



# SHAPING A BRIGHTER TOMORROW

UNITED DEVELOPMENT COMPANY P.S.C.

**Annual Report 2006**



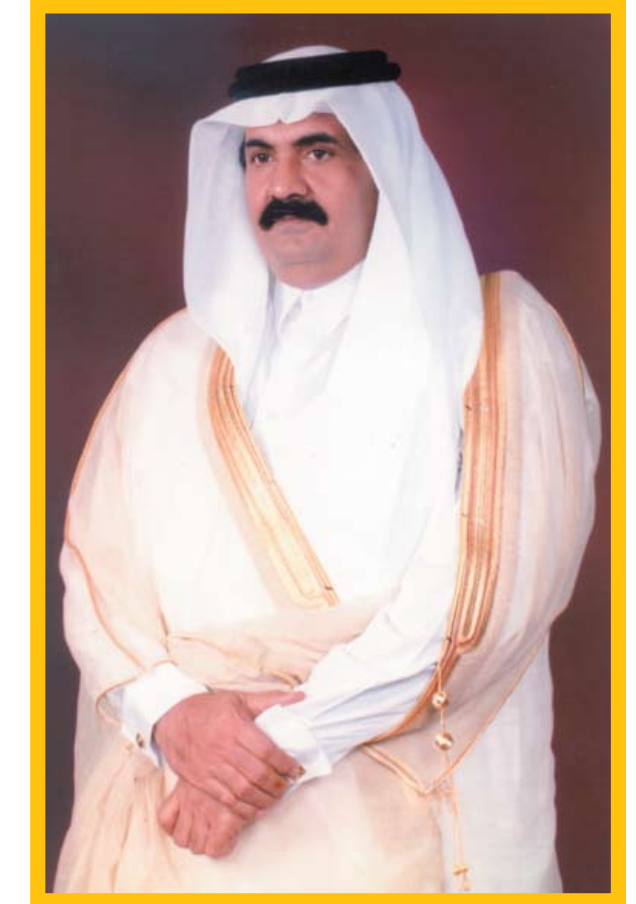
الشركة المتحدة للتنمية  
UNITED DEVELOPMENT COMPANY P.S.C.

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His Highness  
**Sheikh Tamim Bin Hamad Al-Thani**  
Heir Apparent



His Highness  
**Sheikh Hamad Bin Khalifa Al-Thani**  
Emir of the State of Qatar

# Board of Directors



From Left, Standing:

H.E. Abdul Rahman Bin Hamad Al-Attayah  
Director

Mr. Abdulrahman Abdullah Abdulghani Nasser  
Director

Mr. Khalifa Abdulla Turki Al-Subai  
Director

Mr. Khalil Sholy  
Managing Director

Mr. Omar Hussain Alfardan  
Director

From Left, Sitting:

H.E. Sheikh Nasser Bin Faleh Al Thani  
Director

Mr. Hussain Ibrahim Alfardan  
Chairman

H.E. Abdulla Bin Khalifa Al-Attayah  
Deputy Chairman

Mr. Mohammed Hamad Abdulla Almana  
Director



## Chairman's Report

### A Year of Record Achievements

Dear Shareholders,

On behalf of the Board of Directors, it is my privilege to present the annual report of United Development Company (UDC) for the year ended 31 December 2006 and to outline our future plans for the coming year.

Fiscal year 2006 proved to be the most successful and blessed year for our Company, during which we posted record financial results, made sound strategic progress, achieved extraordinary operational success, and further strengthened our leading corporate position.

### Financial performance

I am pleased to report that UDC enjoyed a truly exceptional 2006 fiscal year. Net profits rose by 40 percent to QR 258.1 million compared to QR 184.9 million in 2005. Meanwhile total revenues rose by 74 percent to QR 1.1 billion.

To build on its pioneering position in the Middle East as a leading Qatar-based development and investment company, UDC continued to diversify its investments and foster achievements in quality and quantity.

The outstanding growth of Qatar's economy under the astute leadership of His Highness the Emir and His Highness the Heir Apparent, created the optimal business and investment climate for UDC and is an important aspect for the company's success.

Our performance in 2006 showcased how UDC is superbly positioned to take advantage of this excellent economic environment as the following summary highlights:

	2006 (QR)	2005 (QR)
Revenue	1,130,251,182	647,773,815
Net Profit	258,155,425	184,999,441
Basic Earning/Share	2.39	1.94
Total Assets	4,116,846,598	2,951,459,316
Total Equity	2,425,664,005	2,093,806,213

# Focus on the Future

Revenues in 2006 posted a 74 percent increase from those reported in 2005. Likewise, net profits went up by 40 percent, basic earnings per share jumped from 1.94 to 2.39, total assets soared 39 percent, and total equity rose by 15 percent.

### Strategic progress

Throughout 2006, we successfully pursued our strategy of strengthening business operations and expanding our sphere of investments in and outside of Qatar.

In the eight years since our inception, UDC has established itself as a leader in all industries that we operate within.

It is our intention to position UDC as a solid blue-chip company not only in Qatar but throughout the GCC. We will continue to expand our geographical reach in key markets of the Middle East in order to diversify our income stream and asset base.

### Future plan

UDC has a vibrant business model. It is a model that comprises the elements needed to sustain excellent performance over time.

The future plans of the company in 2007 reinforce our expansion goals in all the company's business activities. Additionally, we are building new partnerships and preparing for new investments with the aim of achieving more profits in the future. Our commitment to expansion is outlined below.

### A Portfolio of Excellent Businesses

Our portfolio is set to deliver solid growth in 2007 and onwards. To achieve this, we invested in fast-growth businesses such as ready-mix concrete and wastewater treatment that can accelerate our industrial growth rate. We launched the sale of new districts at The Pearl-Qatar and are aggressively seeking new projects in the region for Qatar Dredging Company (QDC). Our other interests in Seef Limited and Gulf Formaldehyde Company continue to post profits, as the two companies expand their operations and increase their productions.

We have great momentum going into 2007, based on the following factors:

**The Pearl-Qatar:** Looking into the new year, The Pearl-Qatar will generate consistent income, as construction of towers, villas and retail shopping districts take shape. The year 2007 will undoubtedly be another milestone year as residential unit sales and retail leasing contracts reach new heights. Further, we are currently, and will continue to open new districts for sale and development. For example, we have already begun selling units in Viva Bahriya and are going to start developing Qanat Quartier in 2007.

**Qatar Cool:** This solid subsidiary will also continue its strong performance by seeking increased growth in an expanding market. In addition to the company's existing and planned programs for the West Bay Area and The Pearl-Qatar, new investments of more than QR 1 billion will be used to develop similar programs in Qatar over the next five years. This was highlighted in 2006 when we started building a new plant for The Pearl-Qatar, which will be completed in phases in the coming few years.

**Qatar Dredging Company (QDC):** Since its inception in 2004, QDC has acquired projects worth over QR 2 billion within its first year of operation. In 2006, QDC assets reached QR 1.325 billion while contract revenues rose by a staggering 46 percent to approximately QR 1.5 billion. As economies in the region continue to experience rapid growth, new ports and causeways will be built and existing channels and harbors will be deepened and expanded offshore. QDC is expected to increase its business share, based on this anticipated growth. Furthermore, the company's plan in 2007 is to invest in several dredging units in addition to the assets obtained in 2006.

**Millenya, Inc.:** We expect Millenya, Inc. to achieve respectable earnings in 2007. The company is expanding its marketing and technical services network to serve Qatari and regional demands for the treatment and safe reuse of wastewater. Future investment plans will help develop and build this company. Currently we are in the process of building a major new plant as well as administration offices, expected to be completed in 2007. The new facilities will help turn Millenya Inc. into a powerful global player in the wastewater treatment industry.

**United Ready-Mix Company:** This joint venture between UDC and BESIX of Belgium was formed in mid-2006. Over the next few years, the company will supply The Pearl-Qatar with approximately 2.8 million m3 of concrete. This will be followed by further expansions aimed at allowing United Ready-Mix to meet the demands dictated by the frenzied pace at which Qatar's construction sector continues to develop. In early 2007 the company completed the installation of new production lines as part of its expansion plans.

**Seef Limited:** A state-of-the-art production plant began production in early 2006 with a nominal capacity of 100,000 tonnes per year. Seef Limited, which was incorporated in August 2004, promises to generate solid earnings for UDC in 2007 and the following years.

**Gulf Formaldehyde Company (GFC):** Although UDC's stake in GFC is only 10 percent, the company's continued profitability and potential growth highlight the strength of this investment. We anticipate increased earnings in the coming years due to growing demand and as a result of GFC's planned expansion.

## Chairman's Report (Continuation)

### New Expected Partnerships

#### Ronautica-Middle East.

United Development Company's latest business partnership was signed on November 28, 2006 when the company concluded a joint venture agreement with Spain's Ronautica S.A. The company will be established in 2007. Ronautica-Middle East, will be a marina operations and management company. UDC will hold a 60 percent stake while Ronautica S.A. will hold the remaining 40 percent in the new firm. Initially, this new joint venture company will manage and operate all three marinas at The Pearl-Qatar. But future plans call for the expansion of the company's activities throughout the Gulf.

