

**Deyaar Development PJSC
and Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
DEYAAR DEVELOPMENT PJSC****Report on the Financial Statements**

We have audited the accompanying financial statements of Deyaar Development PJSC and Subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the period from 10 July 2007 to 31 December 2008, 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 consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of Deyaar Development PJSC 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

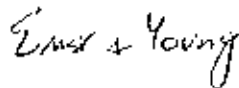
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the period 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 PJSC; proper books of account have been kept by Deyaar Development PJSC and the contents of the report of the Board of Directors relating to these consolidated 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 PJSC have occurred during the period which would have had a material effect on the business of Deyaar Development PJSC or on its financial position.



Signed by
Farrukh Seer (Registration No.491)
For Ernst & Young

Dubai, United Arab Emirates
25 January 2009

Deyaar Development PJSC and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Period ended 31 December 2008

		<i>Year ended 31 December 2008 AED '000</i>	<i>10 July 2007 to 31 December 2008 AED '000</i>
	<i>Notes</i>		
Revenues	5	2,956,527	3,788,833
Cost of revenues	5	(1,990,023)	(2,493,817)
GROSS PROFIT		966,504	1,295,016
Other operating income	6	156,565	222,869
Selling, general and administrative expenses	7	(318,303)	(434,836)
Finance costs		(15,409)	(18,297)
Income from deposits		28,768	63,764
Net gain on fair valuation of investment properties	17	304,242	304,242
Share of results of associates		(2,001)	(2,001)
PROFIT BEFORE TAX		1,120,366	1,430,757
Income tax		(16,252)	(17,666)
PROFIT FOR THE PERIOD BEFORE PRE-INCORPORATION PROFIT		1,104,114	1,413,091
Pre-incorporation profit, net	8	-	107,395
PROFIT FOR THE YEAR/PERIOD		1,104,114	1,520,486
Attributable to:			
Equity holders of the Parent		1,095,130	1,505,974
Minority interest		8,984	14,512
		1,104,114	1,520,486
<i>Earnings per share attributable to the equity holders of the parent:</i>			
- basic and diluted earnings per share	9	AED 0.1895	AED 0.2606

The attached notes 1 to 30 form part of these consolidated financial statements.

Deyaar Development PJSC and Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	31 December 2008 AED '000
ASSETS		
Bank balances and cash	10	641,194
Accounts and notes receivable	11	1,147,780
Prepayments and other assets	12	727,557
Advances for purchase of properties		1,126,894
Properties under construction	13	4,241,350
Investments in associates	14	656,818
Property, plant and equipment	16	35,298
Investment properties	17	1,729,030
Goodwill	3	968,964
TOTAL ASSETS		11,273,285
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable and accruals	18	1,941,908
Advances from customers		1,090,214
Islamic finance obligations	19	574,921
Term finance	20	216,504
Retentions payable		138,318
Employees' end of service benefits	21	9,348
TOTAL LIABILITIES		3,971,213
EQUITY		
Equity attributable to equity holders of the parent company		
Share capital	22	5,778,000
Statutory reserve	23	152,263
Exchange translation reserve		(874)
Retained earnings		1,353,711
		7,283,100
Minority interest	24	18,972
TOTAL EQUITY		7,302,072
TOTAL LIABILITIES AND EQUITY		11,273,285

Chairman

25 January 2009

Chief Executive Officer

25 January 2009

Deyaar Development PJSC and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
Period ended 31 December 2008

	<i>Notes</i>	<i>10 July 2007 to 31 December 2008 AED '000</i>
OPERATING ACTIVITIES		
Profit before tax		1,430,757
Adjustments for:		
Depreciation	16	14,019
Provision for employees' end of service benefits		7,329
Income from deposits		(63,764)
Finance costs		18,297
Share of results of associates		2,001
Gain on disposal of a subsidiary		(4,242)
Net gain on fair valuation of investment properties		(304,242)
Gain on disposal of property, plant and equipment		(121)
		<u>1,100,034</u>
Working capital changes:		
Accounts and notes receivable		(817,353)
Prepayments and other assets		(307,742)
Advances for purchase of properties		(1,033,553)
Properties under construction, net		(2,049,196)
Retentions payable		98,069
Accounts payable and accruals		427,452
Advances from customers		801,941
		<u>(1,780,348)</u>
Employees' end of service benefits paid		(1,085)
Net cash used in operating activities		<u>(1,781,433)</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	16	(33,368)
Proceeds from disposal of property, plant and equipment		984
Investments in associates		(658,019)
Deposits maturing after three months		(936)
Income from deposits		63,764
Net cash outflow on transfer/acquisition of subsidiaries		(225,353)
		<u>(852,928)</u>
FINANCING ACTIVITIES		
Increase in capital	22	3,178,000
Pre-incorporation profits	8	107,395
Islamic finance obligations received		664,179
Islamic finance obligations paid		(1,347,594)
Net movement in term finance	20	214,427
Finance costs paid		(18,297)
		<u>2,798,110</u>
Net cash from financing activities		<u>2,798,110</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<u>163,749</u>
Net foreign exchange difference		(874)
Cash and cash equivalents at 10 July 2007		<u>457,384</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2008	10	<u><u>620,259</u></u>

The attached notes 1 to 30 form part of these consolidated financial statements.

