ALGHANIM SPECIALTIES COMPANY W.L.L

FINANCIAL STATEMENTS

31 DECEMBER 2005

ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

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AUDITORS' REPORT TO THE MEMBERS OF ALGHANIM SPECIALTIES COMPANY WLL

We have audited the accompanying balance sheet of Alghanim Specialties Company W.L.L. as of 31 December 2005, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these 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 financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion proper books of account have been kept by the company and the 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 financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2005 that might have had a material effect on the business of the company or on its financial position except for matter disclosed in Note 8 of the financial statements.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

2 April 2006
Kuwait

Alghanim Specialties Company W.L.L.

BALANCE SHEET
At 31 December 2005

ASSETS	Notes	*2005* *KD*	*2004* *KD*
Non-current assets			
Investments at fair value through statement of income	8	43,720	652,626
Property, plant and equipment	9	1,845,912	909,782
Intangible assets	10	1,051,666	220,040
		2,941,298	1,782,448
Current assets			
Cash and bank balances	18	2,545,255	36,164
Due from related parties	4	642,248	401,506
Trade and other receivables	5	4,272,329	2,396,470
Due from contracting customers	6	2,992,217	607,322
Inventories	7	2,627,419	851,262
		13,079,468	4,292,724
TOTAL ASSETS		16,020,766	6,075,172
EQUITY AND LIABILITIES			
Equity			
Share capital	14	4,000,000	500,000
Asset revaluation reserve	3	836,654	-
Legal reserve	15	216,398	205,612
Voluntary reserve	15	245,006	234,220
Retained earnings		174,181	736,316
Total equity		5,472,239	1,676,148
Non-current liabilities			
Non-current portion of term loans	11	130,000	230,000
Provision for end of service indemnity		259,884	217,072
		389,884	447,072
Current liabilities			
Current portion of term loans	11	100,000	380,000
Due to banks	18	958,214	1,255,766
Murabaha payable	12	3,364,550	600,000
Due to related parties	4	1,029,602	354,116
Accounts payable and other liabilities	13	4,706,277	1,362,070
		10,158,643	3,951,952
Total liabilities		10,548,527	4,399,024
TOTAL EQUITY AND LIABILITIES		16,020,766	6,075,172

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

STATEMENT OF INCOME

For the year ended 31 December 2005

	Notes	*2005* *KD*	*2004* *KD*
Sales		**4,116,727**	2,713,814
Cost of sales		**(3,114,594)**	(1,955,361)
		1,002,133	758,453
Contracting division income (loss)	16	**98,634**	(55,292)
Private projects division profit	17	**192,856**	114,404
		1,293,623	817,565
Selling and distribution expenses		**(99,349)**	(96,733)
General and administrative expenses		**(482,172)**	(178,678)
Staff costs		**(350,345)**	(318,998)
Finance cost		**(134,997)**	(83,319)
Loss on sale of investments at fair value through statement of income		**(28,840)**	-
Unrealised gain on investments at fair value through statement of income		**-**	34,026
Dividend income		**-**	40,000
Other income		**26,948**	57,046
Other expenses	3	**(117,007)**	-
Management remuneration		**-**	(4,800)
PROFIT FOR THE YEAR		**107,861**	266,109

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

Alghanim Specialties Company W.L.L.

STATEMENT OF CHANGES IN PARTNERS' EQUITY

For the year ended 31 December 2005

	Share capital *KD*	*Asset Revaluation reserve* *KD*	*Legal reserve* *KD*	*Voluntary reserve* *KD*	*Retained earnings* *KD*	*Total* *KD*
Balance at 31 December 2003	500,000	-	179,001	207,609	523,429	1,410,039
Net profit for the year	-	-	-	-	266,109	266,109
Transfer to reserves	-	-	26,611	26,611	(53,222)	-
Balance at 31 December 2004	500,000	-	205,612	234,220	736,316	1,676,148
Transfer to share capital	659,015	-	-	-	(659,015)	-
Capital introduced	2,840,985	-	-	-	-	2,840,985
Revaluation of assets (Note 3 and 10)	-	847,245	-	-	-	847,245
Net profit for the year	-	-	-	-	107,861	107,861
Transfer to reserves	-	-	10,786	10,786	(21,572)	-
Amortisation transfers	-	(10,591)	-	-	10,591	-
Balance at 31 December 2005	**4,000,000**	**836,654**	**216,398**	**245,006**	**174,181**	**5,472,239**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2005

