

**Deyaar Development Company (P.S.C.) and
Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DEYAAR DEVELOPMENT COMPANY (P.S.C.)

Report on the Financial Statements

We have audited the accompanying financial statements of Deyaar Development Company (P.S.C.) and Subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, the consolidated cash flow statement and the 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 and applicable provisions of the Article of Association of the Company and the UAE Commercial Companies Law of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 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.

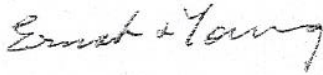
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Report on Other Legal and Regulatory Requirements

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



Signed by
Naushad Anwar (Registration No. 489)
For Ernst & Young

5 February 2007
Dubai, United Arab Emirates

Deyaar Development Company (P.S.C.) and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 AED	2005 AED
Revenues	3	1,056,962,544	455,443,598
Cost of revenues	3	(629,874,379)	(323,414,353)
GROSS PROFIT		427,088,165	132,029,245
Other income	4	54,823,335	36,161,152
Selling and administrative expenses	5	(83,118,777)	(36,955,650)
Income from deposits		16,870,982	11,521,037
PROFIT BEFORE TAX		415,663,705	142,755,784
Income tax expense	6	(3,052,636)	(1,844,042)
PROFIT FOR THE YEAR		412,611,069	140,911,742
Attributable to:			
Equity holders of the parent		412,172,784	140,847,136
Minority interest		438,285	64,606
		412,611,069	140,911,742

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

Deyaar Development Company (P.S.C.) and Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 AED	2005 AED
ASSETS			
Non-current assets			
Property, plant and equipment	7	12,032,750	7,237,239
Retentions receivable		-	928,739
		<u>12,032,750</u>	<u>8,165,978</u>
Current assets			
Properties under construction	8	2,159,771,076	536,687,917
Accounts and notes receivable		261,567,231	22,621,979
Prepayments and other assets	11	211,231,486	82,789,187
Bank balances and cash	12	389,545,796	349,876,319
		<u>3,022,115,589</u>	<u>991,975,402</u>
TOTAL ASSETS		<u><u>3,034,148,339</u></u>	<u><u>1,000,141,380</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	13	1,000,000,000	500,000,000
Statutory reserve	14	63,248,338	21,886,309
Retained earnings		7,787,533	196,976,778
Proposed scrip dividends	15	560,000,000	-
		<u>1,631,035,871</u>	<u>718,863,087</u>
Minority interest	16	5,264,371	1,536,163
Total equity		<u>1,636,300,242</u>	<u>720,399,250</u>
Non-current liabilities			
Employees' end of service benefits	17	4,400,617	2,611,910
Retentions payable		35,467,245	14,784,450
Islamic finance obligations	18	235,333,362	179,788,427
Term loans	19	704,479	155,257
		<u>275,905,703</u>	<u>197,340,044</u>
Current liabilities			
Accounts payable and accruals	20	1,121,605,443	82,329,106
Term loans	19	336,951	72,980
		<u>1,121,942,394</u>	<u>82,402,086</u>
Total liabilities		<u>1,397,848,097</u>	<u>279,742,130</u>
TOTAL EQUITY AND LIABILITIES		<u><u>3,034,148,339</u></u>	<u><u>1,000,141,380</u></u>

The financial statements were authorised for issue in accordance with a resolution of the directors on 5 February 2007.