Deyaar Development PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

1 ACTIVITIES

Deyaar Development PJSC (the "Company") was given approval by the UAE Ministry of Economy and Emirates Securities and Commodities Authority on 6 April 2007 to publish the Initial Public Offering of 55% of the shares of the Company, pursuant to fulfilment of all legal requirements and necessary procedures in accordance with the laws of the UAE.

The founders of the Company contributed 45% of the Company's equity in kind. Share allotments were completed by 30 May 2007 and the Company was formally incorporated and registered as a Public Joint Stock Company in the Emirate of Dubai, UAE on 10 July 2007. The principal activities of the Company are property investment and development, brokering, managing and renting of buildings and provision of related support services.

The accompanying consolidated financial statements combine the activities of the Company and the following subsidiaries and joint ventures (collectively referred to as the "Group"):

<i>Subsidiaries</i>	<i>Principal activity</i>	<i>Country of incorporation</i>	<i>Percentage of equity</i>
Omega Engineering L.L.C.	Mechanical, electrical and plumbing	U.A.E.	55%
Nationwide Realtors L.L.C. *	Brokerage and other related services	U.A.E.	100%
Beirut Bay SAL	Property investment and development	Lebanon	100%
Deyaar For Development SA	Representative Office of Deyaar	Lebanon	100%
Deyaar (UK) Ltd	Representative Office of Deyaar	UK	100%
Deyaar Cayman Ltd *	Investment holding company	Cayman Islands	100%
Deyaar West Asia Cooperatief U.A.	Investment holding company	Netherlands	100%
Deyaar Development Corporation	Property investment and development	USA	100%
Deyaar Mauritius Ltd *	Property investment and development	Mauritius	100%
Deyaar City Mauritius Ltd *	Property investment and development	Mauritius	100%
Deyaar Malaysia Sdn Bhd *	Property investment and development	Malaysia	100%
Deyaar Waterfront City Sdn Bhd *	Property investment and development	Malaysia	100%
Flamingo Creek L.L.C.	General trading, commercial and industrial holding	U.A.E.	100%

During the current period, the Company disposed of its 100% interest in Dubai Insaat Gayrimenkul Sanayi Ve Ticaret Limited Sirketi, DIB Tower SAL and Town Tower SAL. (note 4).

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

<i>Joint ventures</i>	<i>Principal activity</i>	<i>Country of incorporation</i>	<i>Percentage of equity</i>
Arady Development L.L.C.	Property development	U.A.E.	50%
Dubai International Development, Co. L.L.C *	Property development	U.A.E.	50%
Alarko Deyaar Gayrimenkul *	Property development	Turkey	50%

During the period, the Company disposed of its 40% interest in Saudi Deyaar Real Estate Development Company Ltd, a joint venture in Saudi Arabia.

* These joint ventures did not carry out any operations during the period.

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

In accordance with the Articles of Association of the Company, the first financial period of the Company commenced on 10 July 2007, the date of its incorporation, and ends on 31 December 2008. As this is the first period of operation of the Company, no comparatives are presented in the consolidated financial statements. Management have also presented the consolidated results of the Group's operations for the year ended 31 December 2008 for the convenience of readers.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These 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 (AED), which is the Company's functional and presentation currency and all values are rounded to the nearest thousands except where otherwise indicated. 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.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investment properties.

Basis of consolidation

Subsidiary Companies

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2008. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. 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. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Minority interests represent the portion of the 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. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

Joint Venture Companies

Joint venture companies are companies in which the Group has joint control over the financial and operating policies. In the consolidated financial statements, investments in joint venture companies are accounted for using the proportionate consolidation method whereby the Group accounts for its share of the assets, liabilities, income and expenses in the joint venture companies on a line by line basis.

Associates

Associates are companies in which the Group has significant influence, but not control, over the financial and operating policies. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting, from the date that significant influence commences until the date that significant influence ceases. Investments in associates are 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.

IASB Standards and Interpretation issued but not adopted

Except for the amendment to IAS 40 regarding the classification of investment property under construction (note 17 i), the Group has not adopted the following IASB Standards and Interpretations have been issued as of 31 December 2008 but are not yet mandatory, and have not yet been adopted by the Group:

IFRS 8 Operating Segments

IFRS 8 *Operating Segments* was issued by the IASB in November 2007, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IASB Standards and Interpretation issued but not adopted (continued)

IAS 1 Revised Presentation of Financial Statements

The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IAS 23 Borrowing Costs

A revised IAS 23 Borrowing Costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group accounting policy is already in accordance with this revised standard.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 Agreements for the Construction of Real Estate was issued in July 2008 and becomes effective for annual financial years beginning on or after 1 January 2009. This interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed.

