**Refrigeration Industries and Storage Company K.S.C. and Subsidiary**
**Kuwait**

**Consolidated Annual Financial Statements and Independent Auditors' Report**
**31 December 2006**

PRICEWATERHOUSECOOPERS

Horwath Al-Muhanna & Co.

**C o n t e n t s**

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**Refrigeration Industries and Storage Company K.S.C.**
**Kuwait**

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Refrigeration Industries and Storage Company K.S.C ("the Company") and its subsidiary ("the Group"), which comprise the consolidated balance sheet as of 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.

*Management's responsibility for the consolidated financial statements*

Management is 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.

*Auditors' responsibility*

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 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 auditors' 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 the 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 management, 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.

*Opinion*

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

PRICEWATERHOUSECOOPERS Horwath Al-Muhanna & Co.

**Report on other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of accounts have been kept by the Group and the consolidated financial statements, together with the contents of the report of the 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 Commercial Companies Law of 1960, as amended, and by the Companies' 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, or of the Articles of Association have occurred during the year ended 31 December 2006 that might have had a material effect on the business of the Group or on its financial position.

**Bader A. Al Wazzan**
**License No. 62A**
**PricewaterhouseCoopers**

**Dr. Saad M. Al Muhanna**
**License No. 29A**
**Horwath Al-Muhanna & Co**

Kuwait
28 March 2007

Refrigeration Industries and Storage Company K.S.C. and Subsidiary
Kuwait

## Consolidated Balance Sheet as at 31 December 2006

| | Note | Kuwaiti Dinars 2006 | 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 3 | 11,527,744 | 11,593,022 |
| Available for sale investments | 4 | 989,382 | 970,952 |
| | | 12,517,126 | 12,563,974 |
| **Current assets** | | | |
| Inventories | 5 | 5,920,230 | 7,696,075 |
| Trade and other receivables | 6 | 4,439,152 | 5,084,112 |
| Due from a related party | 7 | 1,000,000 | 1,000,000 |
| Investments at fair value through statement of income | 8 | 291,553 | 758,936 |
| Cash and bank balances | 9 | 1,151,331 | 486,366 |
| | | 12,802,266 | 15,025,489 |
| **Total assets** | | 25,319,392 | 27,589,463 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 10 | 7,371,522 | 7,371,522 |
| Treasury shares reserve | | 146,988 | 146,988 |
| Statutory reserve | 10 | 4,824,285 | 4,824,285 |
| Voluntary reserve | 10 | 4,728,317 | 4,728,317 |
| Fair valuation reserve | | 39,255 | - |
| Retained earnings | | 5,703,501 | 5,681,895 |
| | | 22,813,868 | 22,753,007 |
| **Non-current liabilities** | | | |
| Post employment benefits | | 570,467 | 484,472 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | 1,662,508 | 3,700,017 |
| Dividend payable | | 272,549 | 325,864 |
| Bank overdrafts | | - | 62,162 |
| Provision for liabilities | | - | 263,941 |
| | | 1,935,057 | 4,351,984 |
| Total liabilities | | 2,505,524 | 4,836,456 |
| **Total equity and liabilities** | | 25,319,392 | 27,589,463 |