	Note	2005 KD	2004 KD
OPERATING ACTIVITIES			
Net profit for the year		107,861	266,109
Adjustments for:			
Depreciation and amortisation		309,344	136,937
Impairment of assets		117,007	-
Provision for end of service indemnity		87,548	55,461
Unrealised gain on investments at fair value through statement of income		-	(34,026)
Loss on sale of investments at fair value through statement of income		28,840	-
Finance charges		134,997	83,319
Dividend income		-	(40,000)
		785,597	467,800
Working capital changes:			
Trade and other receivables		(1,875,859)	(1,010,748)
Due from contracting customers		(2,384,895)	213,516
Inventories		(1,776,157)	(169,855)
Due from/to related parties		434,744	114,734
Accounts payable and other liabilities		3,344,207	557,422
Cash (used in) from operations		(1,472,363)	172,869
Indemnity paid		(44,736)	(84,413)
Net cash (used in) from operating activities		(1,517,099)	88,456
INVESTING ACTIVITIES			
Purchase of fixed assets		(1,113,376)	(443,511)
Acquisition of fixed assets from affiliate		(237,316)	(43,169)
Purchase of investments at fair value through statement of income		(43,720)	(309,900)
Proceeds on sale of fixed assets		3,830	-
Proceeds on sale of investments at fair value through statement of income		623,786	-
Dividend income received		-	40,000
Net cash used in investing activities		(766,796)	(756,580)
FINANCING ACTIVITIES			
(Repayment)/receipt of term loans		(380,000)	225,000
Increase in capital		2,840,985	-
Finance charges paid		(134,997)	(83,319)
Movement in murabaha payable		2,764,550	(54,438)
Net cash from financing activities		5,090,538	87,243
NET DECREASE IN CASH AND CASH EQUIVALENTS		2,806,643	(580,881)
Cash and cash equivalents at 1 January		(1,219,602)	(638,721)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	18	1,587,041	(1,219,602)

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

1 INCORPORATION AND ACTIVITIES

The company was incorporated on 1 October 1988 as a Kuwaiti limited liability company to carry out trading in construction materials, fire equipment and to engage in building construction, sale of cleaning materials and general trading.

The company is 30% owned by Equipment Holding Company – KSC (Closed) (2004: 90%).

At 31 December 2005, the company employed 251 people (2004: 196).

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

The company's management approved the financial statements for the year ended 31 December 2005 for issuance on 2 April 2006.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation
The financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention modified to include the measurement at fair value of investments carried at fair value through income statement.

The financial statements have been presented in Kuwaiti Dinars.

Changes in accounting policies
The accounting policies are consistent with those used in the previous year, with the exception of the following policies which have been revised due to the application of standards becoming mandatory for financial years beginning on or after 1 January 2005:

Investments carried at fair value through income statement
All investments previously classified as available for sale have been reclassified as "investments carried at fair value through income statement". The adoption of the revised IAS 39 has not resulted in any adjustment of the previously reported amounts since the Company's old accounting policy required changes in fair value to be reported in the income statement.

Derecognition of financial assets
With effect from 1 January 2005, a financial asset (in whole or in part) is derecognised either when the Company has transferred substantially all the risks and rewards of ownership or when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset.

Intangible assets
Intangible assets are capitalised at cost. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the 'cost of sales' line item.