The interpretation also states that a developer shall recognize revenue by reference to the stage of completion using the percentage of completion method if the developer transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current status as construction progresses. The Group is in the process of determining the implication of this interpretation in light of the local regulations including the recent amendments to such regulation, which are currently being clarified. In view of this, the impact of the interpretation in the period of initial application is not known at this stage.

Improvements to IFRSs

In May 2008 the International Accounting Standard Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording.

IAS 1 Presentation of Financial Statements

Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. This did not result in any re-classification of financial instruments.

IAS 16 Property, Plant and Equipment

Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 23 Borrowing Costs

The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

IAS 28 Investment in Associates

If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with IAS 39. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Improvements to IFRSs (continued)

IAS 31 Interest in Joint Venture

If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses will apply. This amendment has no impact on the Group since the Group does not have joint venture arrangements accounted for at fair value.

IAS 36 Impairment of Assets

When discounted cash flows are used to estimate 'fair value less costs to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating unit is currently estimated using 'value in use'.

IAS 38 Intangible Assets

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

IFRS 7 Financial Instruments: Disclosures

Removal of the reference to 'total interest income' as a component of finance costs.

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors

Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 Events after the Reporting Period

Clarification that dividends declared after the end of the reporting period are not obligations.

IAS 19 Employee Benefits

Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

Significant Accounting Judgements and Estimates

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.

Investment properties

The Group has elected to adopt the fair value model for investment properties. The Group has early adopted the amendment to IAS 40 regarding classification of investment properties under construction (note 17). Accordingly, both investment properties and investment properties under construction are carried at fair value with the gain or losses arising from changes in fair values of investment properties included in the consolidated income statement.

Transfer of equitable interest in properties

The Group has entered into a number of contracts with buyers for the sale of land, apartment and commercial 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 recognises revenues and profits as the acts to complete the property are performed.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

Classification of properties

Management decides at the time of acquisition of the property whether it should be classified as held for sale, held for development or investment property. The Group classifies properties as properties under construction when the intention is to develop the properties for the purpose of selling them to third parties. The Group also classifies properties as investment properties when the intention is to hold them for rental, capital appreciation or for undetermined use. The Group changes the classification when the intention changes.

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 period. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts as described below:

Valuation of investment properties

The Group hires the services of third party qualified valuers to obtain estimates for the market value of land classified as investment properties for the purposes of their fair valuation and impairment review and disclosure in the financial statements. In the absence of current prices in an active market for properties under construction, the Group values such properties based on discounted cash flow projections supported by current market rates for similar properties. The Group also obtains values of completed properties in the same location for comparison purposes.

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 non financial assets

The Group determines whether non financial assets are impaired at least on an annual basis. This requires an estimation of the "value in use" of the cash-generating unit to which the non financial asset 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 these cash flows.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

Sale of property

Revenue on sale of undeveloped 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; and
- The Group's receivable is not subject to future subordination.

Revenue on sale of apartment and commercial units is recognised 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- 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 period including the estimated sales value of contracts in progress assessed on a percentage of completion method, measured by reference to total cost incurred to date to estimated total cost 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 recognised 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 residential and commercial units is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to the tax payable in respect of prior years.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

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.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

Properties under construction

Properties in the course of construction for sale are classified as properties under construction. Unsold properties and sold properties which have not met the revenue recognition criteria are stated at the lower of cost or net realisable value. Net realisable value represents the estimated selling price less cost to be incurred in selling the property. Sold properties which have met the revenue recognition criteria are stated at cost plus attributable profit less progress billings and amounts transferred to cost of sales attributable to revenues recognised. 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, cost in respect of unsold properties is eliminated from properties under construction and transferred to properties held for sale. The Board of Directors reviews the carrying values of properties under construction on an annual basis.

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:

Leasehold improvements	4 years
Furniture and fixtures	4 to 5 years
Plant and equipment	4 years
Motor vehicles	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.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of property, plant and equipment may not be recoverable. Whenever the carrying amount of property, plant and equipment exceeds their recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of fair value less costs to sell of property, plant and equipment and the value in use. The fair value less costs to sell is the amount obtainable from the sale of property, plant and equipment in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of property, plant and equipment and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in the prior years is recorded when there is an indication that the impairment losses recognised for the property, plant and equipment no longer exist or have reduced.

Investment properties

Properties that are held for rental, capital appreciation or undetermined use are classified as investment properties. Properties that are being constructed or developed for future use as investment property are also classified as investment properties as the Group elected to early adopt the revision to IAS 40 "Investment Properties" effective 1 January 2009.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Investment properties are measured initially at cost, including related transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The Group hires the services of third party qualified valuers to obtain estimates for the market value of land classified as investment properties for the purposes of their fair valuation and impairment review and disclosure in the financial statements. In the absence of current prices in an active market for properties under construction, the Group values such properties based on discounted cash flow projections supported by current market rates for similar properties. The Group also obtains values of completed properties in the same location for comparison purposes.