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

Sheikha Entesaar Salem Al Sabah
Chairman and Managing Director

Abdullah Saleh Ibrahim Al Nasser
Vice Chairman

**Refrigeration Industries and Storage Company K.S.C. and Subsidiary**
**Kuwait**

**Consolidated Statement of Income – year ended 31 December 2006**

| | Note | Kuwaiti Dinars 2006 | Kuwaiti Dinars 2005 |
|---|---|---|---|
| Operating revenue | 12 | 16,252,010 | 14,610,916 |
| Operating costs | 13 | (14,033,286) | (11,776,921) |
| **Gross profit** | | 2,218,724 | 2,833,995 |
| Other operating income | | 52,186 | 247,876 |
| General and administrative expenses | 13 | (1,457,895) | (2,197,310) |
| **Operating profit** | | 813,015 | 884,561 |
| Compensation claim received | 14 | 2,559,125 | 2,378,809 |
| Gain on sale of property, plant and equipment | | 58,422 | 1,271,370 |
| Gains from investments at fair value through statement of income | 15 | 20,834 | 121,967 |
| Realised gain/ (loss) from available for sale investments | 16 | 275,329 | (70,944) |
| Foreign exchange differences | | 22,926 | 68,302 |
| Interest income | | 62,147 | 52,123 |
| Finance costs | | - | (99,248) |
| Board of Directors' remuneration | 17 | (35,000) | (35,000) |
| Contribution to Kuwait Foundation for Advancement of Sciences | | (38,118) | (46,069) |
| National Labour Support Tax | | (31,316) | (53,677) |
| **Profit for the year** | | 3,707,364 | 4,472,194 |
| **Earnings per share (fils) – Basic and diluted** | 18 | 50.29 | 60.67 |

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

**Refrigeration Industries and Storage Company K.S.C. and Subsidiary**
**Kuwait**

**Consolidated Statement of Changes in Equity – year ended 31 December 2006**

| | Kuwaiti Dinars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Treasury Shares reserve | Statutory reserve | Voluntary reserve | Fair valuation reserve | Retained earnings | Total |
| **Balance as at 1 January 2005** | 7,371,522 | 146,988 | 4,824,285 | 4,728,317 | - | 6,369,767 | 23,440,879 |
| Profit for the year | - | - | - | - | - | 4,472,194 | 4,472,194 |
| Cash dividends for 2004 | - | - | - | - | - | (5,160,066) | (5,160,066) |
| **Balance as at 31 December 2005** | 7,371,522 | 146,988 | 4,824,285 | 4,728,317 | - | 5,681,895 | 22,753,007 |
| | | | | | | | |
| **Balance as at 1 January 2006** | 7,371,522 | 146,988 | 4,824,285 | 4,728,317 | - | 5,681,895 | 22,753,007 |
| Effect of changes in fair values of "available for sale" investments | - | - | - | - | 39,255 | - | 39,255 |
| Net income directly recognised in equity | - | - | - | - | 39,255 | - | 39,255 |
| Profit for the year | - | - | - | - | | 3,707,364 | 3,707,364 |
| Total income recognised for the year | - | - | - | - | 39,255 | 3,707,364 | 3,746,619 |
| Cash dividends for 2005 | - | - | - | - | - | (3,685,758) | (3,685,758) |
| **Balance as at 31 December 2006** | 7,371,522 | 146,988 | 4,824,285 | 4,728,317 | 39,255 | 5,703,501 | 22,813,868 |

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

Refrigeration Industries and Storage Company K.S.C. and Subsidiary
Kuwait

## Consolidated Statement of Cash Flows – year ended 31 December 2006

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| **Cash flows from operating activities** | | |
| Profit for the year | 3,707,364 | 4,472,194 |
| Adjustments: | | |
| Depreciation | 962,235 | 901,030 |
| Gain on sale of property, plant and equipment | (58,422) | (1,271,350) |
| Post employment benefits | 85,995 | 204,055 |
| Gains from investments at fair value through statement of income | (20,834) | (121,967) |
| Realised (gain)/ loss from available for sale investments | (275,329) | 70,944 |
| Provisions | (263,941) | 664,339 |
| Interest income | (62,147) | (52,123) |
| Finance costs | - | 99,248 |
| Operating profit before changes in working capital | 4,074,921 | 4,966,370 |
| Inventories | 1,775,845 | (3,301,588) |
| Trade and other receivables | 644,960 | 658,861 |
| Trade and other payables | (2,037,509) | (857,925) |
| Cash generated from operating activities | 4,458,217 | 1,465,718 |
| Post employment benefits paid | - | (78,340) |
| Net cash generated from operations | 4,458,217 | 1,387,378 |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (1,032,407) | (2,196,874) |
| Disposal of property, plant and equipment | 193,871 | 2,612,533 |
| Purchase of available for sale investments | (85,174) | (128,391) |
| Proceeds from available for sale investments | 381,329 | 58,561 |
| Investments at fair value through statement of income | 488,217 | (144,315) |
| Due from a related party | - | (1,000,000) |
| Time deposit | - | 5,400,000 |
| Interest income received | 62,147 | 52,123 |
| Interest paid | - | (99,248) |
| Dividends received | - | 90,639 |
| Net cash generated from investing activities | 7,983 | 4,645,028 |
| | | |
| **Cash flows from financing activities** | | |
| Bank overdraft | (62,162) | (1,005,154) |
| Dividends paid | (3,739,073) | (5,070,778) |
| Net cash used in financing activities | (3,801,235) | (6,075,932) |
| | | |
| **Net increase/ (decrease) in cash and cash equivalents** | 664,965 | (43,526) |
| | | |
| Cash and cash equivalents at the beginning of year | 486,366 | 529,892 |
| Cash and cash equivalents at the end of year (note 9) | 1,151,331 | 486,366 |