Chairman

Chief Executive Officer

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

Deyaar Development Company (P.S.C.) and Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Note	2006 AED	2005 AED
OPERATING ACTIVITIES			
Profit before tax		415,663,705	142,755,784
Adjustments for:			
Depreciation		3,191,838	1,292,212
Provision for employees' end of service benefits		2,155,796	554,119
Income from deposits		(16,870,982)	(11,521,037)
Write-off of goodwill		-	401,431
(Gain) loss on disposal of property, plant and equipment		(4,562)	13,226
Operating profit before working capital changes:		404,135,795	133,495,735
Accounts and notes receivables		(238,945,252)	(22,621,979)
Prepayments and other assets		(128,442,299)	(5,341,115)
Additions to properties under construction		(2,188,599,909)	(489,653,898)
Cost of properties sold		565,516,750	311,132,725
Retentions receivable		928,739	(928,739)
Retentions payable		20,682,795	(1,788,178)
Accounts payable and accruals		1,039,276,337	14,584,007
Employees' end of service benefits paid		(367,089)	(183,131)
Income tax paid		(3,052,636)	(1,844,042)
Net cash used in operating activities		(528,866,769)	(63,148,615)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(8,414,899)	(5,547,466)
Proceeds from disposal of property, plant and equipment		432,112	-
Deposit maturing after three months		22,300,000	(22,300,000)
Income from deposits		16,870,982	11,521,037
Net cash inflow on acquisition of subsidiaries		-	1,279,849
Net cash from (used in) investing activities		31,188,195	(15,046,580)
FINANCING ACTIVITIES			
Increase in share capital		500,000,000	-
Islamic finance obligations received		143,331,177	145,398,584
Islamic finance obligations paid		(87,786,242)	(28,378,737)
Term loans		813,193	(44,637)
Net increase in minority capital in a subsidiary		3,289,923	-
Net cash from financing activities		559,648,051	116,975,210
INCREASE IN CASH AND CASH EQUIVALENTS		61,969,477	38,780,015
Cash and cash equivalents at 1 January		292,576,319	253,796,304
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	12	354,545,796	292,576,319

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

Deyaar Development Company (P.S.C.) and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2006

	<i>Attributable to equity holders of the parent</i>						
	<i>Share capital AED</i>	<i>Proposed increase in capital AED</i>	<i>Statutory reserve AED</i>	<i>Retained earnings AED</i>	<i>Proposed scrip dividends AED</i>	<i>Total AED</i>	<i>Minority interest AED</i>
Balance at 1 January 2005	20,000,000	480,000,000	7,801,595	70,214,356	-	578,015,951	-
Increase in capital	480,000,000	(480,000,000)	-	-	-	-	-
Profit for the year	-	-	-	140,847,136	-	140,847,136	64,606
Transfer to statutory reserve	-	-	14,084,714	(14,084,714)	-	-	-
Arising on acquisition of subsidiary	-	-	-	-	-	-	1,471,557
Balance at 31 December 2005	500,000,000	-	21,886,309	196,976,778	-	718,863,087	1,536,163
Increase in capital	500,000,000	-	-	-	-	500,000,000	-
Increase in minority interest	-	-	-	-	-	-	3,289,923
Profit for the year	-	-	-	412,172,784	-	412,172,784	438,285
Transfer to statutory reserve	-	-	41,362,029	(41,362,029)	-	-	-
Proposed scrip dividends (note 15)	-	-	-	(560,000,000)	560,000,000	-	-
Balance at 31 December 2006	1,000,000,000	-	63,248,338	7,787,533	560,000,000	1,631,035,871	5,264,371
							1,636,300,242

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

Deyaar Development Company (P.S.C.) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

1 ACTIVITIES

Deyaar Development Company (P.S.C.) was established as a Private Shareholding Company in the Emirate of Dubai, UAE on 6 January 2001 and commenced operations on 1 June 2003. The principal activities of the Company are property investment and development, brokering, managing and renting of buildings and provision of related support services. The Company is a wholly owned subsidiary of Dubai Islamic Bank PJSC.

The accompanying consolidated financial statements combine the activities of the Company and the following subsidiaries and joint ventures:

<u>Subsidiaries</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Percentage of equity</u>	
			2006	2005
DIB Tower SAL	Property investment and development	Lebanon	100%	100%
Al Tanmyah Services L.L.C.	Cleaning, security and labour services	U.A.E.	100%	100%
Omega Engineering L.L.C.	Mechanical, engineering and plumbing	U.A.E.	55%	55%
Dubai Insaat Gayrimenkul				
Sanayi Ve Ticaret Limited Sirketi	Property Development	Turkey	100%	-
Beirut Bay SAL	Property Development	Lebanon	100%	-
Deyaar (UK) Ltd *	Representative Office of Deyaar	UK	100%	-
Deyaar Cayman Ltd *	Investment holding company	Cayman Islands	100%	-

*These subsidiaries did not carry out any activities during the year.

<u>Joint ventures</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Percentage of equity</u>	
			2006	2005
Arady Development L.L.C.	Property development	U.A.E.	50%	50%
Dubai International				
Development. Co. LLC *	Property development	U.A.E.	50%	50%

* This joint venture did not carry out any operations during the current and the previous years.