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the period in which they arise.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

Investments in associates

The Group's investments in its associates are accounted for using the equity method of accounting. Goodwill relating to the associates is included in the carrying amount of the investment and is not amortised or separately tested for impairment. 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 gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the consolidated income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associates.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investments in associates are impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Investments in joint ventures

The Group has interests in joint ventures which are jointly controlled. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which the venturer has an interest. The Group recognises its interest in the joint ventures using the proportionate consolidation method until the date on which the Group ceases to have joint control over the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the parent company, using consistent accounting policies. Where joint ventures are using different accounting policies, necessary adjustments are made to bring the joint ventures' accounting policies in line with the Group accounting policies.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 Group 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.

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognised.

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 in hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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.

Loans and borrowings

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

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' final 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**Employees' end of service benefits (continued)**

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligation is limited to these contributions, which are expensed when due.

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.

Foreign currency translation

The consolidated financial statements are presented in UAE Dirhams (AED) which is the functional currency of the parent company. Each company 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 recorded in the functional currency 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 profit or loss. 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.

As at the reporting date, the assets and liabilities of subsidiaries with functional currencies other than AED are translated into AED 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 differences arising on the translation are taken directly to a separate component of equity. On disposal of an entity, the deferred cumulative amount recognised in equity relating to that entity is recognised in the income statement.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

3 BUSINESS COMBINATION

Deyaar Development PJSC (under formation) took over the interest of Dubai Islamic Bank PJSC in the equity of Deyaar Development Company P.S.C. as of 30 May 2007 for a consideration of AED 2,600,000,000 to be settled by the issue of 2,600,000,000 shares of AED 1 each in the Company. In accordance with the prospectus issued at the time of initial public offering, profit earned up to the date of incorporation (10 July 2007) belonged to the shareholders of Deyaar Development Company P.S.C. This profit was included in accounts payable and accruals at 10 July 2007. The assets and liabilities of Deyaar Development Company P.S.C. at the time of takeover and on the date of incorporation are summarised below:

	<i>30 May 2007 AED'000</i>	<i>10 July 2007 AED'000</i>
Property, plant and equipment	14,956	17,495
Properties under construction	2,641,494	3,233,325
Accounts and notes receivable	245,267	330,427
Advances on purchase of properties	64,859	92,541
Prepayments and other assets	317,220	431,873
Deposits maturing after three months	20,000	20,000
Bank balances and cash	564,598	457,384
Total assets	3,868,394	4,583,045

3 BUSINESS COMBINATION (continued)

	<i>30 May 2007</i> <i>AED'000</i>	<i>10 July 2007</i> <i>AED'000</i>
Employees' end of service benefits	2,805	3,104
Retentions payable	44,531	40,249
Term finance	1,346	2,078
Islamic finance obligations	857,038	1,258,336
Advances from customers	2,883	172,648
Accounts payable and accruals	1,324,992	1,471,135
Minority interest	3,763	4,459
Total liabilities and minority interest	<u>2,237,358</u>	<u>2,952,009</u>
Book value of net assets acquired	<u>1,631,036</u>	<u>1,631,036</u>
Consideration	<u>2,600,000</u>	
Goodwill	<u>968,964</u>	

During the period, a purchase price allocation exercise was carried out by management and the fair values of the assets and liabilities of Deyaar Development Company P.S.C at the time of takeover corresponded to the book values of the assets and liabilities as of the same date.

During the period, the Group also acquired Flamingo Creek LLC, an entity incorporated and registered in the Emirate of Dubai, UAE and engaged in the development of the Flamingo Creek project, from a related party (note 25). The fair value of the identifiable assets and liabilities of the entity at the date of acquisition was as follows:

	<i>AED '000</i>
Properties under construction	369,965
Total assets	<u>369,965</u>
Advances from customers	<u>115,626</u>
Fair value of net assets acquired	254,339
Purchase consideration	<u>254,339</u>
Goodwill arising on acquisition	<u>-</u>

4 DISPOSAL OF SUBSIDIARIES AND A JOINT VENTURE

During the period, the Group disposed of its interests in the following:

- Town Tower SAL, a company acquired during the period, and DIB Tower SAL, both wholly owned subsidiaries in Lebanon. The subsidiaries assets mainly consisted of land costing AED 104,340,000 and AED 98,341,000 respectively. The sale consideration and the related cost are included in revenues and cost of revenues respectively.
- A 40% interest in a joint venture in Saudi Arabia. The disposal resulted in a loss of AED 241,000. The loss is included in selling and administrative expenses.
- A 100% interest in Dubai Insuat Gayrimenkul Sanayi Ve Ticaret Limited Sirketi. The disposal resulted in a gain of AED 4,242,000, which is included in other income.

Deyaar Development PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

5 REVENUES AND COSTS

	<i>Year ended 31 December 2008 AED'000</i>	<i>10 July 2007 to 31 December 2008 AED'000</i>
Revenue:		
Sale of properties	2,598,900	3,323,668
Services income	780	1,767
Contract revenues	356,927	463,398
	<u>2,956,527</u>	<u>3,788,833</u>
Cost:		
Cost of properties sold (note 13)	1,675,484	2,091,939
Cost of services	619	1,508
Contract costs	313,920	400,370
	<u>1,990,023</u>	<u>2,493,817</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.