Intangible assets, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment annually either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable
Accounts receivable are stated at original invoiced amount less a provision for any uncollectable amounts. An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Investments at fair value through statement of income
Investments at fair value through statement of income are investments that have readily available reliable fair values. Investments at fair value through statement of income are initially recognised at fair value. Transaction costs are expensed immediately. After initial recognition investments at fair value through statement of income are measured at fair value with all changes in fair value recognised in the statement of income.

Murabaha payable
Murabaha payable represent amounts payable on a deferred settlement basis for assets purchased under Murabaha arrangements. Murabaha payable are stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking into consideration the profit rate attributable and the balance outstanding.

Inventories
Inventories are stated at the lower of cost or net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal. Cost is determined on the weighted average basis.

Property, plant and equipment
Property, plant and equipment are stated at revalued amounts less accumulated depreciation and any impairment losses.

Depreciation is provided on a straight line basis at the following annual rates:

Buildings	5%
Fittings and fixtures and computer	20%
Machinery and equipment	25-50%
Motor vehicles	33.33%

Intangible assets
Amortisation is provided on a straight line basis at the following annual rates:

Right of utilisation of land	5%
Sealant line expenses	12.5%

Sales
Sales represent the invoiced value of goods and services supplied by the Company during the year.

Contracts revenues and costs
The company 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 company measures the stage of completion of each contract on the basis of the engineers' reports.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Related party transaction
Related parties consist of partners, their close family members and companies of which they are the principal owners. All related party transactions are approved by management.

Foreign currency
Transactions denominated in foreign currencies during the year are translated into Kuwaiti Dinar at rates of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into Kuwaiti Dinar at rates of exchange prevailing at year end. Exchange differences arising from translation are taken to the statement of income.

Cash and cash equivalents
Cash and cash equivalents as stated in the statement of cash flows comprise cash and bank balances, net of due to banks.

3 VALUATION OF ASSETS

As of 30 September 2005, the Company's assets were revalued by Khaled A. Al-Ghanim (Revaluation Expert) appointed by Ministry of Commerce & Industry against the Company's application for conversion of its legal status from W.L.L into KSC (Closed). The resultant revaluation increase of KD 847,245 in non-current assets has been transferred to 'Asset Revaluation Reserve' and impairment in non-current assets amounting to KD 117,007 has been taken to the income statement through the 'Other expenses' line item.

4 DUE FROM/TO RELATED PARTIES

	2005 *KD*	*2004* *KD*
Due from related parties:		
Equipment Company – WLL	536,123	401,506
Arabian Gulf Pearl Co. – WLL	106,125	-
	642,248	401,506
Due to related parties:		
Future Ready Mix Concrete Company – WLL	330,219	-
Equipment Holding Company – KSC (Closed)	472,237	353,539
Al-Khadda Contracting Company – WLL	227,146	-
Arabian Gulf Pearl Company – WLL	-	577
	1,029,602	354,116

5 TRADE AND OTHER RECEIVABLES

	2005 *KD*	*2004* *KD*
Trade receivables	**1,864,757**	404,690
Executed contracts receivable	**1,255,187**	1,243,633
Other receivables	**555,982**	140,926
	3,675,926	1,789,249
Provision for doubtful debts	**(145,273)**	(111,158)
	3,530,653	1,678,091
Retentions	**652,104**	407,022
Other debit balances	**89,572**	311,357
	4,272,329	2,396,470

6 DUE FROM CONTRACTING CUSTOMERS

	2005 *KD*	*2004* *KD*
Costs incurred on contracts in progress	**9,325,964**	842,654
Billings	**(6,333,747)**	(235,332)
	2,992,217	607,322

7 INVENTORIES

	2005 *KD*	*2004* *KD*
Construction materials	**701,741**	366,800
Raw and packing materials	**1,920,962**	474,322
Fire and safety equipment	**8,172**	8,621
Goods in transit	**6,910**	3,885
	2,637,785	853,628
Provision for slow-moving inventory	**(10,366)**	(2,366)
	2,627,419	851,262

8 INVESTMENTS AT FAIR VALUE THROUGH STATEMENT OF INCOME

The Company holds investments in violation of its articles of association.