The address of the Company's registered office is P. O. Box 30833, Dubai, United Arab Emirates.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of United Arab Emirates Laws.

The consolidated financial statements have been presented in United Arab Emirates Dirhams.

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

Changes in accounting policies

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

IASB Standards and Interpretations issued but not adopted

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

Amendments to IAS 1 – Capital Disclosures

Amendments to IAS 1 *Presentation of Financial Statements* were issued by the IASB as *Capital Disclosures* in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the Group's objectives, policies and processes for managing capital.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

IASB Standards and Interpretations issued but not adopted - continued

IFRS 7 Financial Instruments: Disclosures

IFRS 7 *Financial Instruments: Disclosures* was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the Group's financial position and performance and information about exposure to risks arising from financial instruments.

IFRS 8 Operating Segments

IFRS 8 *Operating Segments* was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Group discloses information about its operating segments.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and each of the subsidiaries that it controls (the Group - see note 1). Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of an entity's capital or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

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.

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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant impact on the amounts recognised in the consolidated financial statements.

Transfer of equitable interest in properties

The Group has entered into a number of contracts with buyers for the sale of land and apartment units. Management has determined that the equitable interest in such assets and therefore, risks and rewards of the ownership, is transferred to the buyer once he is committed to complete the payment for the purchase. This commitment is evidenced by a signed contract for the purchase of the property and payments of sufficient progress payments. Based on this, the Group recognizes revenues and profits as the acts to complete the property are performed.

Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair value for the year. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts as described below:

Costs to complete properties under construction

The Group estimates the cost to complete properties under construction in order to determine the cost attributable to revenue being recognised. These estimates include the cost of providing infrastructure activities, potential claims by subcontractors and the cost of meeting other contractual obligations to the customers.

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 the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in joint ventures

The Group's interests in joint ventures, which are defined as those entities which are subject to joint control, are accounted for under the proportionate consolidation method whereby the Group accounts for its share of the assets, liabilities, income and expenses in the joint ventures on a line by line basis.

Revenue recognition

Sale of property

Revenue on sale of plots is recognised on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of apartments is recognized on the basis of percentage completion as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- Construction is beyond a preliminary stage, i.e., commencement of design work or construction contract or site accessibility etc.
- The buyer is committed. The buyer is unable to require a refund except for non-delivery of the unit. Management believes that the likelihood of the Group being unable to fulfil its contractual obligations is remote; and
- The aggregate sales proceeds and costs can be reasonably estimated.

Contract revenues

Contract revenue represents the total value of work performed during the year including the estimated sales value of contracts in progress assessed on a percentage of completion method, measured by reference to total cost incurred to date to estimated total cost for each contract. No profit is taken until a contract has progressed to a point where its outcome can be estimated reliably. Where the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred. Provision is made for all losses expected to arise on completion of the contracts entered into at the balance sheet date, whether or not work has commenced on these contracts.

Fee and commission income

Fee and commission income is recognised when earned.

Income from deposits

Income from deposits is recognised on an accrual basis.

Services

Revenue from services is recognized in the period in which the services are rendered.

Cost of sale of property

Cost of sale of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of sale in respect of apartments is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation

Taxation is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred income taxation is provided using the liability method on all temporary differences at the balance sheet date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	over 4 to 5 years
Plant and equipment	over 4 years
Motor vehicles	over 4 years

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.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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 and liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so 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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. 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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Properties under construction

Properties under construction are stated at cost plus attributable profit / (loss) less progress billings. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. Upon completion, unsold properties, if any are transferred to properties held for sale.

Properties held for sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale when construction is completed. Properties held for sale are stated at cost or at net realisable value, whichever is lower. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. The cost of land and costs incurred in the course of development relating to properties sold during the year are transferred to cost of revenues.

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;

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 comprise cash at hand, bank balances and short-term deposits with an original maturity of three months or less.