6 OTHER OPERATING INCOME

	<i>Year ended 31 December 2008 AED'000</i>	<i>10 July 2007 to 31 December 2008 AED'000</i>
Management fees	18,895	25,642
Brokerage and commission	58,951	88,115
Gain on disposal of a subsidiary	-	4,242
Others	78,719	104,870
	<u>156,565</u>	<u>222,869</u>

7 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	<i>Year ended 31 December 2008 AED'000</i>	<i>10 July 2007 to 31 December 2008 AED'000</i>
Payroll and related expenses	111,638	188,992
Sales and marketing	71,966	89,273
Rent	22,949	29,274
Legal and professional fees	12,810	15,030
Communication	2,195	3,156
Other expenses	96,745	109,111
	<u>318,303</u>	<u>434,836</u>

8 PRE-INCORPORATION PROFIT, NET

Pre-incorporation profit represents the income earned on investing the funds received from IPO subscriptions between the first day of public subscription i.e. 6 May 2007 and the date of incorporation of the Company, net of expenses related to its incorporation as follows:

	<i>AED'000</i>
Profit on deposits	105,042
IPO processing fees	63,560
Less: IPO expenses	(61,207)
	<u>107,395</u>

9 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to the shareholders of the parent for the period by the weighted average number of shares outstanding during the period of 5,778,000,000 of AED 1 each.

The Company has not issued any instruments which would have an impact on earnings per share when exercised.

The ESOP shares previously held by the Company, which were allocated to the ESOP scheme by the founding shareholders, were returned to them at cost during the period because the ESOP scheme was cancelled.

10 BANK BALANCES AND CASH

	<i>2008 AED'000</i>
Cash in hand	581
Current accounts	271,824
Deposits maturing within three months	347,854
	<u>620,259</u>
Cash and cash equivalents	620,259
Deposit maturing after three months	20,935
	<u>20,935</u>
Bank balances and cash	<u>641,194</u>
	<i>2008 AED'000</i>
Bank balances and cash located:-	
Within UAE (AED)	574,953
Outside UAE (other currencies)	66,241
	<u>641,194</u>

Cash at banks earns profit at floating rates based on prevailing bank deposit rates. Short term fixed deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn profit at the respective short-term deposit rates.

Deposits amounting to AED 186,319,000 are placed with Dubai Islamic Bank PJSC, a major shareholder (note 25). These are denominated in UAE Dirham, with an effective profit rate ranging from 3.36% to 5% per annum.

11 ACCOUNTS AND NOTES RECEIVABLE

	<i>2008</i> <i>AED'000</i>
Accounts and notes receivable	646,832
Due from related parties (note 25)	500,948
	<u>1,147,780</u>

As at 31 December, the ageing analysis of receivables is as follows:

	<i>Total</i> <i>AED'000</i>	<i>Neither</i> <i>past due</i> <i>nor impaired</i> <i>AED'000</i>	<i>Past due but not impaired</i>			
			<i>Less than</i> <i>30 days</i> <i>AED'000</i>	<i>Between</i> <i>30 to 60 days</i> <i>AED'000</i>	<i>Between</i> <i>60 to 90 days</i> <i>AED'000</i>	<i>More than</i> <i>90 days</i> <i>AED'000</i>
<i>2008</i>	<u>1,147,780</u>	<u>898,534</u>	<u>213,743</u>	<u>-</u>	<u>25,083</u>	<u>10,420</u>

12 PREPAYMENTS AND OTHER ASSETS

	<i>2008</i> <i>AED'000</i>
Advances to contractors	427,651
Prepayments	55,070
Contract work in progress	97,476
Retentions receivable	39,623
Accrued income on deposits	5,939
Accrued rental income	2,418
Other assets	99,380
	<u>727,557</u>

Included in other assets are advances paid by the Group on the purchase of real estate projects from a related party amounting to AED 326,481,350 (note 25).

13 PROPERTIES UNDER CONSTRUCTION

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

	<i>2008</i> <i>AED'000</i>
Balance, beginning of period	3,233,325
Acquired during the period (note 3)	369,965
Additions during the period	4,232,308
Borrowing costs capitalised	46,373
Carrying value of properties sold during the period (note 5)	(2,091,939)
Related to subsidiaries disposed of	(123,894)
Transferred to investment properties (note 17)	(1,424,788)
Balance, end of period	<u>4,241,350</u>

14 INVESTMENTS IN ASSOCIATES

During the period, the Group has acquired:

- a) 22.72% of the equity of SI Al Zorah Equity Investments Inc, a company registered in the Cayman Islands. The associate is a holding company investing in companies engaged in property development.
- b) 40% of the equity of Landmark Properties LLC, a company registered in the UAE which is involved in real estate brokerage.