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

## 1. Constitution & Activities

Refrigeration Industries and Storage Company K.S.C, Kuwait (the Parent Company) is a Kuwaiti Shareholding Company incorporated in 1973 in accordance with the Commercial Companies Law.

The Parent Company's registered office is at P.O. Box 22261, Safat 13083, Kuwait.

The consolidated financial statement include the financial statements of the Parent Company and its wholly owned subsidiary Coolex General Trading and Contracting Company (W.L.L.) ("together the Group").

The principal activities of the Group are the owning and leasing of cold storage warehouses, manufacturing, installing and maintaining air conditioning systems, and investing surplus funds in investment portfolios managed by specialized investment management companies. The Parent Company's shares are listed on the Kuwait Stock Exchange.

The consolidated financial statements were authorized for issuance by the Board of Directors on 28 March 2007, and are subject to shareholder approval at their forthcoming annual general meeting.

## 2. Basis of preparation and significant accounting policies

### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards – IFRS (International Accounting Standards issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee) under the historical cost basis of measurement as modified by the revaluation at fair value of financial assets held as "at fair value through statement of income " and "available for sale".

In preparing these consolidated financial statements, the financial statements of the Group have been combined on a line by line basis, after eliminating intra group balances, intra group transactions and resulting unrealized profits in full and using uniform accounting policies for like transactions and other events in similar circumstances.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect amounts reported in these consolidated financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Judgments and estimates that are significant to the financial statements are given in note 27.

### 2.2 International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee Interpretation (IFRIC) Interpretations issued but not adopted

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Group:

IFRS 7 Financial Instruments: Disclosures
IFRS 8 Operating Segments
IFRIC Interpretation 11 IFRS 2 - Group and Treasury Share Transactions

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. The application of IFRS 8, which will be effective for annual periods beginning on or after 1 January 2009, will result in amended and additional disclosures relating to reporting on operating segments. IFRIC 11, which will be effective for the year ending 31 December 2007, is not expected to have a material impact on the financial statements of the Group.

## 2.3 Property, Plant and Equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and impairment losses, if any. Historical cost of an item of property, plant and equipment comprises its acquisition cost and all directly attributable costs of bringing the asset to working condition for its intended use.

Capital work in progress is carried at cost less impairment losses, if any and transferred to the related asset category when ready for its intended use.

Depreciation is calculated to write off assets over the following estimated useful lives:

| | Years |
|---|---|
| Buildings | 20 |
| Machinery | 5 - 15 |
| Tools and equipment | 5 |
| Generators and electrical appliances | 10 - 15 |
| Furniture and office equipment | 5 |
| Vehicles | 5 - 10 |

The carrying amount of property, plant and equipment is reviewed at each balance sheet date to determine whether there is any indication of impairment in its carrying value. If any such indication exists, an impairment loss is recognized in the statement of income, being the difference between carrying value and the asset's recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

## 2.4 Financial instruments

***Classification***

The Group classifies its financial instruments as 'at fair value through statement of income', 'available for sale investments', 'loans and receivables' and financial liabilities other than at fair value. Management determines the appropriate classification at the time of acquisition.

***Recognition and de-recognition***

The Group recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A financial asset (in whole or in part) is de-recognised when the right to the cash flows from the financial asset expires or, when the Group transfers substantially all the risks and rewards of ownership. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A regular way purchase and sale of financial instruments are recognized using trade date accounting.