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 Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Employees' end of service benefits

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Foreign currency

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

Deyaar Development Company (P.S.C.) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

3 REVENUES AND COSTS

	2006 AED	2005 AED
Revenue:		
Sale of properties	978,226,756	441,248,712
Services income	30,766,883	12,544,167
Contract revenues	47,968,905	1,650,719
	<u>1,056,962,544</u>	<u>455,443,598</u>
Costs:		
Cost of properties sold (note 8)	565,516,750	311,132,725
Cost of services	26,656,316	11,096,647
Contract costs	37,701,313	1,184,981
	<u>629,874,379</u>	<u>323,414,353</u>

Sale of property relates to the sale of land and residential, retail and commercial units in various projects in the U.A.E. and Lebanon.

4 OTHER INCOME

	2006 AED	2005 AED
Management fees	11,656,772	9,855,027
Brokerage	21,928,867	12,666,066
Commission	6,580,286	3,596,967
Others	14,657,410	10,043,092
	<u>54,823,335</u>	<u>36,161,152</u>

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2006 AED	2005 AED
Payroll and related expenses	52,257,087	23,045,091
Sales and marketing	12,319,117	3,453,600
Write-off of goodwill (note 9)	-	401,431
Rent	3,967,615	1,598,436
Legal and professional fees	2,211,735	920,904
Depreciation	3,191,838	1,292,212
Communication	1,763,153	398,653
Other expenses	7,408,232	5,845,323
	<u>83,118,777</u>	<u>36,955,650</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

6 INCOME TAX

	2006 AED	2005 AED
Current income tax:		
Current income tax charge	3,052,636	1,844,042
Income tax expense reported in the income statement	<u>3,052,636</u>	<u>1,844,042</u>

7 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements AED	Furniture and fixtures AED	Plant and equipment AED	Motor vehicles AED	Capital work in progress AED	Total AED
Cost						
At 1 January 2006	-	3,775,565	2,947,003	1,811,406	572,925	9,106,899
Additions	132,455	3,153,824	3,467,477	1,428,000	233,143	8,414,899
Disposals	-	(14,595)	-	(127,000)	(356,112)	(497,707)
Transfers	43,500	(6,789)	6,789	-	(43,500)	-
At 31 December 2006	<u>175,955</u>	<u>6,908,005</u>	<u>6,421,269</u>	<u>3,112,406</u>	<u>406,456</u>	<u>17,024,091</u>
Depreciation						
At 1 January 2006	-	902,134	704,737	262,789	-	1,869,660
Depreciation charge for the year	32,217	1,281,993	1,226,058	651,570	-	3,191,838
Relating to disposals	-	(14,595)	-	(55,562)	-	(70,157)
Transfers	-	(1,706)	1,706	-	-	-
At 31 December 2006	<u>32,217</u>	<u>2,167,826</u>	<u>1,932,501</u>	<u>858,797</u>	<u>-</u>	<u>4,991,341</u>
Net carrying value						
At 31 December 2006	<u>143,738</u>	<u>4,740,179</u>	<u>4,488,768</u>	<u>2,253,609</u>	<u>406,456</u>	<u>12,032,750</u>
At 31 December 2005	<u>-</u>	<u>2,873,431</u>	<u>2,242,266</u>	<u>1,548,617</u>	<u>572,925</u>	<u>7,237,239</u>

Capital work in progress represents the cost of software which was under implementation as of 31 December 2006.

8 PROPERTIES UNDER CONSTRUCTION

The movement in properties under construction during the year was as follows:

	2006 AED	2005 AED
Balance, beginning of year	536,687,917	358,166,744
Additions during the year	2,188,599,909	489,653,898
Carrying value of properties sold during the year (note 3)	(565,516,750)	(311,132,725)
Balance, end of year	<u>2,159,771,076</u>	<u>536,687,917</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9 BUSINESS COMBINATION

During 2005, the Group acquired 55% interest in Omega Engineering L.L.C. and 100% of the equity of Al Tanmyah Services LLC. Both the companies are based in Dubai, U.A.E. and engaged in mechanical, electrical and plumbing works and providing cleaning and security services respectively. The fair value of identifiable assets and liabilities of the companies acquired at that date were as follows:

	<i>Recognised on acquisition 2005 AED</i>
Cash and bank balances	3,974,125
Accounts receivable and prepayments	5,825,941
Property, plant and equipment, net	645,407
Total assets	<u>10,445,473</u>
Accounts and notes payable	1,541,949
Accrued expenses	2,774,334
Term loan	272,874
Employees' end of service benefits	2,091,914
Total liabilities	<u>6,681,071</u>
Fair value of net assets – 100%	<u>3,764,402</u>
Share of net assets acquired	2,292,845
Purchase consideration	2,694,276
Goodwill arising on acquisition	<u>401,431</u>

10 IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combination was allocated to Omega Engineering L.L.C. as a cash-generating unit for impairment testing.