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

	<i>2008</i> <i>AED'000</i>
Share of associates' balance sheet:	
Assets	526,366
Liabilities	(96,454)
Net assets	<u>429,912</u>
Share of associates' income statement:	
Revenues	<u>3,103</u>
Loss	<u>2,001</u>
Carrying amount of investments	<u>656,018</u>

The excess of carrying amounts over the share of net assets represent premiums paid by the Group at the time of acquisition of the investments. The carrying values of the investments are subjected to annual impairment tests.

15 INVESTMENTS IN JOINT VENTURES

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

	<i>2008</i> <i>AED'000</i>
Property, plant and equipment	2
Investment properties	1,305,246
Prepayments and other receivables	126,672
Bank balances and cash	87,471
Total assets	<u>1,519,391</u>
Accruals and other liabilities	<u>1,114,198</u>
Income and profit for the period	<u>295,533</u>

16 PROPERTY, PLANT AND EQUIPMENT

	<i>Leasehold improvements AED'000</i>	<i>Furniture and fixtures AED'000</i>	<i>Plant and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Capital work in progress AED'000</i>	<i>Total AED'000</i>
Cost:						
Acquired in business combination	170	4,539	6,028	3,911	2,847	17,495
Additions	211	13,469	8,703	4,084	6,221	32,688
Disposals	-	(334)	(133)	(581)	-	(1,048)
Transfers	-	-	(6)	-	-	(6)
At 31 December 2008	<u>381</u>	<u>17,674</u>	<u>14,592</u>	<u>7,414</u>	<u>9,068</u>	<u>49,129</u>
Depreciation:						
Depreciation charge for the period	137	6,533	4,977	2,372	-	14,019
Relating to disposals	-	(86)	(21)	(78)	-	(185)
Transfers	-	-	(3)	-	-	(3)
At 31 December 2008	<u>137</u>	<u>6,447</u>	<u>4,953</u>	<u>2,294</u>	<u>-</u>	<u>13,831</u>
Net carrying value						
At 31 December 2008	<u>244</u>	<u>11,227</u>	<u>9,639</u>	<u>5,120</u>	<u>9,068</u>	<u>35,298</u>

17 INVESTMENT PROPERTIES

The movement in investment properties during the period was as follows:

	<i>2008 AED'000</i>
Transferred from properties under construction (note 13)	1,424,788
Net gain on fair valuation of investment properties	304,242
Balance, end of period	<u>1,729,030</u>

- (i) Investment properties include properties that are being developed by a 50% joint venture in DIFC. The development comprises an office tower, a residential tower and an eight level podium. The Company intends to lease its share of these properties after completion to generate rental income and accordingly the properties have been treated as investment properties by electing to early adopt the revision of IAS 40 'Investment Properties' whereby properties that are being constructed or developed for future use as investment properties are classified as investment properties during the development phase. The revision of IAS 40 'Investment Properties' becomes effective for financial years beginning on or after 1 January 2009.

The Group has prepared internal valuations of those properties as of 31 December 2008. The valuations were based on a ten year discounted cash flow model supported by existing lease and current market rents for similar properties in the same location adjusted to reflect the level of completion of construction of those properties. The discount rate used reflects current market assessments of the uncertainty and timing of the cash flows.

The valuations were based on an individual assessment, for each property type in this development, of both their future earnings and their required yield. In assessing the future earnings of the properties, Management took into account potential changes in rental levels from each contract's rent and expiry date compared with the estimated current market rent, as well as changes in occupancy rates and property costs. Included in property costs are operating expenses, maintenance, leasing and property administration costs. The value estimated for the building upon completion was adjusted for the percentage of completion achieved as of 31 December 2008.

17 INVESTMENT PROPERTIES (continued)

The assumptions used in arriving at fair values of properties in this development are as follows:

Yield	7%
Long term vacancy rate	5%
Long term growth in rental rates – every alternative year	5%

Additionally, as of the year end, Management obtained market values of these properties based on open market valuation by Colliers International using the direct comparison approach. The fair values obtained from Colliers International approximated the fair values arrived at by Management using the discounted cash flow model described above.

The gain on these properties, based on the above, amounts to AED 356.23 million, which is included in the consolidated financial statements.

- (ii) Investment properties also include plots of land in the UAE and outside the UAE, which have been retained by management for development to be used in future as investment properties and for undetermined use respectively. The Group has obtained fair values for these properties based on open market valuations carried out by independent valuers. This has resulted in a net loss on valuation of investment properties of AED 51.99 million, which is included in the consolidated financial statements.

18 ACCOUNTS PAYABLE AND ACCRUALS

	2008 AED'000
Accruals on purchase of properties	607,680
Accounts and notes payable	94,689
Due to related parties (note 25)	394,314
Accrued Islamic facility charges	31,694
Tax payable	22,836
Other payables and accruals	790,695
	<u><u>1,941,908</u></u>

19 ISLAMIC FINANCE OBLIGATIONS

	2008 AED'000
Facility one	40,928
Facility two	183,993
Facility three	150,000
Facility four	200,000
	<u><u>574,921</u></u>

The Islamic finance obligations represent Istisna's and Mudarabah facilities obtained from Dubai Islamic Bank PJSC, a major shareholder, and from another local Islamic bank. The facilities are used to finance the construction of the properties under construction as follows:

- Facility one is repayable after the completion of the property involved, with an effective profit rate based on EIBOR during the construction period. The facility is secured by a mortgage over the land and the property under construction and assignment of receivables from the sale of subject project apartment in favour of the bank.