***Measurement***

Financial instruments are initially measured at fair value. Transaction costs are added only for those financial instruments not subsequently measured at fair value through statement of income.

*Financial assets at fair value through statement of income*

These include financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. These are subsequently measured at fair value. Realised gains and losses and those arising from changes in fair value are included in the statement of income.

*Available for sale investments*

"Available for sale" investment securities are subsequently re-measured and carried at fair values. Resultant gains and losses are taken to shareholders' equity as fair valuation reserve till the investment security is disposed off or impaired when any prior fair value adjustments earlier reported in equity is transferred to statement of income.

*Loans and receivables*

These are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortized cost using the effective yield method.

*Financial liabilities other than at fair value*

Financial liabilities other than at fair value are subsequently measured at amortized cost using the effective yield method.

***Fair values***

The fair value of financial instruments traded in recognised financial markets is their quoted market price, based on the closing bid prices. Fair values of unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios or other appropriate models refined to reflect the specific circumstances of the issuer or at cost, if reliable estimate of fair value cannot be made.

The fair value of financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

***Impairment***

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined based on the historical patterns of losses in each component and the credit standing of the counter party and any loss is recognised in the statement of income.

### 2.5 Inventories

Inventories are valued at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items. Cost is determined on a weighted average basis for raw materials. In case of finished products and products in process, cost comprises of direct materials, direct and indirect labour and production overhead.

### 2.6 Cash and cash equivalents

Cash in hand and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the statement of cash flows.

### 2.7 Treasury shares

The cost of the Company's own shares purchased, including directly attributable costs, is recognised as a change in shareholders' equity. Gains or losses arising on sale are separately disclosed under shareholders' equity.

### 2.8 Post employment benefits

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at cessation of employment.

The defined benefit plan is unfunded and is based on the liability that would arise on involuntary termination of all employees on the balance sheet date. This basis is considered to be a reliable approximation of the present value of this liability.

### 2.9 Provisions for liabilities

Provisions for liabilities are recognised when as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation; and the amount can be reliably estimated.

### 2.10 Accounting for leases

***Where the Group is the lessee***

Leases of property and equipment under which, all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease or over the expected time pattern of user's benefit.

### 2.11 Revenue recognition

Revenue from trading and service activities is recognized on delivery of goods or services.

Revenue from civil construction and service contracts are recognised under the percentage of completion method, measured by reference to the proportion of contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. Full provision is made for expected future losses.

Revenue from installation contracts is recognised on completion of the installation.

Interest income is recognised on effective yield basis.

Dividend income is recognised when the right to receive payment is established.

### 2.12 Foreign currencies

The functional currency of the Group is the Kuwaiti Dinar. Foreign currency transactions are recorded at the rates of exchange ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are converted to Kuwaiti Dinars at the year end rates. Resultant gains and losses are taken to statement of income.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose changes in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity. For other non-monetary assets foreign exchange differences are recognised directly in the statement of income.

### 2.13 Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS 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 judgment in the process of applying the Company's accounting policies. Judgements and estimates that are significant to the financial statements are:

***Judgments***

Classification of investments

Management has to decide on acquisition of a financial instrument whether it should be classified as carried at fair value through statement of income, available for sale or as loans and receivables. In making that judgment the Company considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether they are subsequently measured at cost or at fair value and if the changes in fair value are reported in the statement of income or directly in equity.

*Impairment of available for sale investments*

The Company treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

***Estimates***

Impairment of financial and non financial assets

The Company reviews its financial assets classified as "loans and receivables", and other assets like inventory and property, plant and equipment periodically to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the 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 judgment and uncertainty.

*Fair value of unquoted investment securities*

The valuation techniques for unquoted investment securities make use of estimates such as future cash flows and discount factors, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

*Revenue recognition*

Contract revenue is measured at fair value of the consideration received or receivable. The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved.