PROPERTY, PLANT AND EQUIPMENT

	Buildings KD	Fittings and fixtures KD	Computers KD	Machinery and equipment KD	Motor vehicles KD	Capital work in progress KD	2005 Total KD	2004 Total KD
Cost								
At 1 January	342,314	211,253	47,450	778,442	103,430	131,515	1,614,404	1,062,191
Acquisition of fixed assets	-	86,507	9,721	142,307	48,142	-	286,677	110,043
Additions	57,609	28,982	30,455	904,387	77,381	14,562	1,113,376	446,195
Transfers	146,077	-	-	-	-	(146,077)	-	
Revaluation	6,162	-	-	-	-	-	6,162	-
Impairment	(177,772)	-	-	-	-	-	(177,772)	-
Disposals	-	(9,583)	-	(35,493)	(19,569)	-	(64,645)	(4,025)
At 31 December	374,390	317,159	87,626	1,789,643	209,384	-	2,778,202	1,614,404
Accumulated depreciation								
At 1 January	45,730	166,841	38,686	365,513	87,852	-	704,622	514,303
Relating to acquisition	-	21,424	1,486	19,283	7,168	-	49,361	66,874
Charge for the year	19,727	33,532	8,121	206,097	32,410	-	299,887	124,786
Relating to impairment	(60,765)	-	-	-	-	-	(60,765)	
Relating to disposals	-	(9,583)	-	(33,430)	(17,802)	-	(60,815)	(1,341)
At 31 December	4,692	212,214	48,293	557,463	109,628	-	932,290	704,622
Net book value								
At 31 December	369,698	104,945	39,333	1,232,180	99,756	-	1,845,912	909,782

Buildings, machinery and equipment with a net book value of KD 737,179 (2004: KD 719,658) are mortgaged as security for the term loans (Note 11).

The revaluation and impairment relates to the Revaluation exercise performed by the related expert (Note 3).

The transfers from Capital work in progress to buildings took place on 31 December 2005.

9 PROPERTY, PLANT AND EQUIPMENT (continued)

The annual depreciation charge is distributed as follows:

	2005 *KD*	*2004* *KD*
Cost of sales	199,028	61,679
General and administrative expenses	100,859	63,107
	299,887	124,786

10 INTANGIBLE ASSETS

	Right of use *KD*	*Sealant line expenses* *KD*	*2005 Total* *KD*	*2004 Total* *KD*
Cost				
At 1 January	256,880	10,949	267,829	267,829
Revaluation	841,083	-	841,083	
At 31 December	1,097,963	10,949	1,108,912	267,829
Amortisation				
At 1 January	38,208	9,581	47,789	35,638
Charge for the year	8,089	1,368	9,457	12,151
At 31 December	46,297	10,949	57,246	47,789
Net book value				
At 31 December	1,051,666	-	1,051,666	220,040

The right of use represents the cost of purchase of plot No. 70, block 2 and plot No. 55 and plot Nos. 106, 108 and 110, situated in Amgarah industrial area, and owned by the government to construct Alghanim Specialities and Coatings Factory and specialties expanded metal factory.

The revaluation relates to the Revaluation exercise performed by the related expert (Note 3).

11 TERM LOANS

	2005 *KD*	*2004* *KD*
Amounts due within one year	100,000	380,000
Amounts due after one year	130,000	230,000
	230,000	610,000

The above represents two loans granted to the company by a local bank and secured against the mortgage of the two factory plants of the company (Note 9). They are repayable in semi-annual instalments, the last one is due on 15 November 2007 and 15 April 2008 and carry interest at fixed rates of 6% and 5% (2004: 6% and 5%).

12 MURABAHA PAYABLE

Murabaha payable represents the value of commodities purchased on a deferred settlement basis and carries effective profit payable rates of 8% (2004: 5.25%).