19 ISLAMIC FINANCE OBLIGATIONS (continued)

- Facility two is repayable 6 months after the completion of the property involved, with an effective profit rate based on EIBOR during the construction period. The facility is secured by post dated cheques issued to the bank amounting to the value of the facility.
- Facility three is repayable on 25 March 2009 and carries an effective profit rate based on EIBOR during the construction period. The facility is secured by post dated cheques issued to the bank amounting to the value of the facility.
- Facility four is repayable on 25 March 2009 and carries an effective profit rate based on EIBOR during the construction period.

20 TERM FINANCE

Term finance includes loans obtained to finance the purchase of motor vehicles and equipment. The loans are secured by mortgages over the vehicles and equipment purchased. These loans carry profit at an average rate of 4.3% and are repayable in equal monthly instalments over a period of three to four years.

This also includes an Islamic overdraft facility from a local Islamic bank, which carries an effective rate based on EIBOR.

21 EMPLOYEES' END OF SERVICE BENEFITS

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

	<i>10 July 2007 to 31 December 2008 AED'000</i>
Balance at the beginning of the period	3,104
Provided during the period	7,329
End of service benefits paid	(1,085)
Balance at the end of the period	<u>9,348</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.

22 SHARE CAPITAL

	<i>2008 AED'000</i>
<i>Authorised, issued and fully paid</i>	
3,178,000,000 shares of AED 1 each paid in cash	3,178,000
2,600,000,000 shares of AED 1 each paid in kind	2,600,000
	<u>5,778,000</u>

As set out in note 3, the Company acquired the interest of Dubai Islamic Bank PJSC in Deyaar Development Company P.S.C. by the issue of 2,600,000,000 shares of AED 1 each.

23 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.

24 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.

25 TRANSACTIONS WITH RELATED PARTIES

Related parties represent major shareholders, joint ventures, associates, directors and key management personnel of the Group, and companies of whom 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 consolidated income statement for the period from 10 July 2007 to 31 December 2008 are as follows:

	<i>Revenue AED'000</i>	<i>Cost of revenue AED'000</i>	<i>Income from deposits AED'000</i>	<i>Management fees AED'000</i>
Major shareholders	200,000	-	36,871	3,008
Other related parties	-	111,128	3,078	55,641
	<u>200,000</u>	<u>111,128</u>	<u>39,949</u>	<u>58,649</u>

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

	<i>Advances AED'000</i>	<i>Accounts receivable AED'000</i>	<i>Accounts payable AED'000</i>	<i>Fixed deposits AED'000</i>	<i>Islamic finance facilities AED'000</i>
Major shareholders	-	114,316	-	186,319	533,993
Joint ventures	-	368,514	24,575	-	-
Other related parties	72,142	18,118	369,739	100,000	-
	<u>72,142</u>	<u>500,948</u>	<u>394,314</u>	<u>286,319</u>	<u>533,993</u>

During the period, the Group acquired 40% of the equity of Landmark Properties LLC, of which 30% was acquired from a related party (note 14).

During the period, the Group also acquired Flamingo Creek LLC from a related party (note 3).

25 TRANSACTIONS WITH RELATED PARTIES (continued)**Compensation of key management personnel**

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

	<i>Year ended 31 December 2008 AED'000</i>	<i>10 July 2007 to 31 December 2008 AED'000</i>
Payroll and related expenses	27,038	33,656
Employees' end of service benefits	1,444	1,654
	<u>28,482</u>	<u>35,310</u>

26 SEGMENT INFORMATION**Business segment:**

For management purposes, the Group is organised into two major business segments.

The 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 related 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. Other segments include businesses that individually do not meet the criteria for a reportable segment as per IAS 14.

Geographic segments:

The Group is currently developing a number of international business opportunities outside the United Arab Emirates that will have a significant impact in future periods.

The domestic segment includes business activity and operations in the UAE and the international segment includes business activity and operations outside the UAE.

Business Segments

The following tables represent revenue and profit information and certain asset and liability information regarding business segments for the period ended 31 December 2008.