#### Property Fund.

In its February 4, 2007 meeting, the UDC Board of Directors decided to establish a new property fund with Commercial Bank. Shares in the fund, which is to own real estate outside of Qatar, will be split 50/50 between UDC and Commercial Bank. The offshore company will have a nominal capital of QR 718 million, 30% of which will be funded by the partners, while the remaining 70% is secured through bank loans. Investments in this project during 2007 will be driven by studies undertaken by UDC in order to ensure economic value and profitability.

#### Property Management Company.

New dynamic partnerships will contribute to a very busy 2007. In its meeting on February 4, 2007, the UDC Board of Directors also approved a new joint venture property management company between UDC, Commercial Bank, Qatar Insurance Company and ASTECO. This project depends on final agreement with the primary partner, ASTECO, UAE.

### Increasing Revenue Growth

Ever since UDC was founded in 1999, the founders have marveled at what the company would do when we applied our operating disciplines to generating growth. They were convinced that the combination of operating excellence with an exciting growth culture would propel UDC to new levels of valuation. They were right.

Over the past three years, UDC has maintained a high, double-digit revenue growth rate per year. These respectable figures are above the growth of the general economy. I would like to take this opportunity to thank UDC's shareholders, clients, and strategic business partners for their continued loyalty and trust in us. Let me also pay tribute to the management and staff of UDC for their dedication and hard work during 2006.

Together, they have contributed to another outstanding year for United Development Company and provided us with renewed confidence to anticipate future successes.

Yours truly,



Hussain Ibrahim Alfardan  
**Chairman**

# Shaping a Brighter Tomorrow

## Managing Director's Report

Headquartered in a country of vast resources, UDC is proud of its roots in Qatar. Under the enlightened leadership of His Highness The Emir Sheikh Hamad Bin Khalifa Al-Thani, Qatar has experienced unprecedented growth and is internationally recognised as a bastion for peace and benevolence.

It is these aspects of life in Qatar that have inspired all of us at UDC to continuously strive for fiscal and social responsibility.

With this firmly in our corporate agenda, UDC has been actively establishing important social, developmental, and environmental initiatives.

Through the 'Reach Out To Asia' Foundation (ROTA), United Development Company played a constructive role in the enormous efforts to raise millions of dollars to assist in reconstruction and economic aid efforts for tsunami-stricken countries in Asia.

In addition to our work with ROTA in 2006, UDC was also privileged to donate medical ambulances to the Red Crescent in order to facilitate the agency's tremendous work in medical and relief fields.

We continued to fulfil our duties to society throughout the year by sponsoring several major conferences and events such as the Qatar Economic Forum, The United Nations' Sixth International Conference on New or Restored Democracies, and the Qatar Masters Golf Tournament.

Likewise, UDC recognizes its responsibility to invest in environmentally friendly and sustainable businesses in line with our corporate vision and strategy.

We are committed to being part of the solution in solving current challenges facing the global

community regarding the state of the environment. UDC takes the risks of global warming very seriously and we have made the environment, and its protection, a key issue for our current and future business interests.

Through our Qatar Cool operations, we are devoting significant resources to the development and promotion of proven technologies that reduce emissions and drastically cut down on the use of electricity for chilled water and air conditioning. Additionally, our Millenya Inc. operations demonstrate UDC's commitment to environmental issues.

Millenya Inc. is an industry-leader in the development of efficient and economical technology for biological wastewater treatment. This is yet another solution to environmental issues that exist today and will continue to be of great importance in the years to come.

We are proudly committed to Qatar and to achieving stronger corporate results, both fiscally and socially, for many years to come.

Khalil Sholy  
**Managing Director**



# Key Financial Highlights of 2006



From Left, Standing:

Mark Faraj  
Chief Internal Auditor  
*United Development Company*

Abdullah Araj  
Chief Financial Officer  
*United Development Company*

From Left, Sitting:

Walid A. Al-Saadi  
Chief Executive Officer  
*United Development Company*

Ahmed Osman Omar  
General Counsel  
*United Development Company*

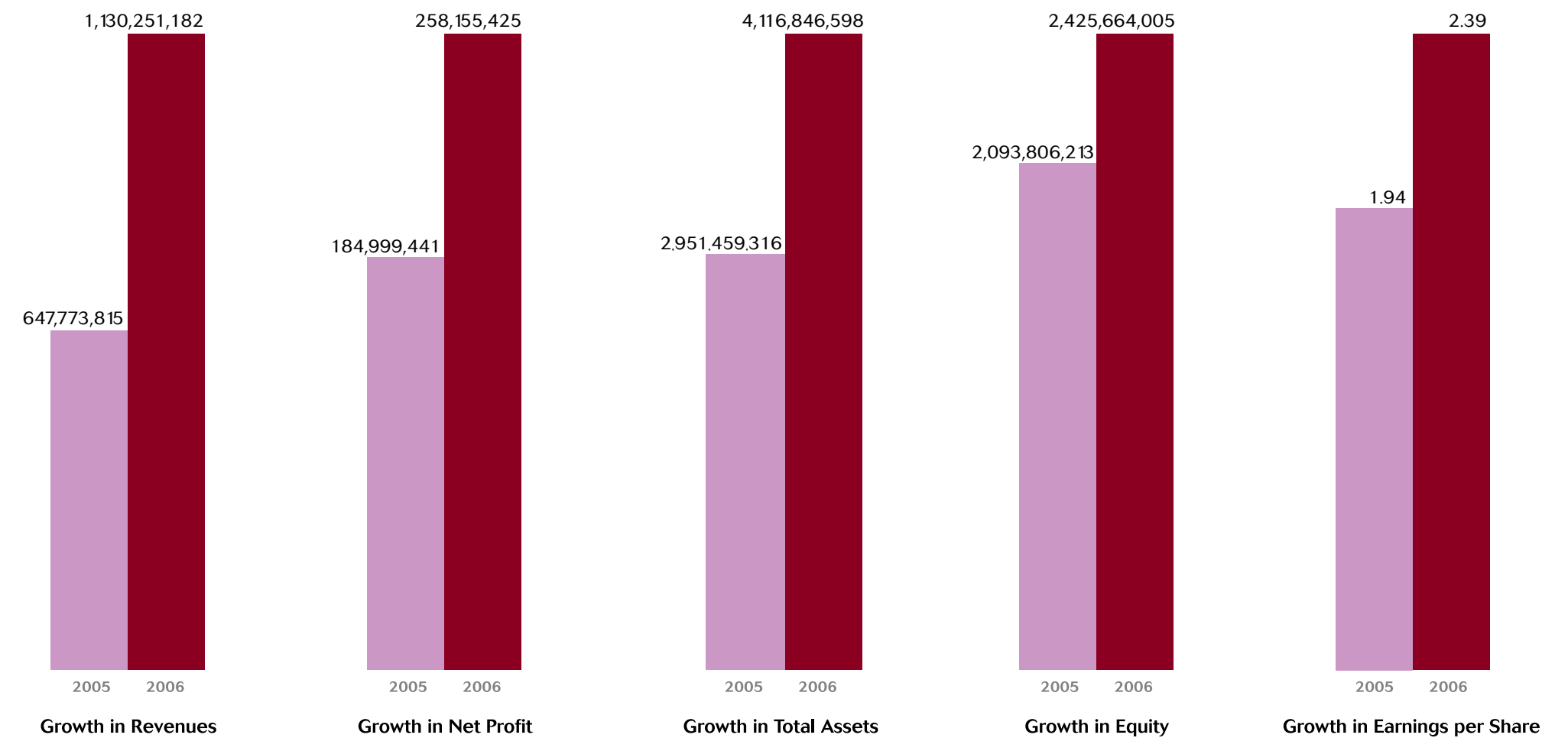
Revenues in 2006 posted a 74 percent increase from those reported in 2005

Net profits went up by 40 percent

Basic earnings per share jumped from 1.94 to 2.39

Total assets soared 39 percent

Total equity rose by 15 percent



All figures in Qatari Riyals

## Shaping A Brighter Tomorrow

We continually look forward, researching and identifying new projects, then we invest...for a brighter future



Left:

Abdul Rahim Al Ibrahim  
GM, Corporate Planning & Development  
*United Development Company*

# We Continue to Identify and Invest

One of the fastest growing companies in the Gulf Arab Region, United Development Company (UDC) is rapidly expanding its portfolio of investments and generating new forms of revenue. As part of UDC's ongoing commitment to create partnerships for progress, the Business Development Department spearheads the search and establishment of new business opportunities.

In 2006 the company was proud to sign several agreements to enter new exciting joint ventures.

New business ventures and partnerships will continue to complement UDC's existing successful operations.

From Left:

Alan Gowers  
Head, Business Development  
*United Development Company*

Rima Karam  
*United Development Company*

Ahmed Al Saadi  
*United Development Company*





# A Jewel in the Arabian Gulf



United Development Company's flagship project, The Pearl-Qatar, continued to shine in 2006 realizing several achievements and setting new benchmarks in real estate development.

Reclamation works, the most critical phase of the project, represented a milestone achievement. It was carried out by UDC affiliate, Qatar Dredging Company (QDC). Through their hard work and dedication, QDC reclaimed 4 million square metres of land within the planned two-year period.



marina and boasts breathtaking oceanfront views and family orientated entertainment among its long list of amenities. It hosts an open beach area and is a short walk away from the stunning promenade of Porto Arabia.

From Left:

Hussam Ahmed  
General Manager - Retail  
The Pearl - Qatar

The award-winning island real estate development is one of the most talked about projects in the region as it continues to drive unprecedented demand for high quality housing and upmarket retail and accommodation services.