The recoverable amount of the cash-generating unit is determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management. The key assumptions of the value in use calculations are those regarding growth rates and expected changes to selling prices and direct costs during the period. The growth rates are based on management estimates having regard to industry growth rates. Changes in income and direct costs are based on past practices and expectations of future changes in the market.

For the year ended 31 December 2005, in respect of Omega Engineering L.L.C., circumstances indicated that the goodwill is impaired and accordingly, it was written down to nil value.

Deyaar Development Company (P.S.C.) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

11 PREPAYMENTS AND OTHER ASSETS

	2006 AED	2005 AED
Advances to contractors	144,823,890	69,470,351
Prepayments	19,651,209	5,183,262
Due from related parties (note 22)	9,238,546	2,569,254
Retention receivable	5,033,437	-
Accrued income on deposits	3,062,754	2,651,671
Accrued rental income	1,113,526	-
Other assets	28,308,124	2,914,649
	<u>211,231,486</u>	<u>82,789,187</u>

12 BANK BALANCES AND CASH

	2006 AED	2005 AED
Cash on hand	380,645	59,947
Current accounts	147,923,085	72,516,372
Deposit accounts maturing within three months	206,242,066	220,000,000
	<u>354,545,796</u>	<u>292,576,319</u>
Cash and cash equivalents	35,000,000	57,300,000
Deposit accounts maturing after three months	389,545,796	349,876,319
	<u>389,545,796</u>	<u>349,876,319</u>

Deposits amounting to AED 200,508,267 (2005: AED 275,000,000) are placed with Dubai Islamic Bank PJSC, the parent company. These are denominated in UAE Dirhams, with an effective profit rate ranging from 2% to 5.32 % (2005: 5.4%) per annum.

13 SHARE CAPITAL

	2006 AED	2005 AED
Authorised and fully paid up:		
10,000,000 shares of AED 100 each (2005: 500,000 shares of AED 1,000 each)	<u>1,000,000,000</u>	<u>500,000,000</u>

At the time the Company was incorporated, the initial capital was AED 20,000,000. On 24 October 2002, the Shareholders resolved, in an Extraordinary General Meeting, to increase the Company's share capital to AED 200,000,000 through the issuance of 180,000 shares of AED 1,000 each to the existing shareholders. On 19 April 2005 the shareholders resolved to further increase the share capital of the Company to AED 500,000,000 through the issue of additional 300,000 shares of AED 1,000 each to the existing shareholders.

During the current year, the face value of the shares of the company was changed from AED 1,000 per share to AED 100 per share, thus increasing the number of shares to 5,000,000 shares. The share capital of the Company was further increased to AED 1,000,000,000 through the issue of additional 5,000,000 shares of AED 100 to the existing shareholders.

14 STATUTORY RESERVE

As required by the UAE Commercial Companies Law of 1984 (as amended) and the Company's articles of association, 10% of the profit for the year is required to be transferred to a statutory reserve until such time that the reserve equals 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the Law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

15 PROPOSED SCRIP DIVIDENDS

The board of directors have proposed a scrip dividend amounting to AED 560,000,000 through issuance of 5,600,000 shares of AED 100 each (2005: nil). This is subject to approval of the shareholders at the annual general meeting, as well as approval of the regulatory authorities.

16 MINORITY INTEREST

Minority interest represents the minority shareholders' proportionate share in the aggregate value of the net assets of the subsidiaries and the results of the subsidiaries operations.

17 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the balance sheet are as follows:

	2006 AED	2005 AED
Provision as at 1 January	2,611,910	149,008
Related to acquisition of subsidiaries	-	2,091,914
Provided during the year	2,155,796	554,119
End of service benefits paid	(367,089)	(183,131)
Balance at the end of the year	<u>4,400,617</u>	<u>2,611,910</u>

An actuarial valuation has not been performed as the net impact of discount rates and future increases in benefits is not likely to be material.