Period from 10 July 2007 to 31 December 2008:

	<i>Property development activities AED'000</i>	<i>Other activities AED'000</i>	<i>Total AED'000</i>
Segment revenues	<u>3,323,668</u>	<u>465,165</u>	<u>3,788,833</u>
Results			
Segment profit	<u>1,381,605</u>	<u>31,486</u>	<u>1,413,091</u>
Pre-incorporation profit, net			<u>107,395</u>
			<u>1,520,486</u>

26 SEGMENT INFORMATION (continued)*At 31 December 2008*

	<i>Property development activities AED'000</i>	<i>Other activities AED'000</i>	<i>Total AED'000</i>
Assets and liabilities			
Segment assets	<u>10,971,303</u>	<u>301,982</u>	<u>11,273,285</u>
Segment liabilities	<u>3,709,358</u>	<u>261,855</u>	<u>3,971,213</u>
Other segment information			
Capital expenditure (Property, plant and equipment)	<u>16,772</u>	<u>15,916</u>	<u>32,688</u>
Depreciation (Property, plant and equipment)	<u>9,361</u>	<u>4,658</u>	<u>14,019</u>

Geographic Segments

The following tables represent revenue and profit information and certain asset and liability information regarding geographic segments for the period ended 31 December 2008.

Period from 10 July 2007 to 31 December 2008:

	<i>Domestic AED'000</i>	<i>International AED'000</i>	<i>Total AED'000</i>
Revenues	<u>3,538,294</u>	<u>250,539</u>	<u>3,788,833</u>

At 31 December 2008

Total assets	<u>10,660,709</u>	<u>612,576</u>	<u>11,273,285</u>
Other segment information			
Capital expenditure (property, plant and equipment)	<u>32,242</u>	<u>446</u>	<u>32,688</u>

27 COMMITMENTS

At 31 December 2008, the Group had commitments of AED 2,290,392,873. This represents the value of project related contracts issued as of the end of the period net of invoices received and accruals made at that date.

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise Islamic finance facilities, term finance and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The main risks arising from the Group's financial instruments are profit rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Profit rate risk

The Group's exposure to the risk of changes in market profit rates relates primarily to the Group's long-term debt obligations with floating rates and fixed deposits. Profit on financial instruments having floating rates is re-priced at intervals of less than one year and profit on financial instruments having fixed rate is fixed until the maturity of the instrument. Other than commercial and overall business conditions, the Group's exposure to market risk for changes in profit rate environment relates mainly to its bank borrowings and fixed deposits.

The following table demonstrates the sensitivity to a reasonably possible change in profit rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	2008	
	<i>Change in basis points</i>	<i>Sensitivity of net profit from deposits AED'000</i>
Currency		
AED	+ 57	1,991
AED	- 57	(1,991)

Profit rate risk

The profit rate sensitivity set out above relates primarily to the Dirham as the Group does not have any significant net exposure for non-trading financial assets and financial liabilities denominated in currencies other than the Dirham or currencies pegged to US Dollar.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to foreign currency risk is primarily limited to its investment in foreign subsidiaries. The net assets (liabilities) of foreign subsidiaries are as follows:

<i>Currency</i>	<i>AED'000 equivalent</i>
Lebanese Lira	(1,790)
Turkish Lira	(4,606)
Kazakhstan Tenge	(2,429)
British Pound Sterling	(2,616)
USD	(3,520)
Indian Rupee	(24)

Any variation in exchange rates between the currencies and AED will result in recognition of foreign currency translation reserve in equity on the opening net investment. It will also result in a change in the rate used for recording of income, expenses and profit in the consolidated financial statements of the next year.

Credit risk

The Group monitors receivable balances on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise mainly cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted payments.

Financial liabilities	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
Islamic finance facilities	-	-	602,077	-	-	602,077
Term finance	147,523	61,205	8,156	1,385	-	218,269
Other liabilities	9,348	1,735,582	238,021	138,318	-	2,121,269
Total undiscounted financial liabilities	156,871	1,796,787	848,254	139,703	-	2,941,615

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Capital comprises share capital, reserves and retained earnings and is measured at AED 7,283,100,000 as at 31 December 2008.

29 MATURITY ANALYSIS

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	<i>Within 12 months AED '000</i>	<i>After 12 months AED '000</i>	<i>Total AED '000</i>
ASSETS			
Bank balances and cash	641,194	-	641,194
Accounts and notes receivable	1,147,780	-	1,147,780
Prepayments and other assets	727,557	-	727,557
Advances for purchase of properties	1,126,094	-	1,126,094
Properties under construction	943,005	3,298,345	4,241,350
Investments in associates	-	656,018	656,018
Property, plant and equipment	-	35,298	35,298
Investment properties	-	1,729,030	1,729,030
Goodwill	-	968,964	968,964
TOTAL	4,585,630	6,687,655	11,273,285
LIABILITIES			
Accounts payable and accruals	1,941,908	-	1,941,908
Advances from customers	1,090,214	-	1,090,214
Islamic finance obligations	350,000	224,921	574,921
Term finance	215,222	1,282	216,504
Retentions payable	-	138,318	138,318
Employees' end of service benefits	-	9,348	9,348
TOTAL	3,597,344	373,869	3,971,213
NET	988,286	6,313,786	7,302,072

30 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets of the Group include bank balances and cash, trade and other receivables, investments in associates and due from related parties. Financial liabilities of the Group include loans from financial institutions, accounts payable and retentions payable.

The fair values of the financial assets and liabilities are not materially different from their carrying value unless stated otherwise.