company and its subsidiaries' bankers have issued guarantees on their behalf as follows:

	<i>1999</i>
	<i>AED</i>
Performance guarantee	5,155,156
Retention release guarantee	<u>4,664,471</u>
	<u>9,819,627</u>

21 SUBSIDIARIES

	<i>Country of incorporation</i>	<i>Percentage of holding</i>
Gulf Energy Systems LLC	U.A.E.	100
National Central Cooling Company Ras Al Khaimah LLC	U.A.E.	60

Gulf Energy Systems LLC was registered on 15 April 1995 and commenced its commercial activities thereafter.

National Central Cooling Company Ras Al Khaimah LLC was registered on 22 November 1999 and commenced its commercial activities thereafter.

22 FINANCIAL INSTRUMENTS

(a) Fair values

The fair value of the financial assets and liabilities of the Company and its subsidiaries are not materially different from their carrying values.

(b) Interest rate risk

The Company is not exposed to interest rate risk as its interest sensitive assets are re-priced frequently. At the period end there were no interest sensitive liabilities.

(c) Currency risk

Management believes that there is a minimal risk of significant losses due to exchange rate fluctuations.

23 CAPITAL COMMITMENTS

The Directors have authorised future capital expenditure amounting to AED 169 million. Included in this amount is AED 50 million which is expected to be incurred within one year of the balance sheet date.