18 ISLAMIC FINANCE OBLIGATIONS

	2006 AED	2005 AED
Facility one	90,972,423	90,972,423
Facility two	69,762,464	13,537,050
Facility three	49,362,930	-
Facility four	25,235,545	-
Facility five	-	75,278,954
	<u>235,333,362</u>	<u>179,788,427</u>

The Islamic finance obligations represent four Istisna' facilities obtained from Dubai Islamic Bank PJSC, the parent company. The facilities are used to finance the construction of the properties under construction as follows:

- Facility one is repayable in 2 installments, 50% due in 2007 and the balance 50% to be paid in 2008.
- Facility two is repayable in 8 years, commencing after the handover of the property involved, with an effective profit rate of EIBOR + 1.75% during the construction period.
- Facility three is repayable 6 months after the completion of the property involved, with an effective profit rate of 6.5% during the construction period.
- Facility four is repayable 6 months after the completion of the property involved, with an effective profit rate of EIBOR + 1.65% during the construction period.

Deyaar Development Company (P.S.C.) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

19 TERM LOANS

The loans were obtained to finance the purchase of motor vehicles. The loans are secured by mortgages over the vehicles purchased. These loans carry interest at an average rate of 4.2% and are repayable in equal monthly instalments of AED 28,079 over a period of three to four years.

20 ACCOUNTS PAYABLE AND ACCRUALS

	2006 AED	2005 AED
Accruals on purchase of properties	965,165,261	-
Accounts and notes payable	37,165,230	18,247,415
Advances from customers	-	1,072,341
Due to related parties (note 22)	25,016,812	353,087
Accrued Islamic facility charges	11,982,140	7,379,577
Retentions payable	7,279,221	-
Tax payable	4,896,678	1,844,042
Other payables and accruals	70,100,101	53,432,644
	<u>1,121,605,443</u>	<u>82,329,106</u>

21 INVESTMENTS IN JOINT VENTURES

The Group's 50% share of assets and liabilities in the joint ventures included in the consolidated financial statements is as under:

	2006 AED	2005 AED
Cash and balances with banks	8,337,158	-
Properties under construction	258,926,000	-
Receivables and other assets	-	150,000
Property, plant and equipment	4,900	-
Total assets	<u>267,268,058</u>	<u>150,000</u>
Other liabilities	267,976,908	-
Loss for the year	<u>33,986</u>	<u>-</u>

Deyaar Development Company (P.S.C.) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

22 TRANSACTIONS WITH RELATED PARTIES

Related parties represent affiliated companies, the parent company, joint ventures, directors and key management personnel of the Group, and companies of which they are principal owners. 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:

	2006		2005	
	<i>Income from deposits AED</i>	<i>Management fees AED</i>	<i>Income from deposits AED</i>	<i>Management fees AED</i>
Parent company	15,986,084	208,515	11,521,037	8,443,041
Other related parties	-	5,217,285	-	2,506,047
	<u>15,986,084</u>	<u>5,425,800</u>	<u>11,521,037</u>	<u>10,949,088</u>

Balances with related parties included in the balance sheet are as follows:

	<i>Accounts receivable AED</i>	<i>2006 Accounts payable AED</i>	<i>Fixed deposits AED</i>	<i>Accounts receivable AED</i>	<i>2005 Accounts payable AED</i>	<i>Fixed deposits AED</i>
Parent company	9,090,225	-	200,508,267	2,495,649	121,334	275,000,000
Joint ventures	39,123	-	-	31,803	-	-
Other related parties	109,198	25,016,812	-	41,802	231,753	-
	<u>9,238,546</u>	<u>25,016,812</u>	<u>200,508,267</u>	<u>2,569,254</u>	<u>353,087</u>	<u>275,000,000</u>

Compensation of key management personnel

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

	2006 AED	2005 AED
Payroll and related expenses	6,882,144	3,433,869
Employees' end of service benefits	373,878	135,806
	<u>7,256,022</u>	<u>3,569,675</u>

The number of key management personnel at 31 December 2006 was 15 (2005: 8).