13 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2005 *KD*	*2004* *KD*
Notes payable	263,092	136,699
Contractor payables	3,526,721	224,661
Local Supplier payables	460,084	479,894
Foreign supplier payables	180,252	118,510
Sub-contractor payables	83,895	155,579
Other credit balances	192,233	246,727
	4,706,277	1,362,070

14 SHARE CAPITAL

	2005 *KD*	*2004* *KD*
Share capital	4,000,000	500,000

On 24 May 2005, the management decided to change the status of W.L.L into KSC (Closed) by dissolving the existing 500 shares of KD 1,000 each and creating 40,000,000 shares of KD 0.100 each through further introduction of capital. As at 31 December 2005, these shares have been issued to the investors against the subscription money received, however, the Company's status has not changed pending completion of legal formalities.

15 LEGAL AND VOLUNTARY RESERVE

As required by Law of Commercial Companies and the company's articles of association, 10% of the net profit for the year has been transferred to legal reserve. The company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital.

Distribution of the legal 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 payment of a dividend of that amount.

In accordance with the company's articles of association, 10% of the net profit for the year is transferred to voluntary reserve. This transfer may be suspended upon partner's decision. There are no restrictions on the distribution of the voluntary reserve.

16 NET CONTRACTING DIVISION INCOME (LOSS)

	2005 KD	2004 KD
Income	**1,548,047**	1,660,357
Contract costs	**(1,449,413)**	(1,715,649)
	98,634	(55,292)

17 NET SPECIAL PROJECTS DIVISION INCOME

	2005 KD	2004 KD
Projects income	**3,309,857**	1,657,960
Projects costs	**(3,117,001)**	(1,543,556)
	192,856	114,404

18 CASH AND CASH EQUIVALENTS

	2005 KD	2004 KD
Cash and bank balances	**2,545,255**	36,164
Due to banks	**(958,214)**	(1,255,766)
	1,587,041	(1,219,602)

Due to banks represent unsecured overdraft facilities that are repayable on demand and carry interest rate of 3% over the Central Bank of Kuwait discount rate (2004: 1.5%).

Included in cash and bank balances is an amount of KD 1,250,000 (2004: Nil) which is not available for use by the Company since it is blocked by the bank until the Company's status changes from W.L.L to KSC (Closed).

19 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. shareholders and senior management of the Company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by he Company's management. Related party balances and transactions consist of the following:

	2005 KD	2004 KD
Income statement:		
Sales	**103,529**	28,914
Cost of sales	**83,413**	22,553
Expenses	**134,547**	18,535
Contingencies:		
Guarantees given by affiliates on behalf of company	**1,489,635**	-

Amounts due from and due to related parties are disclosed in Note 4.

19 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of shareholders and other members of key management during the year was as follows:

	2005 KD	2004 KD
Short-term benefits	4,808	4,327
Employees' end of service benefits	3,420	3,075
	8,228	7,402

20 FINANCIAL INSTRUMENTS

Credit risk
Financial assets, which potentially subject the company to concentrations of credit risk, consist principally of cash and bank balances, accounts receivable and investments. The company's bank balances are placed with high credit quality financial institutions and accounts receivable are presented net of appropriate provisions. Investments are stated at fair value.

Interest rate risk
The Company has no significant exposure to interest rate risk. Loans and facilities are charged with interest at commercial rates.

Liquidity risk
The Company limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sales require amounts to be paid within 60 days of the date of sale. Trade payables are normally settled within 45 days of the date of purchase.

Currency risk
The Company is not exposed to significant currency risk since all its assets and liabilities are denominated in Kuwait Dinars at the balance sheet date.

21 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, investments and receivables. Financial liabilities consist of bank overdrafts, payables, and accrued expenses.

The fair values of financial instruments are not materially different from their carrying values.

22 CONTINGENT LIABILITIES

The Company is contingently liable at 31 December 2005 in respect of letters of guarantee amounting to KD 9,592,387 (2004: KD 4,171,061).

23 COMPARATIVE AMOUNTS

The corresponding figures for 2004 have been reclassified in order to conform with the presentation for the current year. Such reclassification does not affect previously reported net profit or shareholders' equity.