Shortly after completion of reclamation works, development of the island steamed ahead with the flooding of The Pearl-Qatar's three marinas.

Sales and increased global interest in The Pearl-Qatar highlights the strength of this development in truly being a project that offers a lifestyle like no other.

Walid G. Maalouf  
General Manager - Hospitality  
The Pearl - Qatar

The Pearl-Qatar's popularity with investors and homeowners has been backed by phenomenal sales of residential units and substantial interest from retailers. The rapid pace of sales and the significant interest expressed by various and diverse investors exemplifies the first-rate reputation The Pearl-Qatar has garnered.

The three marinas, Porto Arabia, Viva Bahriya and Costa Malaz have now all been filled with water and can accommodate more than 750 boats. UDC and a top Spanish marina operating company will jointly operate and manage the three marinas through a joint venture between the two companies.

As the most prestigious address in the Middle East, The Pearl-Qatar continues to drive investment in the real estate sector in Qatar. Although The Pearl-Qatar is a project that sells itself, it has also benefited from a strategic marketing campaign targeting homeowners, investors and retailers from around the world.

Salim Abdul - Rahim  
General Manager - Sales  
The Pearl - Qatar

More importantly, The Pearl-Qatar has solidified UDC's position as a premier development and investment company.

The joint venture agreement was signed on November 28 between UDC and Spain's Ronautica S.A. to establish Ronautica Middle East, a marina management and operations company. The newly formed company, of which UDC owns 60 percent, will run The Pearl-Qatar's marinas.

Looking to 2007, another exciting year for The Pearl-Qatar is expected, as construction of towers, villas, and commercial units take shape. It will undoubtedly be an important year as the development of the island continues to meet United Development Company's superior goals and standards.

Elie Jubran  
General Manager - Marketing  
The Pearl - Qatar

Progress on all fronts of the development has been exciting. In July 2006, all reclamation works on the island were completed.

Meanwhile, construction work at Porto Arabia is quickly moving forward. All tower plots in Porto Arabia have been sold out and residential towers are beginning to dot the island's skyline. In addition, UDC proudly announced in October that Four Seasons Hotels and Resorts will open a new Doha-based hotel at The Pearl-Qatar.

The Four Seasons Hotel will be located on the Marsa Arabia plot of Porto Arabia and represents a significant endorsement of the project.

The Pearl-Qatar has today emerged as the largest island in Qatar's waters. 400 hectares of new land have been created with a 32-kilometre shoreline, three coves, and navigable canals in addition to numerous other features.

A jewel in the Arabian Gulf, The Pearl-Qatar is the country's first international real estate venture, and will be home to thousands of residents in more than 15,000 dwellings within 11 inspiring precincts by 2010.

Towards the end of 2006, UDC prepared to offer residential units at Viva Bahriya for sale. Viva Bahriya is home to The Pearl-Qatar's second largest

From Left:

Nabil Hajj  
T-COM Technical Manager  
The Pearl - Qatar

Abdulrahman Khalil Jawhari  
GM Engineering & Construction  
The Pearl - Qatar

Sameh Bendary  
Senior Civil Engineer  
The Pearl - Qatar

Badr Mohammed Al-Meer  
Electrical Engineer  
The Pearl - Qatar



# A Huge Leap Forward

Qatar District Cooling Company, also known as Qatar Cool, has had yet another stellar year.

District cooling is a utility service business that supplies a re-circulating source of chilled water from a central district cooling plant via a network of insulated underground pipes.

Qatar Cool was formally registered in January 2004 as a joint venture between UDC, which holds a 51 percent stake, and National Central Cooling Company P.J.S.C (Tabreed) of the UAE, which holds a 44 percent stake. Private Qatari investors hold the remaining five percent. Tabreed a publicly listed company in the UAE is a world leader in district cooling.

UDC identified district cooling in 2003 as a unique and important service for Qatar. The high demand for air-conditioning in Qatar and the national need

Shahsuvar Shahsuvaroglu  
General Manager  
Qatar Cool

for efficient use of electrical power coupled with the increased focus on environmentally friendly solutions, offered a long-term business opportunity that correlates with UDC's vision and portfolio.

In 2006, Qatar Cool targeted the new West Bay commercial district of Doha for its district cooling technology, which will supply chilled water to this rapidly developing business centre. To date, Qatar Cool has signed supply contracts with 44 major towers in West Bay to deliver 67,000 tonnes of refrigeration.

Qatar Cool's first plant began operations in September 2006 and is currently connected to six towers in West Bay, providing 10,000 tonnes of refrigeration. The operational plant has capacity to provide 30,000 tonnes of refrigeration through chilled water to its clients.

Qatar Cool has also begun the construction of a second cooling plant for West Bay. This plant will be operational by the third quarter of 2007 and will provide an additional capacity of 37,000 tonnes of refrigeration to meet growing demands.

A third plant for West Bay is planned to increase Qatar Cool's capacity to 118,000 tonnes of refrigeration.

The second major District Cooling programme is for The Pearl-Qatar where all buildings will be connected to the island's own district cooling system.

Qatar Cool signed a contract with UDC in September 2006 to provide district cooling services for the island, making Qatar Cool the exclusive service provider for The Pearl-Qatar. To meet this demand, construction of the world's largest district cooling plant has begun. The Pearl-Qatar plant will have a capacity of 120,000 tonnes when it is fully operational.

A network of insulated pipes are currently being installed in the Porto Arabia district of the island and this will continue throughout the island in several phases as development of The Pearl-Qatar progresses. Full operational capacity will be achieved within the next few years.

Further district cooling projects are planned for the future to exceed the capacity of 600,000 tonnes of refrigeration. An investment of more than QR 1 billion will be used to develop similar programmes in Qatar over the next few years. Qatar Cool will take a lead role to develop these opportunities to further expand operations over the coming years.

With supply contracts signed for the next 20 years and a vision for the future, Qatar Cool promises to be a stable, guaranteed revenue stream with exceptional earnings for UDC.

# A Leader in Dredging

Founded in 2004, Qatar Dredging Company (QDC) is a joint venture between UDC which holds 45.9 percent stake, Belgium's Dredging and Environmental Marine Construction Company (DEME) which holds a 44.1 percent stake, and the government of Qatar which holds the remaining 10 percent.

Since its inception, Qatar Dredging Company (QDC) has grown rapidly, acquiring projects worth over QR 2 billion within its first year of operation. Substantial investments have been made by QDC in marine equipment to accommodate the increased business requirements. QDC currently owns two cutter suction dredgers and one trailer hopper suction dredger complete with auxiliary equipment and pipelines. In 2006, QDC assets rose by 13.4 percent to reach QR 1.325 billion. Contract revenues rose by a staggering 46 percent to approximately QR 1.5 billion.

This past year (2006) saw QDC successfully complete all dredging and land reclamation works on the multi-billion dollar real estate development project, The Pearl-Qatar.

QDC is also the lead partner in the joint venture international consortium carrying out major reclamation work for the New Doha International

Airport. The total value of this massive project is QR 1.56 billion, of which QDC's share is QR 1.04 billion. The reclamation work consists of 62 million cubic metres and 18 kilometres of revetment and shore protection. Dredging works at this project began in January 2005 and is now approximately 95 percent complete. Full completion is expected in June 2007.

Other operations in the Gulf include the United Arab Emirates, Bahrain and Oman.

The dredging market in the Gulf region represents over \$1 billion. This figure is expected to grow by approximately 10 percent per year over the coming years as the demands for new energy, real estate, and tourism projects continue to grow.

As economies in the region continue to witness rapid growth, new ports and causeways will be built and existing channels and harbours will be deepened and expanded offshore.

Qatar Dredging Company expects to achieve a minimum market share between 15 and 20 percent. This would represent minimum annual business revenues of QR 850 million and QR 1.1 billion respectively.

QDC will also capitalise on so-called "Dredging-plus Activities" which involve shore protections through land reclamation and beach nourishments. Our operations support specialised environmental techniques and offshore activities such as trenching and pipeline protection, specifically for the oil and gas sectors.

This offers QDC a range of various business opportunities in 2007. The company continues to invest in human and technical resources in order to maintain its high standards for quality, health, safety and environmental protection and security. All these factors contribute to QDC's status as a leader in the dredging and reclamation business and pave the way to an exciting year ahead.



# Innovative Water Treatment

Environmental protection and sustainability is vital to the implementation of UDC operational and business strategies. As such, on 31 May 2006, UDC proudly announced a 60 percent acquisition of Millenya, Inc.-an innovative biological wastewater treatment and reuse company.

Based in the Turkish capital city of Ankara, Millenya Inc. is the developer and manufacturer of the modular 'BiocellTM' compact system. This industry-leading technology delivers efficient and economical wastewater treatment solutions for a wide range of public and private sector clients.

There are hundreds of Millenya BiocellTM units operating in Turkey, Jordan and Iraq. The company is currently negotiating more orders with clients in Turkey and throughout the MENA region.

Installation of the first BiocellTM plant in Qatar took place in December 2006 at The Pearl-Qatar Island. The plant will treat wastewater from offices and construction camps during the development and construction phases. The treated water conforms to European Union standards and will be used for irrigation and construction purposes. The Pearl-Qatar plant, to be commissioned in early 2007, will serve as a showcase for the technology in Qatar and throughout the GCC.