Deyaar Development Company (P.S.C.) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

23 SEGMENTAL INFORMATION

For operating purposes the Group is organised into two major business segments: Property development activities, which principally include property investment and development, brokering, managing and renting of buildings, and other activities including mainly electrical and mechanical works and supply of labour services. These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated profit rates which approximate to market rates on an arm's length basis.

	<i>Property development and related activities</i>		<i>Other activities</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Segment revenue	<u>978,226,756</u>	<u>441,248,712</u>	<u>78,735,788</u>	<u>14,194,886</u>	<u>1,056,962,544</u>	<u>455,443,598</u>
Segment profits	<u>409,506,706</u>	<u>139,685,374</u>	<u>3,104,363</u>	<u>1,226,368</u>	<u>412,611,069</u>	<u>140,911,742</u>
Segment assets	<u>2,977,918,707</u>	<u>988,199,259</u>	<u>56,229,632</u>	<u>11,942,121</u>	<u>3,034,148,339</u>	<u>1,000,141,380</u>
Segment liabilities and equity	<u>2,977,918,707</u>	<u>988,199,259</u>	<u>56,229,632</u>	<u>11,942,121</u>	<u>3,034,148,339</u>	<u>1,000,141,380</u>

Although the management of the Group is based primarily on business segments, the Group operates in two geographic markets: U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international. The following table shows the distribution of the Group's operating income, total assets and capital expenditure by geographical segment:

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Revenues	<u>1,006,093,051</u>	<u>427,639,182</u>	<u>50,869,493</u>	<u>27,804,416</u>	<u>1,056,962,544</u>	<u>455,443,598</u>
Profit for the year	<u>403,029,563</u>	<u>135,475,222</u>	<u>9,581,506</u>	<u>5,436,520</u>	<u>412,611,069</u>	<u>140,911,742</u>
Total assets	<u>2,632,871,258</u>	<u>895,391,272</u>	<u>401,277,081</u>	<u>104,750,108</u>	<u>3,034,148,339</u>	<u>1,000,141,380</u>
Capital expenditure	<u>8,397,049</u>	<u>5,527,264</u>	<u>17,850</u>	<u>20,202</u>	<u>8,414,899</u>	<u>5,547,466</u>

24 COMMITMENTS

At 31 December 2006, the Group had capital commitments of AED 1,048,377,157 (2005: AED 598,191,888). This represents the value of contracts issued as of 31 December 2006 net of invoices received and accruals made at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

25 RISK MANAGEMENT

Profit rate risk

The Group is exposed to profit rate risk on its profit bearing assets and liabilities (deposits, Islamic financing facilities and term loans).

Credit risk

Credit risk or the risk of counter parties defaulting is controlled by application of credit approval, limits and monitoring procedures. In addition, investment and financial transactions are restricted to counterparties that meet appropriate credit criteria and have a high credit standing.

The Group's customers are mainly based in the United Arab Emirates and Lebanon. At 31 December 2006 there was no significant concentration of credit.

Liquidity risk

The Group limits its liquidity risk by ensuring bank facilities are available.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The respective assets and liabilities of both DIB Tower SAL and Beirut Bay SAL (the Lebanese subsidiaries) amounting to AED 201,453,422 (2005: AED 104,750,108) and AED 201,176,147 (2005: nil), are denominated in Lebanese Lira.

The assets and liabilities of Dubai Insaat Gayrimenkul Sanayi Ve Ticaret Limited Sirketi amounting to AED 65,281,676 (2005: nil) and AED 42,956,984 (2005: nil), respectively, are denominated in Turkish Lira.

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and bank balances, accounts and notes receivable, retentions receivable and certain other assets. Financial liabilities consist of payables, Islamic finance facilities, term loans and certain other liabilities.

The fair values of financial assets and liabilities are not materially different from their carrying values at the balance sheet date.

27 POST BALANCE SHEET EVENT

Subsequent to 31 December 2006, the Company has disposed of its interest in Al Tanmyah Services LLC to Dubai Islamic Bank PJSC. The revenue, share of profits and net assets of the company included in the financial statements are as follows:

	<i>2006</i> <i>AED'000</i>	<i>2005</i> <i>AED'000</i>
Revenues	<u>26,229,366</u>	<u>13,661,380</u>
Share of profits	<u>3,061,653</u>	<u>1,082,799</u>
Net assets	<u>7,724,530</u>	<u>1,962,877</u>