## 3. Property, plant and equipment

| | Kuwaiti Dinars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Land** | **Buildings** | **Machinery & plant** | **Tools & equipment** | **Generators & electrical appliances** | **Furniture & office equipment** | **Vehicles** | **Capital work-in-progress** | **Total** |
| **Cost** | | | | | | | | | |
| As at 1 January 2006 | 3,165,582 | 8,503,812 | 1,605,862 | 666,066 | 2,046,410 | 1,203,217 | 6,822,360 | 214,667 | 24,227,976 |
| Additions | | 85,965 | 148,293 | 5,433 | 325 | 70,070 | 239,258 | 483,063 | 1,032,407 |
| Disposals | - | - | - | - | - | - | (252,285) | - | (252,285) |
| As at 31 December 2006 | 3,165,582 | 8,589,777 | 1,754,155 | 671,499 | 2,046,735 | 1,273,287 | 6,809,333 | 697,730 | 25,008,098 |
| **Accumulated depreciation** | | | | | | | | | |
| As at 1 January 2006 | - | 6,688,308 | 1,005,207 | 649,593 | 1,913,657 | 750,898 | 1,627,291 | - | 12,634,954 |
| Deprecation for the year | - | 111,338 | 77,997 | 6,153 | 42,668 | 114,716 | 609,363 | - | 962,235 |
| Disposals | - | - | - | - | - | - | (116,835) | - | (116,835) |
| As at 31 December 2006 | | 6,799,646 | 1,083,204 | 655,746 | 1,956,325 | 865,614 | 2,119,819 | - | 13,480,354 |
| **Net book value** | | | | | | | | | |
| As at 31 December 2006 | 3,165,582 | 1,790,131 | 670,951 | 15,753 | 90,410 | 407,673 | 4,689,514 | 697,730 | 11,527,744 |
| As at 31 December 2005 | 3,165,582 | 1,815,504 | 600,655 | 16,473 | 132,753 | 452,319 | 5,195,069 | 214,667 | 11,593,022 |

Buildings are constructed on leasehold lands from the Government of Kuwait. The expected time pattern of user's benefit is indefinite and accordingly land is carried at its acquisition cost. Capital work in progress mainly represents construction of a storage facility in Sulaibiya.

Deprecation is allocated as follows:

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Cost of sales (Note 13) | 836,261 | 804,997 |
| General administrative expense | 125,974 | 96,033 |
| | 962,235 | 901,030 |

## 4. Available for sale investments

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Local investments | 10,741 | 895 |
| Foreign investments | 978,641 | 970,057 |
| | 989,382 | 970,952 |

Local investments are unquoted equity investments carried at cost, since a reliable approximation of their fair value cannot be made. Foreign investments are investments in equity funds and are valued at fair value which is the redeemable net asset value reported by the fund manager.

## 5. Inventories

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Raw materials | 3,923,640 | 6,166,912 |
| Finished goods | 957,356 | 971,069 |
| Spare parts | 471,754 | 464,509 |
| Work in progress | 314,220 | 289,444 |
| Goods in transit | 454,726 | 5,607 |
| | 6,121,696 | 7,897,541 |
| Provision for obsolescence | (201,466) | (201,466) |
| | 5,920,230 | 7,696,075 |

## 6. Trade and other receivables

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Trade receivables | 4,429,669 | 3,068,890 |
| Advances to suppliers | 143,257 | 929,067 |
| Prepayments | 231,058 | 309,575 |
| Accrued revenues | 65,516 | 62,100 |
| Refundable deposits | 30,068 | 17,639 |
| Amounts under settlement | - | 1,201,323 |
| Other receivables | 66,929 | 79,787 |
| | 4,966,497 | 5,668,381 |
| Provision for doubtful debts | (527,345) | (584,269) |
| | 4,439,152 | 5,084,112 |

## 7. Due from a related party

This represents a promissory note of KD 1,000,000 due from a shareholder. The effective rate of interest on this balance was 6% (2005 – 6%).

## 8. Investments at fair value through Statement of Income

This represents investment in an open ended local fund which is valued at its redeemable net asset value reported by fund manager.

## 9. Cash and bank balances

This represents cash in hand and call and current account balances with local banks.