In July 2006, a spacious 12,000 m2 freehold site with several existing buildings was purchased at a prime location near Ankara's new International Airport. In December 2006, modifications on the existing buildings took place in order to house the new manufacturing plant. Completion of the production building is expected for March 2007 whilst work on a new administration block is slated to begin by Spring 2007.

Millenya Inc. posted strong results in 2006 and is expected to achieve increased earnings in 2007 and beyond as the company expands its marketing and technical services network to serve worldwide demand for the treatment and safe reuse of wastewater.

UDC, which holds a 60 percent stake in the company, and the Millenya Inc. founders, who hold the remaining 40 percent, are committed and dedicated to developing this business into a powerful global player in the wastewater treatment industry.

From Left:

Mete Özsoy  
Deputy Chief Executive Officer  
Millenya, Inc.

Bulent Hatay  
Chief Executive Officer  
Millenya, Inc.



# Quantity and Quality

As one of UDC's newest business ventures, United Ready-Mix W.L.L, a ready-mix concrete company, is set to become another important member within the UDC group of companies.

UDC has a 32 percent stake in United Ready-Mix whilst 49 percent is held by Belgium's BESIX. Local Qatari investors hold the remaining 19 percent. The company is managed through a six-member Board of Managers, three from UDC and three from BESIX/Six Construct.

This joint venture between UDC and BESIX began operations in mid-2006 with the purpose of delivering ready-mix concrete products of international standards to the Qatari market. Currently, its primary customers are the contractors active with the construction works on The Pearl-Qatar. It is estimated that The Pearl-Qatar project will require approximately 2.8 million m3 of concrete over the next five years.

As part of its second phase of development, United Ready-Mix will begin selling concrete to other clients on the Qatar mainland. It currently produces about 6,000 m3 of ready-mix concrete per day, a figure that will see significant increases in the coming years as Qatar's construction sector continues to develop at a frenzied pace. With a fleet of 30 brand

new mixers and 7 pumps, United Ready-Mix is able to supply customers the quantity and the quality they need 24 hours a day.

Qatar's rapidly growing economy continues to drive the massive boom in the construction sector and is expected to stimulate excellent growth and strong earnings for United Ready-Mix in the coming years.

Cédric Barbier  
General Manager  
United Ready-Mix



SEEF LIMITED



# State-of-the-Art Production

Since the start of operations in 2004, Seef Limited has been experiencing considerable growth. This joint venture business between UDC and Qatar Petroleum (QP) was formed in May 2004 to produce and sell Linear Alkyl Benzene— a petrochemical product used for producing detergents.

UDC has a 20 percent stake whilst QP holds 80 percent of the company.

Its state-of-the-art production plant, which began production in early 2006, has a nominal capacity of 100,000 tonnes per year.

A number of agreements have been signed with QP and its affiliates to provide feedstock for the plant. QP is responsible for the operation and maintenance of the plant as well as the marketing of its products.

Seef Limited was incorporated in August 2004 and the Board of Directors formed in September of the same year. The project cost of QR 1,053 million (\$288 million), was capitalised on 31 March 2006.

UDC has funded its capital requirements for Seef Limited through a combination of company equity and a special project debt facility.

As production increases, Seef Limited is expected to generate solid earnings for UDC in 2007 and beyond.



GULF FORMALDEHYDE COMPANY



# International Standards

With a 10 percent stake in Gulf Formaldehyde Company (GFC), UDC continues to benefit from the growing need for urea formaldehyde concentrate (UFC). UFC is used in urea fertiliser granules production.

The company's production plant is located on the Qatar Fertiliser Company (QAFCO) plant in the Mesaieed Industrial City.

QAFCO is responsible for the operation and maintenance of the plant and is the main customer for the UFC produced by GFC. QAFCO also markets the product for international sales. Commercial production began in September 2003 but growing demand for urea has prompted GFC to begin planning for an expansion of its production facilities.

QAFCO is currently expanding its plants (QAFCO 5 is under implementation, while QAFCO 6 is being planned). In light of this expansion, GFC is preparing studies to expand its existing plant or construct a new production facility, to meet QAFCO's future requirements.

Incorporated in the State of Qatar in March 2003, Gulf Formaldehyde Company has an authorised and issued capital of QR 40 million. In addition to UDC's 10 percent stake, GFC shareholders include QAFCO which holds 70 percent, Qatar Industrial Manufacturing Company, with a 15 percent stake and Amwal which holds a five percent stake, respectively.

GFC's continued profitability and potential growth highlight the soundness of this investment. UDC anticipates earnings will increase in the coming years due to growing demand and as a result of the company's planned expansion.



# CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

**UNITED DEVELOPMENT COMPANY (P.S.C)**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED DEVELOPMENT COMPANY (P.S.C.)  
year ended 31 December 2006

We have audited the accompanying financial statements of United Development Company (P.S.C.) ('the Company'), and its subsidiaries (together 'the Group') which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate for 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 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on legal and regulatory matters**

Furthermore, in our opinion proper financial records have been kept by the Company and the contents of the directors' report which relate to the financial statements are in agreement with the Company's financial records, and the financial statements comply with the Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association.

We have obtained all the information and explanations we required for the purpose of our audit and are not aware of any violations of the above mentioned Law or the Articles of Association having occurred during the year which might have had a material effect on the business of the Company or on its financial position.

Firas Qoussous  
of Ernst & Young  
Auditor's Registration No. 236

Date : 18 February 2007  
Doha

**UNITED DEVELOPMENT COMPANY (P.S.C)**CONSOLIDATED INCOME STATEMENT  
year ended 31 December 2006

	<i>Notes</i>	<b>2006 QR</b>	<b>2005 QR</b>
Revenue		<b>1,130,251,182</b>	647,773,815
Cost of sales		<b>(892,050,068)</b>	(531,174,528)
<b>Gross profit</b>		<b>238,201,114</b>	116,599,287
Interest income		<b>60,656,241</b>	32,081,193
Gain on sale of available-for-sale investments		-	29,709,796
Dividend income		<b>31,201,101</b>	12,654,321
<b>Other income</b>		<b>5,918,717</b>	1,085,107
Sales and marketing expenses		<b>(28,473,149)</b>	(2,538,447)
General and administration expenses	<b>4</b>	<b>(13,982,146)</b>	(4,591,846)
Impairment losses on available-for-sale investments		<b>(10,218,913)</b>	-
Finance costs		<b>(4,350,281)</b>	-
Share of loss of associates	<b>8</b>	<b>(20,797,259)</b>	-
<b>PROFIT FOR THE YEAR</b>		<b>258,155,425</b>	184,999,411
Attributable to:			
Equity holders of the parent		<b>256,117,597</b>	184,781,405
Minority interest		<b>2,037,828</b>	218,006
		<b>258,155,425</b>	184,999,411
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>5</b>	<b>2.39</b>	1.94
(Attributable to equity holders of the parent)			

The attached notes 1 to 27 form part of these consolidated financial statements.

**UNITED DEVELOPMENT COMPANY (P.S.C)**CONSOLIDATED BALANCE SHEET  
At 31 December 2006

	Notes	2006 QR	2005 QR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	729,665,529	156,029,325
Intangible assets	7	8,867,072	-
Investments in associates	8	368,381,213	334,725,513
Long term receivables	9	4,943,500	-
Available-for-sale investments	10	642,666,072	651,891,903
		<b>1,754,523,386</b>	1,142,646,741
<b>Current assets</b>			
Inventories		8,131,136	-
Work in progress	11	528,327,735	106,649,046
Accounts receivable and prepayments	12	694,294,094	117,095,783
Bank balances and cash	13	1,131,570,247	1,585,067,746
		<b>2,362,323,212</b>	1,808,812,575
<b>TOTAL ASSETS</b>		<b>4,116,846,598</b>	2,951,459,316
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to equity holders of the parent			
Share capital	14	1,072,500,000	825,000,000
Legal reserve	15	772,946,022	830,226,594
Cumulative changes in fair values		(25,867,460)	203,932,967
Proposed dividends	16	214,500,000	-
Other reserves	17	264,145,214	-
Retained earnings		32,617,597	190,219,428
		<b>2,330,841,373</b>	2,049,378,989
Minority interest		94,822,632	44,427,224
<b>Total equity</b>		<b>2,425,664,005</b>	2,093,806,213
<b>Non-current liabilities</b>			
Term loans	18	470,869,747	75,925,672
Retention payable	19	32,130,395	29,209,903
Employees' end of service benefits	20	1,625,578	587,994
		<b>504,625,720</b>	105,723,569
<b>Current liabilities</b>			
Accounts payable and accruals	21	1,123,743,933	653,690,034
Term loans	18	213,840	98,239,500
Retention payable	19	62,599,100	-
		<b>1,186,556,873</b>	751,929,534
<b>Total liabilities</b>		<b>1,691,182,593</b>	857,653,103
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,116,846,598</b>	2,951,459,316

Hussain I. Al Fardan  
Chairman of the BoardH.E. Abdullah Bin Khalifa Al-Attayah  
Vice ChairmanWalid A. Al-Saadi  
Chief Executive Officer**UNITED DEVELOPMENT COMPANY (P.S.C)**CONSOLIDATED CASH FLOW STATEMENT  
At 31 December 2006

	Notes	2006 QR	2005 QR
<b>OPERATING ACTIVITIES</b>			
Profit for the year		258,155,425	184,999,411
Adjustments for:			
Share of loss of associates	8	20,797,259	-
Depreciation	6	5,601,865	1,810,736
Profit on sale of available-for-sale investments		-	(29,709,796)
Impairment losses on available-for-sale investments		10,218,913	-
Finance costs		4,350,281	-
Interest income		(60,656,241)	(32,081,193)
Dividend income		(31,201,101)	(12,654,321)
Provision for employees' end of service benefits	20	1,218,138	336,631
		<b>208,484,539</b>	112,701,468
Working capital changes:			
Long term receivables		(4,943,500)	-
Inventories		(7,913,338)	-
Work in progress		(406,687,648)	(33,898,101)
Accounts receivable and prepayments		(576,749,940)	7,423,769
Accounts payable and accruals		459,994,785	628,402,398
Retention payable		65,519,592	-
		<b>(262,295,510)</b>	714,629,534
Cash (used in) from operations	20	(205,008)	(62,101)
Finance cost paid		(4,350,281)	-
		<b>(266,850,799)</b>	714,567,433
<b>Net cash (used in) from operating activities</b>		<b>(266,850,799)</b>	714,567,433
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(315,271,383)	(138,669,918)
Proceeds from disposal of available-for-sale investments		-	83,822,327
Time deposits with maturities more than three months		(36,425,130)	-
Purchase of available-for-sale investments		(230,793,509)	(379,752,221)
Acquisition of a subsidiary, net of cash acquired	3	(8,731,569)	-
Investment in an associate	8	(69,444,000)	(251,420,000)
Interest income		60,656,241	32,081,193
Dividend income		31,201,101	12,654,321
		<b>(568,808,249)</b>	(641,284,298)
<b>Net cash used in investing activities</b>		<b>(568,808,249)</b>	(641,284,298)
<b>FINANCING ACTIVITIES</b>			
Proceeds from share issue		-	1,099,066,814
Amount drawn under term loans		478,344,962	177,900,750
Repayment of term loan		(177,686,910)	-
Deferred financing cost		(3,739,637)	(3,735,578)
Contribution from minority shareholders		48,357,580	29,700,000
		<b>345,275,995</b>	1,302,931,986
<b>Net cash from financing activities</b>		<b>345,275,995</b>	1,302,931,986
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(490,383,053)</b>	1,376,215,121
Net foreign exchange difference		460,424	-
Cash and cash equivalents at 1 January		1,585,067,746	208,852,625
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	13	<b>1,095,145,117</b>	1,585,067,746

**UNITED DEVELOPMENT COMPANY (P.S.C)**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
At 31 December 2006**UNITED DEVELOPMENT COMPANY (P.S.C)**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
At 31 December 2006

Notes	Attributable to equity holders of the parent				Proposed dividends QR	Other reserves (Note 17) QR	Retained earnings QR	Total QR	Minority interest	Total equity
	Share Capital QR	Legal reserve QR	Cumulative changes in fair values QR						QR	QR
Balance at 1 January 2006	825,000,000	830,226,594	203,932,967		-	-	190,219,428	2,049,378,989	44,427,224	2,093,806,213
Revaluation of land	-	-	-		-	263,684,790	-	263,684,790	-	263,684,790
Net movement in fair value of available-for-sale investments during the year	-	-	(240,019,340)		-	-	-	(240,019,340)	-	(240,019,340)
Foreign currency translation differences	-	-	-		-	460,424	-	460,424	312,850	773,274
Transfer to income statement on impairment of available-for-sale investments during the year	-	-	10,218,913		-	-	-	10,218,913	-	10,218,913
Total income and expense for the year recognised directly in equity	-	-	(229,800,427)		-	264,145,214	-	34,344,787	312,850	34,657,637
Profit for the year	-	-	-		-	-	256,117,597	256,117,597	2,037,828	258,155,425
Total income and expense for the year	-	-	(229,800,427)		-	264,145,214	256,117,597	290,462,384	2,350,678	292,813,062
Issue of bonus shares	14	247,500,000	(57,280,572)		-	-	(190,219,428)	-	-	-
Contribution from minority shareholders	-	-	-		-	-	-	48,044,730	48,044,730	-
Proposed dividends for 2006	16	-	-		214,500,000	-	(214,500,000)	-	-	-
Board of directors' remuneration	22	-	-		-	-	(9,000,000)	(9,000,000)	-	(9,000,000)
<b>Balance at 31 December 2006</b>	<b>1,072,500,000</b>	<b>772,946,022</b>	<b>(25,867,460)</b>		<b>214,500,000</b>	<b>264,145,214</b>	<b>32,617,597</b>	<b>2,330,841,373</b>	<b>94,822,632</b>	<b>2,425,664,005</b>



**UNITED DEVELOPMENT COMPANY (P.S.C)**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)  
At 31 December 2006**UNITED DEVELOPMENT COMPANY (P.S.C)**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)  
At 31 December 2006

Notes	Attributable to equity holders of the parent				Proposed dividends QR	Other reserves (Note 17) QR	Retained earnings QR	Total QR	Minority interest	Total equity
	Share Capital QR	Legal reserve QR	Cumulative changes in fair values QR						QR	QR
Balance at 1 January 2005	500,000,000	6,159,780	55,773,456		-	-	55,438,023	617,371,259	14,509,218	631,880,477
Profit on sale of available-for-sale investment transferred to income statement	-	-	(9,785,990)		-	-	-	(9,785,990)	-	(9,785,990)
Net movement in fair value of available-for-sale investments during the year	-	-	157,945,501		-	-	-	157,945,501	-	157,945,501
Total income and expense for the year recognised directly in equity	-	-	148,159,511		-	-	-	148,159,511	-	148,159,511
Profit for the year	-	-	-		-	-	184,781,405	184,781,405	218,006	184,999,411
Total income and expense for the year	-	-	148,159,511		-	-	184,781,405	332,940,916	218,006	333,158,922
Issue of bonus shares	14 50,000,000	-	-		-	-	(50,000,000)	-	-	-
Issue of share capital	14 275,000,000	824,066,814	-		-	-	-	1,099,066,814	-	1,099,066,814
Contribution from minority shareholders	-	-	-		-	-	-	-	29,700,000	29,700,000
<b>Balance at 31 December 2005</b>	<b>825,000,000</b>	<b>830,226,594</b>	<b>203,932,967</b>		<b>-</b>	<b>-</b>	<b>190,219,428</b>	<b>2,049,378,989</b>	<b>44,427,224</b>	<b>2,093,806,213</b>



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
At 31 December 2006

### 1 CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

United Development Company P.S.C. (the "Company") was incorporated as a Qatari Shareholding Company in accordance with the Amiri Decree number (2) on 2 February 1999. The registered office of the Company is situated in Doha, State of Qatar.

The principal activity of the Company is to contribute and invest in all kinds of development projects including real estate, production and distribution of industrial products and services.

Pursuant to the Amiri Decree No 17 of 2004, the Company has been provided with a right to develop an island offshore Qatar for the sale and or lease of properties. The Company is presently engaged in the development of this area known as Pearl Qatar project. The Pearl Qatar project involves reclamation of land covering an area of 985 acres (4.2 million square meters) into a man made island and the development of the island into a theme districts housing beachfront villas, town homes, luxury apartments, penthouse, five star hotels, marinas and schools with related infrastructure and community facilities. The reclamation and the development of the land is being performed on a mix use development basis with substantial completion expected in 2009. The estimated cost of this project is approximately QR 5.5 billion.

The consolidated financial statements for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 4 February 2007.

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments and land.

The consolidated financial statements of United Development Company P.S.C. and all its subsidiaries (together the "Group") have been prepared in accordance with International Financial Reporting Standards and applicable requirements of Qatar Commercial Companies' Law.

The consolidated financial statements have been presented in Qatari Riyals.

#### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of United Development Company P.S.C. and all its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

The consolidated financial statements include the financial statements of United Development Company P.S.C. and the subsidiaries listed in the following table:

	Country of incorporation	2006	% equity interest	2005
Qatar District Cooling Company QCSC.	Qatar	51		50.50
Millenya Inc.	Republic of Turkey	60		-

Qatar District Cooling Company QCSC is engaged in the construction, owning and operation of district cooling systems.

Millenya Inc is specialised in waste water treatment facilities apart from representing reputed companies in the field of construction and health sectors.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
At 31 December 2006

### 2.2 BASIS OF CONSOLIDATION (continued)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

### 2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial position of the Group.

- IAS 19 Amendment—Employee Benefits
- IAS 21 Amendment—The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments—Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease

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

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment—Presentation of Financial Statements

The application of IFRS 7 and amendments to IAS 1, 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 and disclosures relating to Group's objectives, policies and processes for managing capital.

### 2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

#### Impairment of available-for-sale equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. The Group treats "significant" generally as 20% or more and 'prolonged' greater than twelve (12) months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

#### Estimates and assumptions

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



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006

### 2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### *Impairment of Goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was QR 8,867,072 (2005 : Nil). Further details are given in Note 7.

#### *Sale of plots of land*

An estimate of the ability of the buyers to meet the financial commitment in respect of sale of plot of land is made in determining the amount of revenue recognised from the sale of plots of land using the percentage completion method.

#### *Fair value of Land classified as property, plant and equipment*

Lands classified as property, plant and equipment are stated at fair value. The Group used an external, independent evaluator to determine the fair value of these lands. The fair values are based on market values, being the estimated amounts for which a the land could be exchanged on a date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. However, had these lands subject to fair valuation been sold to knowledgeable and willing buyers in an arm's length transactions, the realised fair value could be different from these estimates.