## 10. Share capital

The authorised, issued and fully paid up share capital of the Parent Company is KD 7,371,522 comprising of 73,715,222 shares of 100 fils each ( 2005 : KD 7,371,522 comprising of 73,715,222 shares of 100 fils each)

*Statutory reserve*

In accordance with the Law of Commercial Companies and the articles of association of the Parent company, 10% of the net profit for the year should be transferred to legal reserve. The legal reserve exceeds 50% of share capital and as permitted by its articles of association, the Parent Company's shareholders resolved in the general assembly meeting held on 20 September 2003 to discontinue appropriations to legal reserve. This reserve can be utilised only for distribution of a maximum dividend of 5% in years when the retained earnings are inadequate for this purpose.

*Voluntary reserve*

In accordance with the Parent Company's articles of association, 10% of the net profit for the year should be transferred to voluntary reserve. As permitted by its articles of association, the Parent Company's shareholders resolved in the general assembly meeting held on 20 September 2003 to discontinue appropriations to voluntary reserve. There is no restriction on distribution of this reserve.

*Proposed dividend*

The Board of Directors recommends distribution of cash dividend of 15 fils per share (2005 - 50 fils per share) and a bonus share issue of 5 share for every 100 shares (2005 - Nil) ,subject to the approval of the shareholders at the forthcoming annual general meeting.

## 11. Trade and other payables

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Trade payables | 1,186,492 | 3,026,531 |
| Accrued expenses | 291,931 | 444,074 |
| Revenues in advance | 54,356 | 40,439 |
| Dues to Staff | 24,287 | 40,672 |
| Kuwait Foundation for Advancement of Sciences | 38,118 | 46,069 |
| National Labour Support Tax | 31,316 | 53,677 |
| Board of Directors' remuneration | 35,000 | 35,000 |
| Other payables | 1,008 | 13,555 |
| | 1,662,508 | 3,700,017 |

## 12. Operating Revenues

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Contract revenues | 7,732,286 | 6,083,467 |
| Manufacturing revenues | 3,137,542 | 3,091,376 |
| Maintenance and spare parts | 1,576,619 | 1,331,862 |
| Storage revenues | 3,805,563 | 4,104,211 |
| | 16,252,010 | 14,610,916 |

## 13. Operating costs and general and administrative expenses

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Materials used | 9,404,837 | 6,710,740 |
| Salaries | 3,495,861 | 3,421,257 |
| Depreciation | 962,235 | 901,030 |
| Other expenses | 1,628,248 | 2,941,204 |
| | 15,491,181 | 13,974,231 |

The number of personnel employed by the Company as of 31 December 2006 was 1,350 (2005 – 1,423).

## 14. Compensation claim received

In July 2003 the United Nations Compensation Committee awarded the Group an amount of KD 5,386,636 as compensation for damages resulting from the Iraqi Invasion of Kuwait. The Group has received KD 5,282,161 as of the balance sheet including KD 2,559,125 during the year (2005 – KD 2,378,809).

## 15. Gains from investments at fair value through statement of income

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Cash dividends | 5,722 | 156,548 |
| Unrealised gain/ (loss) | (1,848) | (34,581) |
| Realised gain | 16,960 | - |
| | 20,834 | 121,967 |

## 16. Realised gain / (loss) from available for sale investment

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Cash dividends | 275,329 | 90,639 |
| Impairment in value | - | (161,583) |
| | 275,329 | (70,944) |

## 17. Board of Directors' remuneration

This is subject to approval of shareholders in the forthcoming annual general meeting.

## 18. Earnings per share

| | **2006** | **2005** |
|---|---|---|
| Net profit for the year | 3,707,364 | 4,472,194 |
| Weighted average number of outstanding shares (number) | 73,715,222 | 73,715,222 |
| Earnings per share (fils) – basic and diluted | 50.29 | 60.67 |

There were no potential dilutive equity shares.

## 19. Related party transactions

The Group has entered into transactions with related parties (major shareholders, key management personnel, companies owned or controlled by Directors) on terms approved by management. Balances with related party are given in note 7.