The lands carried at fair value are disclosed in Note 6.

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Revenue recognition**

##### *Revenue from sale of land*

Provided that revenue recognition criteria are met, revenue on sale of plots of land in the Pearl Qatar is recognised using the percentage of completion method as estimated based of the actual cost incurred to total estimated cost. In determining the application of the percentage of completion, the following criteria must be met:

1. A sale has been consummated, a contract is signed and legal title has been transferred or equitable interest vests in the buyers.
2. The sale contract commits the buyer so that he is unable to obtain a refund except for non delivery of the unit.
3. The amount of the deposit and stage payments has been agreed.
4. Total sales proceeds and costs can be reasonably estimated.
5. The seller has no continuing involvement after the construction is complete.
6. It is reasonably certain that the economic benefits associated with the transaction will flow to the Company.
7. The buyer is able to seek specific performance from the developer.
8. The buyer is obligated to complete payment once all significant acts under the contract have been completed.

##### *Profit on sale of available-sale-investments*

On sale of investments, gain is recognised as the difference between the carrying amount and the sum of i) consideration received and ii) any cumulative gain previously recognised directly in equity.

##### *Interest income*

Interest income is recognised using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006

#### *Dividend income*

Dividend revenue is recognised when the right to receive the dividend is established.

#### **Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is measured at fair value.

Valuations are performed frequently enough to ensure that the fair value of the revalued asset does not differ materially from its carrying value.

Depreciation is provided on a straight-line basis on all property, plant and equipment, except freehold land, which is determined to have an indefinite life.

Buildings	20 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	5 years

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

#### **Capital work in progress**

The costs of capital work in progress consist of the contract value, and directly attributable costs of developing and bringing the project assets to the location and condition necessary for them to be capable of operating in the manner intended by management. The costs of capital work in progress will be transferred to tangible and intangible non-current asset classifications when these assets reach their working condition for their intended use. The carrying values of capital work in progress are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

#### **Borrowing costs**

Interest during the period of construction related to the financing of the Group's project assets including the amortised cost of raising funds is capitalized as part of the accumulated cost of capital work in progress. For the purpose of determining interest available for capitalization, the costs related to these borrowings are reduced by any investment income on the temporary investment of the borrowings.

The capitalization of borrowing costs will cease once the asset is ready for its intended use. All other interest is charged in the profit and loss account.



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

#### Business Combinations and Goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

#### Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associates is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The income statement reflects the Group's share of the results of its associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable in the statement of changes in equity.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

#### Impairment and uncollectibility 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 income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006

#### Available for sale investments

Available-for-sale investments are initially carried at cost. After initial recognition, investments which are classified "available-for-sale – quoted" are remeasured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity is included in the income statement for the period.

Due to the nature of the cash flows arising from the Group's unquoted investments, the fair value of investments cannot be reliably measured and consequently, these investments are carried at cost, less provision for impairment losses, if any.

Available- for- sale instruments are recognised and derecognised on a trade date basis, when the Group becomes or ceases to be a party to the contractual provisions of the instrument.

#### Work in progress

The revenues from sale of land are recognised using the percentage of completion method. The stage of completion of development of land is determined by reference to the cost to cost method. Unbilled work is recorded as work in progress. Development costs include direct material, direct labour, contract related overheads and all other directly attributable cost of development.

#### Accounts receivable

Accounts receivable are stated at original invoice amount less a 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.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash, bank balances and short term original deposits with maturity of three months or less.

#### Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initially recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when liabilities are derecognised as well as through the amortisation process.

#### Employees' end of service benefits

The Company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period, calculated under the provisions of the Qatar Labour Law and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the period of employment.

#### 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.

#### Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and reliably measured.



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

#### Foreign currency translation

The consolidated financial statements are presented in Qatari Riyals, which is the Company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The functional currency of the foreign operations, Millenya, is the Turkish New Lira. As at the reporting date, the assets and liabilities of this subsidiary are translated into the presentation currency of United Development Company P.S.C. (Qatari Riyals) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement

#### Derecognition of financial assets and financial liabilities

##### Financial assets

A financial asset is derecognised where:

- the right to receive cash flows from the asset have expired or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and
- either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

##### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the statement of income.

#### Fair values

The fair value is the estimated amount for which assets could reasonably be exchanged for on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the buyer and seller has each acted knowledgeably, prudently and without compulsion.

##### Available-for-sale investments

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

Where the investments are not traded in an active market, traded in small volumes or where there is no quoted market price, a reasonable estimate of fair value is determined by reference to current market value of a similar investment or is based on the expected discounted cash flows.

Investments whose fair value cannot be reliably measured are carried at cost less any impairment in value.



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006

### 3 BUSINESS COMBINATION

#### Acquisition of Millenya Insaat Turizm Muhendislik Musavirlik Bilgisayar Ticaret A.S. ("Millenya")

Effective from 1 January 2006, the Group acquired 60% of the voting shares of Millenya, an unlisted company based in the Republic of Turkey, specialised in biological wastewater treatment and reuse business. Apart from its core business field, Millenya has diversified into construction and health sectors.

The Group has acquired identifiable assets and liabilities of Millenya at their carrying values. The net assets of Millenya as at the date of acquisition was QR (113,264). An amount of QR 8,867,072 was recognised as goodwill being the difference between the purchase consideration paid and the net assets as at the date of acquisition.

Subsequent to acquisition, the Group has invested a further QR 6,452,085 (US\$ 1,800,000) for an expansion project of Millenya.

The goodwill of QR 8.87 million comprise the fair value of expected synergies arising from the acquisition, which is not separately recognised.

#### Acquisition of additional stake in Qatar District Cooling Company QCSC("Qatar Cool")

On 1 January 2006, the Group acquired an additional 0.5% of the voting rights of Qatar Cool, taking its ownership to 51%. Since the consideration paid is not significantly different from the share of the net assets of Qatar Cool at this date, no goodwill has been recognised in the financial statements.

### 4 GENERAL AND ADMINISTRATION EXPENSES

	<b>2006 QR</b>	<b>2005 QR</b>
Staff costs	<b>3,794,247</b>	1,796,871
Other general and administration expenses	<b>6,758,167</b>	1,420,343
DSM registration fees	<b>662,052</b>	488,890
Depreciation	<b>463,788</b>	28,515
Rent	<b>916,006</b>	264,436
Professional charges	<b>1,387,886</b>	492,791
	<b>13,982,146</b>	4,591,846

**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**5 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year. During the year, the Company issued bonus shares for year 2005. Accordingly the previously reported earnings per share have been restated for the effect of bonus share issue made during the year.

	<b>2006</b>	<b>2005 (Restated)</b>
Profit for the year attributable to equity share holders of parent (QR)	<b>256,117,597</b>	184,781,405
Weighted average number of shares outstanding during the year	<b>107,250,000</b>	95,318,751
Basic and diluted earnings per share (QR)	<b>2.39</b>	1.94

Notes:

(i) The weighted average number of shares has been calculated as follows:

	<b>2006</b>	<b>2005</b>
Qualifying shares at beginning of the year	<b>82,500,000</b>	50,000,000
Effect of bonus shares issued	<b>24,750,000</b>	29,750,000
Effect of rights issue	-	5,568,751
Weighted average number of shares during the year	<b>107,250,000</b>	95,318,751

(ii) There were no potentially dilutive shares outstanding at any time during the year. Therefore, the diluted earnings per share are equal to the basic earnings per share.

**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**6 PROPERTY, PLANT AND EQUIPMENT**

	<b>Land QR</b>	<b>Building QR</b>	<b>Furniture, fixtures and equipment QR</b>	<b>Motor vehicles QR</b>	<b>Capital work in progress QR</b>	<b>Total QR</b>
Cost or valuation:						
At 1 January 2006	11,696,454	-	11,369,093	2,223,825	134,301,675	159,591,047
Acquisition of a subsidiary	-	10,601	40,349	230,946	-	281,896
Additions	25,230,599	50,913,817	11,595,928	5,178,633	222,352,406	315,271,383
Revaluation	196,530,896	-	-	-	67,153,894	263,684,790
At 31 December 2006	233,457,949	50,924,418	23,005,370	7,633,404	423,807,975	738,829,116
Depreciation:						
At 1 January 2006	-	-	3,048,540	513,182	-	3,561,722
Depreciation charge for the year	-	1,485,607	2,956,255	901,545	258,458	5,601,865
At 31 December 2006	-	1,485,607	6,004,795	1,414,727	258,458	9,163,587
Net carrying amount:						
At 31 December 2006	233,457,949	49,438,811	17,000,575	6,218,677	423,549,517	729,665,529
At 31 December 2005	11,696,454	-	8,320,553	1,710,643	134,301,675	156,029,325

The depreciation charge has been disclosed in the financial statements as follows:

	<b>2006 QR</b>	<b>2005 QR</b>
Cost of sales	<b>258,458</b>	-
General and administration expenses	<b>463,788</b>	128,515
Work in progress	<b>4,771,537</b>	1,608,409
Capital work in progress	<b>108,082</b>	73,812
	<b>5,601,865</b>	1,810,736

**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**6 PROPERTY, PLANT AND EQUIPMENT (continued)**

Notes:

(i) Capital work in progress comprises the costs incurred in respect of the following:

	<b>2006 QR</b>	<b>2005 QR</b>
Cooling plants – Qatar Cool	275,977,690	134,301,675
Properties under development	59,824,130	-
Others	88,006,155	-
	<b>423,807,975</b>	134,301,675

(ii) Included in capital work in progress as of 31 December 2006 are capitalised borrowing costs amounting to QR 14,349,069 (2005 : QR 1,615,652).

(iii) The District Cooling System plant and related facilities are being constructed on the freehold land owned by the Group.

(iv) Properties under development represents cost incurred on properties that are being constructed or developed in the Pearl Island. These properties under development will be transferred to investment properties when they are ready for their intended use.

(v) The Group engaged Al Zaini Trading and Real Estate Co W.L.L, an independent external valuer, to determine the fair value of the lands. Fair value is determined by reference to market based evidence. The date of revaluation was 2 February 2007. The management believes that the fair value at this date approximates the fair value as at 31 December 2006. The cost of the land which was subject to revaluation amounted to QR 53.20 million.

**7 INTANGIBLE ASSETS**

	<b>2006 QR</b>	<b>2005 QR</b>
Goodwill	8,867,072	-

Intangible assets represent the goodwill arising on acquisition of a subsidiary, Millenya.

**8 INVESTMENTS IN ASSOCIATES**

The Group has the following investments in associate companies:

	<i>Country of incorporation</i>	<i>Shareholding</i>	<b>2006 QR</b>	<b>2005 QR</b>
Qatar Dredging Company Q.S.C.	Qatar	45.9%	126,721,811	165,925,513
Al-Seef Limited Q.S.C.	Qatar	20%	233,353,441	168,800,000
United Readymix W.L.L.	Qatar	32%	8,305,961	-
			<b>368,381,213</b>	334,725,513

**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**8 INVESTMENTS IN ASSOCIATES (continued)**

Notes:

(i) Qatar Dredging Company Q.S.C. is involved in the project related dredging activities in the State of Qatar and other neighbouring countries.

(ii) Al-Seef Limited Q.S.C. is engaged in production and selling of Linear Alkyl Benzene (LAB), downstream petrochemical products and essential feedstocks to the worldwide detergent manufacturing industries. Included in the investment balance of Al-Sief Limited Q.S.C. are cash advances amounting to QR 170,244,000 (2005 : QR 108,800,000) which will be converted into share capital at a later date.

(iii) During the year, the Group invested QR 8,000,000 in United Readymix W.L.L., for 32% holding in the company. United Readymix W.L.L. is engaged in the production and sale of readymix concrete.

The following table illustrates summarised financial information of the Group's investment in the associate companies:

	<b>2006 QR</b>	<b>2005 QR</b>
Share of associates' balance sheet:		
Current assets	575,625,086	445,809,290
Non-current assets	345,500,066	271,134,766
Current liabilities	(472,215,332)	(341,261,762)
Non-current liabilities	(80,528,607)	(40,956,781)
Net assets	<b>368,381,213</b>	334,725,513
Share of associates' revenue and profit:		
Revenue	759,780,369	471,685,189
Share of results	<b>(20,797,259)</b>	-

**9 LONG TERM RECEIVABLES**

	<b>2006 QR</b>	<b>2005 QR</b>
Long term receivables	5,608,514	-
Less: Unearned finance income	(665,014)	-
	<b>4,943,500</b>	-

These represent amounts receivable from customers over a period of 2-7 years on sale of equipment.

**10 AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2006 QR</b>	<b>2005 QR</b>
Available for sale investments – quoted shares	638,666,072	647,891,903
Available for sale investments – unquoted shares	4,000,000	4,000,000
	<b>642,666,072</b>	651,891,903

**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**11 WORK IN PROGRESS**

	<b>2006 QR</b>	<b>2005 QR</b>
The Pearl Qatar	<b>528,327,735</b>	106,649,046

The work in progress primarily consists of the costs incurred for the development of the Pearl Qatar project. As more fully explained in Note 1, the Group is presently engaged in development of a reclaimed man made island for real estate purposes and the work in progress primarily represent costs incurred for the reclamation which are not billed as of 31 December 2006.

**12 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>2006 QR</b>	<b>2005 QR</b>
Trade accounts receivable	<b>17,855,595</b>	-
Accrued income	<b>30,992,412</b>	20,564,544
Advances to contractors	<b>403,927,379</b>	65,411,687
Amounts due from related parties	<b>59,355,258</b>	25,085,445
Prepaid expenses and other assets	<b>19,206,961</b>	6,034,107
Notes receivable	<b>162,956,489</b>	-
	<b>694,294,094</b>	117,095,783

Included in the amounts due from related parties are the following balances:

	<b>2006 QR</b>	<b>2005 QR</b>
Qatar Dredging Company Q.S.C.	<b>40,000,000</b>	25,085,445
United Readymix W.L.L.	<b>19,355,258</b>	-
	<b>59,355,258</b>	25,085,445

The balance due from Qatar Dredging Company Q.S.C. represents the short term bridge loan provided by the Group at commercial rates.

**13 CASH AND CASH EQUIVALENTS**

	<b>2006 QR</b>	<b>2005 QR</b>
Cash on hand and bank balances	<b>76,095,559</b>	81,172,290
Time deposits	<b>1,055,474,688</b>	1,503,895,456
	<b>1,131,570,247</b>	1,585,067,746
Less: Time deposits maturing after 90 days	<b>(36,425,130)</b>	-
	<b>1,095,145,117</b>	1,585,067,746

Time deposits carry interest at commercial rates.

**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**14 SHARE CAPITAL**

	<b>2006 QR</b>	<b>2005 QR</b>
<i>Authorised, issued and fully paid up capital:</i> 107,250,000 ordinary shares of QR 10 each (2005 : 82,500,000 shares of QR 10 each)	<b>1,072,500,000</b>	825,000,000

During the year, the authorised, issued and fully paid up capital was increased by QR 247,500,000 (2005 : QR 325,000,000) by way of 24,750,000 bonus shares issue (2005 : 5,000,000 bonus shares issue and 27,500,000 right issue). The bonus shares were issued by capitalising the legal reserve of QR 57,280,572 and retained earnings of QR 190,219,428.

**15 LEGAL RESERVE**

In accordance with Qatar Commercial Companies' Law No. 5 of 2002, 10% of the profits for the year have been transferred to a legal reserve. Transfers may cease when the reserve totals 50% of the share capital. The reserve is not available for distribution, except in the circumstances stipulated by the Qatar Commercial Companies' Law No. 5 of 2002. During the current year, the Company resolved to discontinue annual transfers to the legal reserve, as the reserve exceeds 50% of the issued capital.

During the current year, the Company capitalised QR 57,280,572 from the legal reserve in order to issue bonus shares for 2005 (Note 14).

**16 DIVIDENDS PAID AND PROPOSED**

The Board of Directors has proposed dividends of QR 2 per share totalling QR 214,500,000 for 2006 (2005 : Nil). The proposed dividend will be submitted for formal approval at the Annual General Meeting.

**17 OTHER RESERVES**

	<b>Asset revaluation translation reserve QR</b>	<b>Foreign currency translation reserve QR</b>	<b>Total QR</b>
Balance at 1 January 2006	-	-	-
Revaluation of land	263,684,790	-	263,684,790
Foreign currency translation differences	-	460,424	460,424
Balance at 31 December 2006	263,684,790	460,424	264,145,214

**Asset revaluation reserve**

The asset revaluation reserve is used to record increases in the fair value of land and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

**Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the foreign subsidiary.



**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**18 INTEREST BEARING LOANS AND BORROWINGS**

	<b>2006 QR</b>	<b>2005 QR</b>
Loan 1	194,910,101	79,661,250
Loan 2	-	98,239,500
Loan 3	141,329,000	-
Loan 4	141,001,175	-
Loan 5	1,318,526	-
	<b>478,558,802</b>	177,900,750
Less: Unamortised finance cost associated with raising finance	<b>(7,475,215)</b>	(3,735,578)
<b>Balance as at 31 December</b>	<b>471,083,587</b>	174,165,172
Presented in the balance sheet as:		
Current liability	213,840	98,239,500
Non-current liability	470,869,747	75,925,672
	<b>471,083,587</b>	174,165,172

*Notes:*

- (i) The loans carry interest at variable rates of LIBOR plus a certain percentage.
- (ii) Loan 1 : On 13 September 2005, the subsidiary company, Qatar District Cooling Company QCSC, signed a loan agreement for project loan facilities. This loan agreement grants the subsidiary a total facility of US\$ 69,000,000 available for draw-down to pay project costs of which the subsidiary has drawn down an amount of US\$ 53.4 million. This loan is repayable in 19 semi-annual instalments commencing from September 2008. The term loan is secured against the project assets and other tangible assets of the chilling plants of Qatar District Cooling Company QCSC. Additionally, all revenues from the chilling plant and insurance proceeds have been assigned in favour of the lenders.
- (iii) Loan 2 : This represents a short term loan drawn-down to partially finance the Company's share of the investment and cash calls in the associate company, Al-Seef Limited Q.S.C. The loan was fully paid in 2006.
- (iv) Loan 3 : This represents project finance loan obtained by the Company for US\$ 38,800,000 on 29 May 2006. The loan was fully drawn down in 2006. It is repayable in six annual instalments commencing on 30 April 2008 and ending on 30 April 2013.
- (v) Loan 4 : On 4 September 2006, the Company signed a syndicated loan agreement of US\$ 225,000,000 with a group of local, regional and international banks for corporate purposes available for 5 years as a revolving facility. The outstanding balance as of 31 December 2006 represents the drawn amount of such corporate facility.
- (vi) The finance costs associated with raising finance represent arrangement fee, agency and participation fees paid for obtaining the financing.