**Key management compensation is as follows:**

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Salaries and other short-term employee benefits | 115,756 | 72,000 |

## 20. Segment Information

**Primary reporting format – business segments**

For the purpose of segment reporting, the Group's management has classified its activities under the following primary business segments:

- Contracting and Manufacturing: Comprising manufacturing, producing, installation and repairing of central and spilt air-conditioners units.
- Storage services: Comprising of rental of refrigeration storages, storage services for other companies, cold and frozen transportation.

| | Kuwaiti Dinars | | | |
|---|---|---|---|---|
| | **Contracting & Manufacturing Division** | **Storage Division** | **Unallocated** | **Total** |
| ***Year ended 31 December 2006*** | | | | |
| Operating income | 12,446,447 | 3,805,563 | - | 16,252,010 |
| Segment result | 1,304,461 | 914,257 | 1,478,747 | 3,697,465 |
| Interest and other operating income | | | | 114,333 |
| Contribution to Kuwait Foundation for the Advancement of Sciences | | | | (38,118) |
| National Labour Support Tax | | | | (31,316) |
| Board of Directors' remuneration | | | | (35,000) |
| Net profit | | | | 3,707,364 |
| Assets | 11,055,056 | 5,516,709 | 8,747,627 | 25,319,392 |
| Liabilities | 1,610,371 | 52,137 | 843,016 | 2,505,524 |
| Capital Expenditure | 107,206 | 560,033 | 365,168 | 1,032,407 |
| Disposals | - | (252,285) | - | (252,285) |
| Depreciation charge | (47,696) | (752,076) | (162,463) | (962,235) |
| Depreciation on disposals | | 116,835 | | 116,835 |

| | Kuwaiti Dinars | | | |
|---|---|---|---|---|
| | **Contracting & Manufacturing Division** | **Storage Division** | **Unallocated** | **Total** |
| ***Year ended 31 December 2005*** | | | | |
| Operating income | 10,506,705 | 4,104,211 | - | 14,610,916 |
| Segment result | 1,351,068 | 1,482,927 | 1,572,194 | 4,406,189 |
| Interest and other operating income | | | | 299,999 |
| Finance Costs | | | | (99,248) |
| Contribution to Kuwait Foundation for the Advancement of Sciences | | | | (46,069) |
| National Labour Support Tax | | | | (53,677) |
| Board of Directors' remuneration | | | | (35,000) |
| Net profit | | | | 4,472,194 |
| Assets | 13,133,102 | 6,396,550 | 8,059,811 | 27,589,463 |
| Liabilities | 3,441,016 | 259,001 | 1,136,439 | 4,836,456 |
| Capital Expenditure | 75,330 | 1,886,325 | 235,219 | 2,196,874 |
| Disposals | (167,528) | (752,936) | (523,106) | (1,443,570) |
| Depreciation charge | (49,183) | (698,274) | (153,573) | (901,030) |
| Depreciation on disposals | | 102,387 | | 102,387 |

**Secondary reporting format – geographical segments**

The Company's assets and liabilities are in Kuwait.

**21. Commitments and contingent liabilities**

**Capital commitments**

| | Kuwaiti Dinars | |
|---|---|---|
| | **2006** | **2005** |
| Letters of Credit | 41,437 | 1,271,722 |

**Contingent liabilities**

The Group was contingently liable for KD 2,103,951 (2005 - KD 1,919,189), in respect of outstanding letters of guarantee.

**22. Financial instruments and risk management**

The principal financial instruments that the Group uses are cash in hand and at banks, investments, trade receivables, due from related parties, bank overdrafts and trade and other payables.

**Fair value of financial instruments**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties on an arm's length transaction. The fair value of the financial instruments carried at amortised cost is not significantly different from their book values.

**Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets exposed to credit risk consist mainly of trade receivables. The Group manages credit risk with respect to trade receivables by providing only short term credit to customers.

**Interest rate risk**

Interest rate risk is the risk that value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk on its interest bearing assets and liabilities mainly bank deposits and overdrafts. The Group manages interest rate risk by placing with banks its deposits on a short-term basis and borrowing primarily at floating rates of interest.

**Foreign exchange risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The majority of the Group's transactions are in Kuwaiti Dinars.

## 23. Comparative figures

Certain prior year amounts have been reclassified to conform to the current year presentation, but do not affect previously reported net profit or share holder's equity.