**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**18 INTEREST BEARING LOANS AND BORROWINGS (continued)**

The maturity profile of the loans are as follows:

	<b>1 year QR</b>	<b>2-5 years QR</b>	<b>Over 5 years QR</b>	<b>Total QR</b>
<b>31 December 2006</b>				
Loan 1	-	71,808,985	123,101,116	194,910,101
Loan 2	-	-	-	-
Loan 3	-	94,224,190	47,104,810	141,329,000
Loan 4	-	141,001,175	-	141,001,175
Loan 5	213,840	1,104,686	-	1,318,526
	213,840	308,139,036	170,205,926	478,558,802

	<b>1 year QR</b>	<b>2-5 years QR</b>	<b>Over 5 years QR</b>	<b>Total QR</b>
<b>31 December 2005</b>				
Loan 1	-	79,661,250	-	79,661,250
Loan 2	98,239,500	-	-	98,239,500
	98,239,500	79,661,250	-	177,900,750

**19 RETENTION PAYABLE**

This amount represents the amounts withheld from the payments to contractors. These amounts will be settled upon completion of the maintenance period subject to satisfactory discharge of the obligations of the contractors. This has been disclosed in the balance sheet as follows:

	<b>2006 QR</b>	<b>2005 QR</b>
Current portion	62,599,100	-
Non-current portion	32,130,395	29,209,903
Retention payable	<b>94,729,495</b>	29,209,903

Included in the above retention payable is an amount of QR 32,336,420 (2005 : QR 16,367,414) payable to a related party, Qatar Dredging Company Q.S.C

**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**20 EMPLOYEES' END OF SERVICE BENEFITS**

The movements in the provision recognised in the balance sheet are as follows:

	<b>2006 QR</b>	<b>2005 QR</b>
Provision as at 1 January	587,994	313,464
Acquisition of a subsidiary	24,454	-
Provided during the year	1,218,138	336,631
End of service benefits paid	(205,008)	(62,101)
<b>Provision as at 31 December</b>	<b>1,625,578</b>	<b>587,994</b>

**21 ACCOUNTS PAYABLE AND ACCRUALS**

	<b>2006 QR</b>	<b>2005 QR</b>
Accounts payable and other liabilities	155,638,192	62,921,790
Accrued contract costs	339,331,805	230,823,037
Advances received from customers	532,573,499	252,984,001
Amounts due to related parties	28,097,953	52,648,801
Other accrued expenses	32,033,443	36,056,781
Other payables	36,069,041	18,255,624
<b>Total</b>	<b>1,123,743,933</b>	<b>653,690,034</b>

Included in the amounts due to related parties are the following balances:

	<b>2006 QR</b>	<b>2005 QR</b>
Qatar Dredging Company Q.S.C.	27,961,146	52,126,460
Installation Integrity 2000 LLC	109,313	-
National Central Cooling Company	27,494	522,341
<b>Total</b>	<b>28,097,953</b>	<b>52,648,801</b>

**UNITED DEVELOPMENT COMPANY (P.S.C)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006**22 RELATED PARTY DISCLOSURES**

Related party transactions

During the year, certain transactions have occurred with related parties on the same commercial basis and conditions as other non-related parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the income statement are as follows:

	<b>2006 QR</b>	<b>2005 QR</b>
Other related parties:		
Revenue	77,451,965	26,072,849
Associates:		
Management fee received	36,269	-
Rent income	388,143	-
Interest income	2,445,000	-

Amounts due from and to related parties are disclosed in notes 12 and 21 respectively.

**Compensation of key management personnel**

The remuneration of key management are as follows:

	<b>2006 QR</b>	<b>2005 QR</b>
Short term benefits	4,892,715	2,838,552
Employees' end of service benefits	258,023	89,507
<b>Total</b>	<b>5,150,738</b>	<b>2,928,059</b>

The remuneration to the Board of Directors for the year has been separately disclosed in the statement of changes in equity. On 4 February 2007, Directors remuneration of QR 9,000,000 was proposed (2005 : nil), which is subject to the ratification by the shareholders at the Annual General Meeting.

**23 CONTINGENT LIABILITIES**

	<b>2006 QR</b>	<b>2005 QR</b>
Bank guarantees	4,160,933	1,003,000
Letters of credit	1,922,384	7,094,948

The Group anticipates that no material liability will arise from the above guarantees and letter of credits, which are issued in the ordinary course of business.

**24 CAPITAL COMMITMENTS**

	<b>2006 QR</b>	<b>2005 QR</b>
Contractual commitments to contractors/suppliers	3,424,246,376	2,795,730,802
Unpaid up capital of investments	-	8,000,000



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006

### 25 FINANCIAL RISK MANAGEMENT

#### Currency risk

The Group does not hedge its currency exposure. However, management is of the opinion that the Group's exposure to currency risk is minimal as most of the foreign currency financial assets and liabilities are denominated in US Dollars. As Qatari Riyal is pegged to the US Dollars, balances in US Dollars are not considered to represent significant currency risk.

#### Interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits and interest bearing loans and borrowings). The interest rates maturity of the Group's bank deposits and interest bearing loans and borrowings are described in Notes 13 and 18 respectively.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group monitors credit exposures, and continually assess the creditworthiness of counterparties.

The Group limits its credit risk with regard to bank deposits by only dealing with reputed banks.

The Group limits its credit risk with regard to customers by continually assessing the credit worthiness and financial ability of the buyers.

#### Liquidity risk

The Group limits its liquidity risk by ensuring that adequate funds are maintained with the banks. As per the agreements with the contractors, the Group normally settles the contractor invoices within 30-60 days of invoice.

### 26 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, available-for-sale investments and receivables. Financial liabilities consist of term loans, payables, and accrued expenses.

The fair values of financial instruments, with the exception of certain available-for-sale investments carried at cost, are not materially different from their carrying values.

### 27 SEGMENT INFORMATION

The primary segment reporting format is determined to be business segments on the Group's risks and rates of return are affected pre-dominantly by differences in the products and services produced. Secondary information is reported geographically. The businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business units that offers different products and serves different markets.

The Pearl Island development segment is engaged in the development of the Pearl Island and sale of lands and properties in the Island.

District cooling system segment constructs, owns and operates cooling plants.

Waste water treatment segment is engaged in biological waste water treatment and reuse business.

The Group's geographical segments are based on the location of the Group's assets.



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006

### 27 SEGMENT INFORMATION (continued)

#### Business segments

	Pearl island development QR	District cooling system QR	Waste water treatment QR	Eliminations QR	Total QR
Revenue					
Sales	1,100,590,860	24,287,117	5,373,205	-	1,130,251,182
Inter-segment sales	-	-	(586,507)	-	
Total revenue	1,100,590,860	24,287,117	5,959,712	(586,507)	1,130,251,182
Cost of sales	(871,149,993)	(18,234,468)	(2,665,607)	-	(892,050,068)
Segment gross profit	229,440,867	6,052,649	3,294,105	(586,507)	238,201,114
Other income	-	3,873,836	665,269	-	4,539,105
Unallocated other income	-	-	-	-	93,236,954
Expenses		(6,111,478)	(3,715,893)	41,940	(9,785,431)
Unallocated expenses					(47,239,058)
Share of results from associates					(20,797,259)
Results for the year					258,155,425
Assets and liabilities					
Segment assets	1,000,097,362	433,505,884	14,139,327	-	1,447,742,573
Unallocated assets					2,669,104,025
					4,116,846,598
Segment liabilities	782,073,147	249,553,498	2,374,997	-	1,034,001,642
Unallocated liabilities					657,180,951
					1,691,182,593



## UNITED DEVELOPMENT COMPANY (P.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
At 31 December 2006

### 27 SEGMENT INFORMATION (continued)

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the year ended 31 December 2006:

#### Geographical segments

	Qatar QR	Turkey QR	Eliminations QR	Total QR
Revenue				
Sales	1,124,877,977	5,373,205	-	1,130,251,182
Inter-segment sales		586,507	(586,507)	-
	1,124,877,977	5,959,712	(586,507)	1,130,251,182
Cost of sales	(889,384,461)	(2,665,607)	-	(892,050,068)
Segment gross profit	235,493,516	3,294,105	(586,507)	238,201,114
Other income	97,110,790	665,269	-	97,776,059
Expenses	(53,308,596)	(3,715,893)	-	(57,024,489)
Share of results from associates	(20,797,259)	-	-	(20,797,259)
Results for the year				258,155,425
Assets and liabilities				
Segment assets	3,725,458,986	14,139,327	-	3,739,598,313
Investment in associates	368,381,213	-	-	368,381,213
Unallocated assets				8,867,072
				4,116,846,598
Segment liabilities	1,688,807,596	2,374,997	-	1,691,182,593

During the previous year, the Group was primarily engaged in the development of the Pearl Island and its subsidiary, Qatar District Cooling QCSC was in a development stage of its activities. Accordingly, the Company's operating business segment consisted of only the development and sale of land.